



**瑞安建業**  
SOCAM DEVELOPMENT

STOCK CODE: 983





# RECOVERY ON THE WAY

ANNUAL REPORT 2016





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## SOCAM DEVELOPMENT LIMITED (SOCAM)

was listed on the Hong Kong Stock Exchange in February 1997 under stock code 983. The Company is a member of the Shui On Group.

### BUSINESS INTERESTS:

- Niche **property development and investment** in the Chinese Mainland that leverage on specialist knowledge in the turnaround of projects from financing, development to disposal. The Company also invested in Dalian Tiandi, an integrated knowledge community project.
- Burgeoning **construction business** in Hong Kong and Macau with over 45 years of operations. The division has a strong track record of quality, site safety and environmental performance.

### PROPERTY

- Special Situation Projects
- Knowledge Community Project



### CONSTRUCTION

- Public Housing
- Commercial, Residential and Institutional Buildings
- Interior Fitting Out and Building Renovation
- Maintenance



# FINANCIAL HIGHLIGHTS

## Year ended 31 December

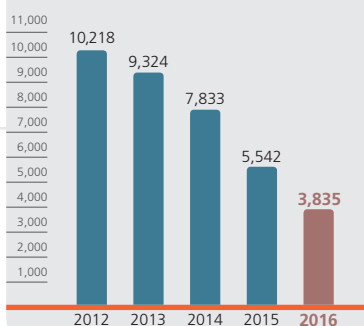
| HK\$ million                                      | 2012<br>(Restated) | 2013          | 2014<br>(Re-presented) | 2015           | 2016           |
|---|--------------------|---------------|------------------------|----------------|----------------|
| <b>Turnover</b>                                   |                    |               |                        |                |                |
| Company and subsidiaries                          | 6,443              | 7,952         | 6,102                  | 5,916          | <b>5,345</b>   |
| Share of joint ventures and associates            | 4,892              | 4,460         | 640                    | 363            | <b>1,572</b>   |
| <b>Total</b>                                      | <b>11,335</b>      | <b>12,412</b> | <b>6,742</b>           | <b>6,279</b>   | <b>6,917</b>   |
| <b>Profit (loss) attributable to shareholders</b> | <b>459</b>         | <b>(889)</b>  | <b>(1,374)</b>         | <b>(1,126)</b> | <b>(1,382)</b> |
| <b>Basic earnings (loss) per share (HK\$)</b>     | <b>0.93</b>        | <b>(1.81)</b> | <b>(2.84)</b>          | <b>(2.33)</b>  | <b>(2.86)</b>  |
| <b>Total dividends per share (HK\$)</b>           | <b>0.50</b>        | <b>-</b>      | <b>-</b>               | <b>-</b>       | <b>-</b>       |

## At 31 December

|                                  |       |       |       |       |              |
|----------------------------------|-------|-------|-------|-------|--------------|
| Total assets (HK\$ billion)      | 23.3  | 23.1  | 18.5  | 12.3  | <b>9.2</b>   |
| Net assets (HK\$ billion)        | 10.2  | 9.3   | 7.8   | 5.5   | <b>3.8</b>   |
| Net asset value per share (HK\$) | 20.76 | 19.26 | 16.17 | 11.44 | <b>7.92</b>  |
| Net gearing                      | 47.1% | 48.3% | 53.7% | 21.0% | <b>33.5%</b> |

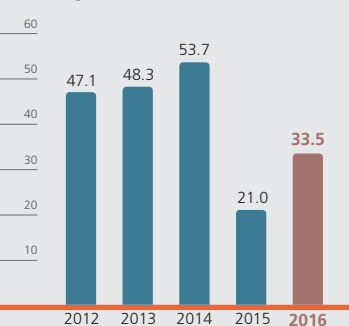
### EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

HK\$ million



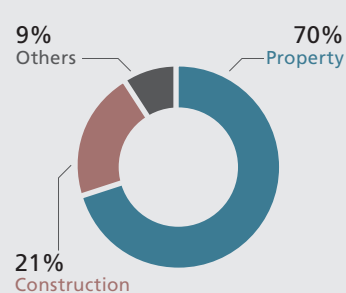
### GEARING

Percentage



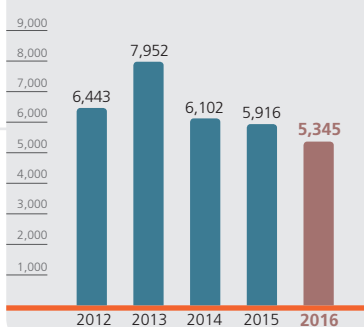
### ASSETS EMPLOYED

At 31 December 2016



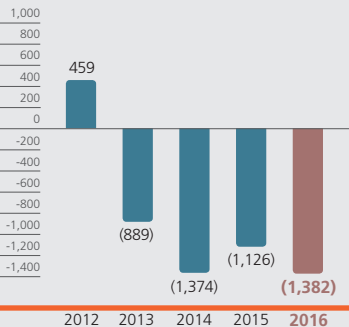
### TURNOVER

HK\$ million



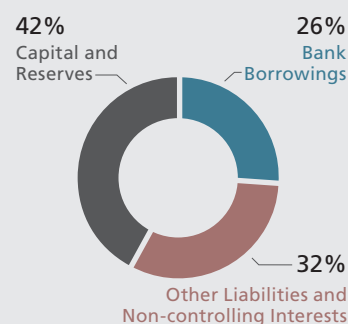
### PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

HK\$ million



### CAPITAL AND LIABILITIES

At 31 December 2016





# MAJOR EVENTS IN 2016

## JAN

Disposal of remaining 20% interest in Shenyang Project Phase II.

Completed divestment of land parcels located in Zunyi, Guizhou.



## MAR



Completed the construction of public rental housing development at Long Ching Estate.



Completed the construction of Sports Centre, Community Hall and District Library in Shatin.



Completed the design and construction contract of the West Kowloon Law Courts Building.

Awarded two term contracts for the alterations, additions, maintenance and repair of aided schools, buildings and lands and other properties for the Education Bureau.

## APR

Awarded the contract for the construction of home ownership scheme at Kai Tak Site 1G1(B).

## MAY

Awarded the 10 Years Plus Caring Company Logo from The Hong Kong Council of Social Service.



Pre-sale of second phase of villas of Nanjing Scenic Villa commenced.

Completed the design and construction contract of minor building / civil engineering works at CLP Power's premises (2013-2016).

## AUG



## JUN

Completed the term contract for architectural and building works at MTRC railways and premises in Hong Kong (2012-2016).

Awarded the contract for design and construction of minor building / civil engineering works at CLP Power's premises (2016-2018).

Received Merit Award in the Quality Building Award 2016 under Hong Kong Non-Residential (New Building) Category for Hong Kong Velodrome and Town Park.



## JUL



Entered into agreement to dispose of 35% equity interest in Nanjing Jiangnan Cement.

Completed the construction of public rental housing development at So Uk Estate Phase I.

Awarded the construction contract for public rental housing development at Shek Kip Mei Estate Phases 3, 6 and 7.

## OCT



Received Special Mention (Gold) in Family - Friendly Employers Award Scheme 2015/16.

## NOV



Pre-leasing of shopping mall of Chengdu Centropolitan commenced.

Received Merit Award in New Buildings Category (Projects Under Construction and / or Design - Institutional Building) in Green Building Award 2016 for Hong Kong Children's Hospital.



## DEC

Completed a term contract for the maintenance, improvement, and vacant flat refurbishment for properties managed by the District Management Office / Tuen Mun and Yuen Long of the Hong Kong Housing Authority.

Entered into agreement for the block sale of all Soho units of Chengdu Centropolitan.

Signed letter of intent to dispose of a cement plant site located in Kaili, Guizhou.





# CHAIRMAN'S STATEMENT

“We are confident that the Group can be more proactive in advancing our aligned business model, with a significantly reduced debt load and a leaner corporate structure. We shall seek new pathways to revitalising and rebuilding the Company.”

Chengdu  
Centropolitan





## Dear Shareholders,

While your Company made further progress towards the final phase of our monetisation plan, we regret that 2016 was, again, a disappointing year in terms of our operating performance.

The past year was characterised by spikes of uncertainty which had a considerable impact on business and market confidence. Ramifications of the “black swan” events in Europe and the United States will probably include restrictions on free movements of labour, capital, goods and services across the world. As advanced economies continued to experience meagre economic growth, a shadow has been cast over international trade, given the uncertainty surrounding the protectionist policy stance under Trump’s administration in the United States, and the upcoming tough post-Brexit trade negotiations between the United Kingdom and European Union. Other worldwide events, including heightened geographical tensions, terrorism and populism, have also taken a toll on global market sentiment.

China achieved 6.7% GDP growth in line with Central Government expectation and saw progress in managing its economic restructuring. In the property market, it was a year of exceptional growth in residential sales as developers, including SOCAM, sought to rapidly deplete their residential stocks. Housing over-supply in tier 2 and 3 cities put considerable pressure on our achievable prices and revenue. At the same time, our financial performance was also hit by the weaker Renminbi in the past two years as our Mainland assets suffered decrease in value upon currency conversion.

**Vincent H. S. LO**  
Chairman

Against this backdrop, our financial results continued to be unsatisfactory. SOCAM's attributable loss for 2016 was HK\$1,382 million (2015: HK\$1,126 million). Turnover was HK\$5.3 billion (2015: HK\$5.9 billion) and loss per share was HK\$2.86 (2015: HK\$2.33).

The results for the year reflect the extreme difficulties facing SOCAM. Yet, notable inroads were made on reducing our debt burden and streamlining our operations. We see a healthier balance sheet as vital to realigning SOCAM's core business interests and the rebuilding of the Company.

### THE FINAL PHASE OF MONETISATION

Your Company made satisfactory progress over the year in implementing our monetisation and deleveraging strategy which became the overriding corporate imperative four years ago. The total gross floor area in our China property portfolio has been reduced from 2.1 million square metres at the end of 2013 to around 0.4 million square metres today, while our cement interest was divested in 2015. Consequently, our total bank borrowings have decreased from HK\$8.2 billion to the current HK\$2.4 billion over the 3-year period. Total bank borrowings are expected to be further reduced in 2017.

The Group completed three property disposals in the Chinese Mainland during the year. As planned, we sold our remaining 20% interest in Shenyang Project Phase II and the land parcels located in Zunyi, Guizhou, and we disposed 35% of our 60% interest in the Nanjing Cement joint venture, generating a total sales revenue of approximately HK\$1.0 billion.

At the same time we are moving close to completion of the disposal of our inventory of residential units across our portfolio. At Chengdu Centropolitan, nearly all 1,987 residential units have now been sold, and an agreement for the block sale of all 504 Soho units was signed in December. Phase I of the low-rise Nanjing Scenic Villa is now about 95% sold, and Phase II is meeting with good market response since its launch in July 2016, with about 87% of the first batch of 79 villas in Phase II having been subscribed for. Together with the sales of the inventory of residential, office and carparking units in our other projects, contracted sales of property units amounted to a total of approximately RMB1.2 billion in 2016.

Regrettably due to intense price competition, some of our projects located in highly competitive tier 2 and 3 cities achieved lower valuations and prices than our book costs. Taking into account net operating loss of our retail malls, sales and marketing expenses, overheads, taxes and the weakened Renminbi, the property division recorded a loss of HK\$1,207 million (2015: HK\$1,019 million loss).

### REFINING OUR BUSINESS MODEL

Concurrent with advancing the monetisation plan, SOCAM unveiled revamping plans for our four shopping malls in Chengdu, Chongqing, Shenyang and Tianjin. Oversupply of retail space remains a major concern, while the robust growth of online shopping lowers the demand for leasing retail premises. The retail property market continued to see over-expansion, putting pressure on tenant occupancy rates and rentals. In addition, increasingly more sophisticated middle-class consumers now expect a wider experiential mall environment. Facing these challenges, we are enhancing our mall design and tenant mix to give a stronger accent on entertainment and new lifestyle and shopping components. Tianjin Veneto has reshuffled its tenant base and attracted a number of global retail brands; as a result customer flow is greatly improved. In Chongqing and Shenyang we are progressing with upgrading the Creative Concepts Center mall and Shenyang Tiandi to increase rental yield and counter retail market oversupply. The redesigning of the shopping mall of Chengdu Centropolitan has been completed, leasing has commenced and the mall is slated for soft opening in July this year. Our goal across our entire retail portfolio is to capture market opportunities for en-bloc disposal when space supply and leasing demand are more in balance in the years ahead.

Your Company's construction division is well set to capture opportunities in public housing, community health and leisure facilities, and in related construction activities such as fit-out, renovation and maintenance contracts. The HKSAR government has projected that 200,000 public rental housing units and 80,000 subsidised sale flats need to be built in 10 years, and has earmarked HK\$200 billion for hospital development, where SOCAM has experience and expertise. However, administrative challenges for the government may drag out these far-sighted improvements to the social fabric. Identifying suitable land plots and gaining funding approval through Legco are proving difficult. At the contractor's level, the tendering

environment is competitive rendering it hard to gauge the cost of building materials and labour. Achieving contract award success and fair margins for project profitability needs careful balancing.

In line with the HKSAR government's policy to promote green buildings, SOCAM places the utmost importance on environmental efficiencies. We value our consistent achievement in gaining BEAM Plus certification for public housing projects. The Children's Hospital, a first-of-its-kind project in Hong Kong and a joint venture between SOCAM and China State Construction, highlights our green credentials and won the Merit Award for the New Building Category of the Green Building Awards 2016. The venture also highlighted our capability to join forces with appropriate partners to achieve desired results; collaboration itself opens up growth prospects in the years ahead.

In Macau, economic growth prospects have improved. The enhancement of facilities of the gaming and hospitality industry continues to provide a reasonable number of contracts for our fit-out arm Pat Davie. In Hong Kong, Pat Davie completed and gained numerous valuable contracts and made a relatively good profit contribution.

The operating profit of our construction division was barely satisfactory at HK\$75 million (2015: HK\$108 million). This can be principally attributed to volatility in building materials prices – particularly steel – and in steep rises in labour costs. Highly competitive bidding also reduced profit margins. Nevertheless, your Company sees good prospects in ancillary areas of construction and is poised to gain a stronger foothold in selected markets such as revitalising industrial buildings, up-grading wet markets as well as seeking to win more maintenance contracts.

## FOCUSING ON RECOVERY

During late 2015 and early 2016, your Company conducted a critical review of our business, operating, and financial position, and developed action plans for immediate implementation. We have taken steps to streamline our operations as we continue deleveraging, and to seek new pathways to revitalising and rebuilding the Company and its future direction.

Perseverance, integrity, and quality have long been cornerstones of SOCAM's culture. These are values we take forward as we do business. The Board and I are confident

that the Group can be more proactive in advancing our realigned business model, with a significantly reduced debt load and a leaner corporate structure.

The global economic environment in 2017 is expected to face unprecedented uncertainty. The overall business outlook therefore remains challenging. We are aware of the challenges that lie ahead of us; not least in advancing the later stages of en-bloc disposal of our remaining property assets consisting primarily of retail malls, and we are addressing it as a matter of priority. While taking steps to ensure our short-term competitiveness, our confidence in long-term prosperity in the Chinese Mainland and Hong Kong remains firm.

On behalf of the Board, allow me to close my statement by once again recognising the dedicated commitment and effort by our senior management and staff to implement all the changes required to rebuild SOCAM. I would also like to express my gratitude to Mr. Raymond Wong as he retired from his position of Managing Director and Chief Financial Officer, after 27 years of service to the Company and Shui On Group. Mr. Frankie Wong has taken up the position of Chief Executive Officer and Chief Financial Officer from January, and I have every confidence in his successful tenure.

In particular I would like to express my sincere thanks to our shareholders for your forbearance over the recent years of consolidation and realignment SOCAM has been through. We will continue to be vigilant on possible market changes, and remain unwavering in our commitment to our shareholders.



**Vincent H. S. LO**  
Chairman

Hong Kong, 24 March 2017

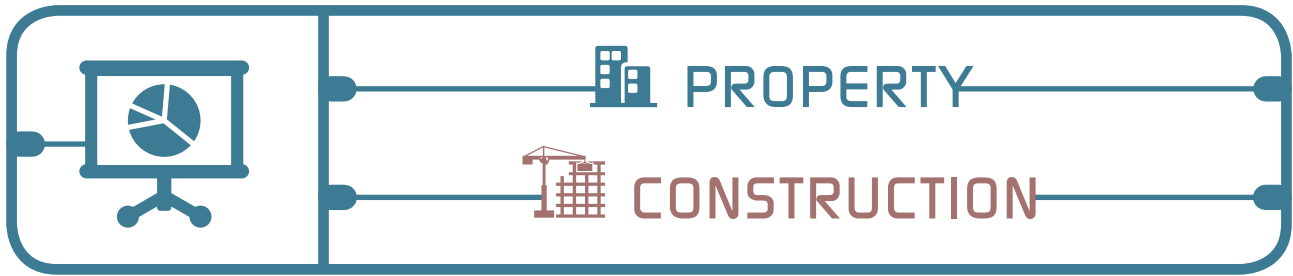


# MANAGEMENT DISCUSSION AND ANALYSIS

“We will continue to implement the monetisation plan in the year ahead with the aim of further reducing our bank borrowings and improving cash flow.”



**Frankie Y. L. WONG**  
Chief Executive Officer and  
Chief Financial Officer



After quantitative easing has been launched to weather financial crisis and stimulate economic growth for a number of years, many advanced economies retreated to pursuing tighter monetary supply. Global economic growth remained subdued in 2016 as political events such as Brexit in Britain and a new administration in the United States added unprecedented uncertainty to the global market. Economic growth in the Asia Pacific region remained strong at 5.3% in 2016 and is expected to sustain that figure this year, accounting for almost two-thirds of overall global growth. Against this, the maintenance of long-established multi-lateral trade relationships has become a concern.

In the Chinese Mainland, a GDP growth target of 6.7% was met in 2016, while economic restructuring away from manufacturing and investment towards services and consumption progressed steadily. The property market experienced a strong year in 2016, but with Central Government tightening mortgage lending and placing restrictions on purchases, property investment and sales activities slowed down dramatically towards the end of the year. Hong Kong's economy gradually improved after a weak start, and saw slight pickup of GDP growth at 1.9% for the whole year. The persistent strong US dollar is likely to hinder export growth in the year ahead, and depress tourist arrivals from the Chinese Mainland and Asia generally. Yet, Hong Kong has long been known for its economic resilience and adaptability, and the national 13th Five-Year Plan and "One Belt One Road" initiative are expected to unleash new growth opportunities.

Hong Kong's property sector remained buoyant throughout the year. Looking forward, and to public housing where SOCAM's construction interests lie, the sector is expected to benefit from the HKSAR government's stipulated targets for housing expansion. SOCAM is well placed to participate in increased tendering opportunities and play its part in delivering quality housing for the community.

## MONETISATION PROGRESS

The Group is now in the latter stages of monetising property assets in the Chinese Mainland. In 2016, we made further progress and completed three property project disposals, yielding an aggregate consideration of approximately HK\$1.0 billion. These disposals include:

- The sale of our remaining 20% interest in Shenyang Project Phase II for approximately HK\$364 million;
- The land parcels in Zunyi, Guizhou for a total consideration of approximately HK\$462 million; and
- Our 35% out of 60% interest in a Nanjing Cement Plant joint venture for approximately HK\$165 million.

The Group continued to navigate its way through the challenges of generating sales in a highly competitive market, and disposed of a significant part of the remaining residential units across our portfolio, generating a total of about RMB900 million in revenue. Currently Chengdu Centropolitan and Nanjing Scenic Villa are the only two projects where SOCAM continues residential marketing and sales activity. In Chengdu Centropolitan, 1,985 residential units out of 1,987 have been sold. In Nanjing Scenic Villa Phase I, 108 units out of 114 units were subscribed for or sold. Phase II received encouraging market response since its launch in July; 69 units of the first batch of 79 units launched for pre-sale have been contracted or subscribed for.

As a result of these sales, total developable GFA attributable to the Group decreased from 635,200 square metres as at 31 January 2016 to 421,300 square metres at the end of last year. We will continue to implement the monetisation plan into the year ahead with the aim of further reducing our bank borrowings. For commercial properties, when supply and demand eventually rationalise, the Company will seek suitable opportunities for en-bloc disposals.

NANJING  
SCENIC VILLA

GFA  
**67,200**  
square metres\*



DALIAN TIANDI



SHENYANG PROJECT PHASE I

GFA  
**88,300**  
square metres\*



CHONGQING  
CREATIVE CONCEPTS CENTER

GFA  
**31,500**  
square metres\*



GUANGZHOU  
PARC OASIS





# PROPERTY ASSETS

SOCAM is taking proactive steps to upgrade our commercial properties and create attractive experiential shopping environments. When supply and demand eventually rationalise, the Company will seek timely opportunities for en-bloc disposals.

\* The GFA shown refers to total developable GFA attributable to the Group as at 31 December 2016, and has excluded sold and delivered areas.

Total developable GFA  
**3,300,000**  
square metres



**CHENGDU  
CENTROPOLITAN**

GFA  
**184,200**  
square metres\*



GFA  
**5,300**  
square metres\*



**TIANJIN VENETO**

GFA  
**44,800**  
square metres\*



# PROPERTY



**GFA\***  
**421,300** sqm  
 at 31 December 2016

**635,200** sqm  
 at 31 January 2016

**TOTAL ASSETS**  
 HK **\$6,479** million  
 at 31 December 2016

HK **\$9,439** million  
 at 31 December 2015

**LOSS AFTER TAX**  
 HK **(\$1,207)** million  
 Year ended  
 31 December 2016

HK **(\$1,019)** million  
 Year ended  
 31 December 2015



Tianjin Veneto

## MARKET REVIEW

As SOCAM's disposal of residential units continued, along with our implementation of various cost-cutting measures, we turned our attention to upgrading and repositioning our four shopping malls in Chengdu, Chongqing, Shenyang and Tianjin. Retail spending in China grew 10.4% last year, to RMB33.2 trillion. The trend is expected to continue as urban populations increase and acquire more spending power and sophisticated consumption habits. SOCAM is enhancing its mall positioning and upgrading facilities to make the tenant mix more precisely calibrated to its surrounding community. Stand-out themes are now essential for increasing footfall and consumer loyalty.

In tier 2 and 3 cities where SOCAM's malls are situated, retail property growth has been particularly rapid in recent years. By the end of 2017, shopping mall GFA is again expected to rise across China. While this over-expansion continues, the market has recently seen correction in the light of delay in some mall openings and high vacancy rates. Facing current market challenges, SOCAM is taking proactive steps to upgrade our malls and create attractive experiential shopping environments. Revamping works have begun and new marketing and leasing plans are in place to boost rental revenues. Our mall in Tianjin made progress

during the year in advancing its tenant mix upgrade; customer flow has greatly improved as a result. Nationwide, in-store sales are facing significant challenges from e-commerce platforms which are expected to continue an upward trend as distribution logistics and transport links improve across China in the years to come.

China's residential property market remained uneven in the past year, with property booms in tier 1 cities, and price declines in lower tier cities. Considerable inventories and competing new developments came to the market simultaneously, putting pressure on pricing strategy. As the Central Government implemented tightening measures in many major cities towards the end of the year to stabilise overheated markets, new home purchases are expected to grow at a slower pace.

## OPERATING PERFORMANCE

Our property sales activity met expectations in 2016. This was largely due to a combination of highly competitive pricing and an offering of quality mid-range homes. However, most apartments achieved less than book costs, principally in Chengdu Centropolitan, harming our sales revenue and profitability.



Nanjing Scenic Villa

## SPECIAL SITUATION PROJECTS

As of 31 December 2016, SOCAM owned six projects, with a total developable GFA attributable to the Group of approximately 421,300 square metres. These projects encompass good locations in six Mainland cities as summarised below:

| Project                            | Usage                       | Estimated Completion Year | SOCAM's Interest | Total Developable GFA Attributable to the Group (square metres) |
|------------------------------------|-----------------------------|---------------------------|------------------|---|
| Chengdu Centropolitan              | Composite                   | 2017                      | 81%              | 184,200*  |
| Chongqing Creative Concepts Center | Retail and Car Park         | Completed                 | 100%             | 31,500*   |
| Guangzhou Parc Oasis               | Car Park                    | Completed                 | 100%             | 5,300*  |
| Nanjing Scenic Villa               | Residential and Car Park    | 2018                      | 50%              | 67,200  |
| Shenyang Project Phase I           | Office, Retail and Car Park | Completed                 | 100%             | 88,300*   |
| Tianjin Veneto                     | Retail                      | 2018                      | 45%              | 44,800  |
| <b>Total</b>                       |                             |                           |                  | <b>421,300**</b>  |

\* The GFA shown above has excluded sold and delivered areas

\*\* Excluding that of the knowledge community project in Dalian





Nanjing Scenic Villa

## PROJECT DEVELOPMENT AND MARKETING PROGRESS

### Nanjing Scenic Villa

Nanjing recorded historic highs for new home transactions in 2016, leading to intervention by the local government to curb property prices. While purchasing interest is generally expected to slow in 2017, Nanjing Scenic Villa has its own niche in the market for discerning home buyers. With a GFA of 134,000 square metres on completion, the development offers distinctive low-rise apartments with balconies in a garden and lakeside setting.



**169** out of 187 of the villas launched for sale were pre-sold or subscribed for

Around 95% of the villas in Phase I of Nanjing Scenic Villa has been sold at reasonable prices. Phase II sales began in July last year, meeting with good market response. At the year-end, 169 out of 187 of the units launched for sale were pre-sold or subscribed for total revenue of approximately RMB700 million. A further sales launch for the second batch of villas in Phase II is scheduled for the middle of this year. Completion of the project is targeted for 2018.

### Chengdu Centropolitan

Situated in the Central Business District of a major city in southwest China, Chengdu Centropolitan is a mixed-used development at which almost all units in the 11 residential towers have now been sold. 333 residential units were

contracted for sale during the year. Prices were however adversely impacted by housing stock over-supply prevalent in the city.

Marketing activity on an office tower has begun. An agreement for the block sale of all 504 Soho units for RMB231 million was signed in December.

Chengdu's consumer retail sales increased by some 10% in 2016, with mall vacancy rates decreasing to around 6%, a comparatively low figure across the nationwide retail markets. With this favourable market condition, SOCAM aims to open the project's integrated 40,000 square metre GFA shopping mall in stages, starting from July this year. Leasing activity has begun and is attracting strong retailer interest. Our efforts now focus on further building retailer tenancy interest with a focus on lifestyle shopping for the expanding middle class.

The mall will mainly target families in the neighbourhood and provide them with well-rounded experiences by offering a fresh market 'village' and unique features to satisfy the daily needs of the local community and its surrounding area. The mall is also attracting tenants by offering home fittings and appliances, electronic and communication devices, and affordable mid-market fashions.



Block sale of all **504** Soho units was signed in December



Chengdu Centropolitan

“Shenyang Project Phase I has the potential to become an iconic centre; it has the architectural quality, the interiors, along with distinctive elements to achieve such status. The next stage is to transform the concept into reality with market research, a new retail layout and retail plan.”

Michael Lloyd  
International Consultant  
Shopping Centre Developments



Shenyang Project Phase I

## Chongqing Creative Concepts Center

Chongqing is one of China's largest metropolises. City-wide retail sales grew over the year, but prime mall vacancy rates increased at year end due to continual addition of mall space.

The Creative Concepts Center is situated adjacent to the Central Business District. This mixed-use development is realised and sold as far as the residential and office units are concerned, and SOCAM is now upgrading the shopping mall. With tenant occupancy at 64% at year-end 2016, finding a niche for this project is challenging as developers typically compete on rents and a good tenant mix. Improvement works will progressively be implemented according to our revamping plan to enhance customers' shopping experience.

## Shenyang Project Phase I

In Shenyang, the retail property market is particularly soft. Retail stock is expected to increase as some 21% additional retail space is scheduled for completion in 2017. This threatens a vacancy rate increase as the city rapidly grows

and modernises to act as a shopping and entertainment magnet for its surrounding cities in the Liaoning province. With nearly all the apartment units and office space sold in Shenyang Project Phase I, SOCAM is now upgrading the development's 62,000 square metre GFA Shenyang Tiandi mall and its attractions. Occupancy rate of the mall dropped to 55% as revamping works are now underway and we are reshuffling our tenant mix, with an aim to increase rental yield and consumer footfall in the latter half of 2017.



Occupancy rate of the mall

**55%**

as revamping works are underway

## Tianjin Veneto

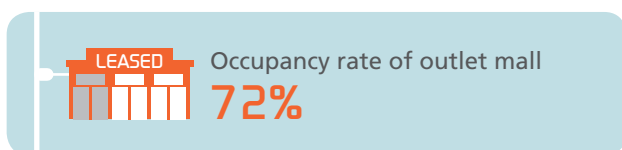
Tianjin is a prosperous outer suburb of the nation's capital with annual GDP growth of 9.0% in 2016. The retail market remains one of the strongest in tier 2 and 3 cities and grew 5.1% in 2016, while competition among malls remains intense. Popular international brands are increasing their store-front presence. Specialising as an outlet shopping centre, Veneto features Italian style pedestrian lanes with a total GFA of 98,100 square metres, and is planned for completion in 2018. At year-end 2016, 72% of the retail





Chengdu Centropolitan

space had been leased and a cinema and tax-free shop were opened, and newer shops opened near the end of 2016 were popular international brands such as Uniqlo and H&M. Despite a slow start due to fierce competition, since the beginning of the revamp, customer flow increased by 50% in 2016.



### Guangzhou Parc Oasis

This residential development is situated in the Northern Tianhe District of Guangzhou, with all residential and serviced apartment units sold. 38 car parking spaces were sold in 2016 at an average price of approximately RMB300,000 per unit. The sales of the remaining 400 car parking spaces are underway and strong marketing efforts continue.

### Shanghai Lakeville Regency Tower 18

This luxury serviced apartment building located in the Xintiandi area met with a good response. Completion of sales of all 103 units was accomplished in 2016.

## KNOWLEDGE COMMUNITY – DALIAN TIANDI

Dalian Tiandi is a long-term development project in which the Group has a 22% share. The project is an integrated mixed-use development with a visionary parkland concept comprising office, retail, residential and service apartments with a total developable GFA of 3.3 million square metres.

As at 31 December 2016, the leasable and saleable GFA completed and under construction stood at 317,000 square metres and 919,000 square metres respectively. At Huangnichuan (site C of Dalian Tiandi), a total of 104,000 square metres GFA is under construction scheduled for completion from 2017 to 2020. At Hekou Bay (site A of Dalian Tiandi), a total GFA of 126,000 square metres is under construction, and planned for progressive completion from 2017 to 2019. The launching of residential units including The Splendid Bay, The Upper in Hekou Bay, and Green View Heights in Huangnichuan in 2016 was well received by the market, and a total of 895 units out of 1,111 available units was sold at an average price of RMB8,800 per square metre.

A total GFA of 207,000 square metres has been developed into office space. Tenant interest has been satisfactory throughout its phased completion, with occupants including established technology companies such as IBM, and Chinasoft. Occupancy of completed office space stood at 90% at year-end 2016, and 53% for IT Tiandi.



Dalian Tiandi



## CASE STUDY

# REPOSITION • ENHANCE • UPGRADE TIANJIN VENETO

Tianjin Veneto is a project acquired in 2011, comprising a retail mall featuring attractive Italian style pedestrian streets for a uniquely 'European' vibe.

It has a total GFA of 98,100 square metres, and also has convenient transportation close to Wuqing Station.

The Veneto is located in Wuqing City between Tianjin and Beijing. Since the Veneto's opening in January 2015, it is targeted to become a popular destination for local residents, primarily for shopping, foods and beverages.

## THE CHALLENGE

Tianjin, as a second tier city with a considerable retail growth and a new supply of retail space of around 244,000 sqm in 2016, has therefore high retail competition. In particular, the Veneto faced competition from a neighboring shopping outlet and in securing an optimum tenant/product mix.

The first year's performance was below expectation in terms of footfall, and sales turnover. It was realised that the Veneto was in need of upgrades for an enhanced retail experience in order to contend with other malls – and with its unique and unparalleled Italian concepts and prime location, SOCAM envisaged improvements that could result in a turnaround of the project.

## THE PLAN

After rethinking and envisioning the future and present concepts the Veneto should embody, the following plans were implemented:



Customer flow has been improved after tenant mix upgrade.

- Revamping of current street shops and introduction of popular and global brands
- Refocusing the marketing on the unique 'European' experience the mall would provide
- Introduction of international brands of foods and beverage
- Providing fashion trendy stores
- Focusing on our target consumers to give them the best retail experience possible

At the beginning of 2016, the revamp was already in action, as we proactively signed in new leases and negotiated out of old, underperforming ones. By the end of 2016, popular international brands have already been introduced to the Veneto, such as H&M, Mango, Uniqlo, and Starbucks. We also signed up a number of children's retail stores as well as game centres, in order to provide the most experiential retail experience that we could. In order to contend with other malls, one of the targets was to make Tianjin Veneto ultimately the new destination for families looking for a multi-faceted retail experience.

## THE RESULTS

This repositioning and focus on the Veneto's strengths are steps towards the Veneto becoming a staple destination for potential shoppers, with retail, leisure, entertainment, foods and beverage, and children-friendly activities for everyone to find an experience they enjoy.

From these improvements, promisingly positive results have been seen: total footfall in 2016 increased 53% compared to 2015. Sales turnover and rental income did show an initial decline in 2016 due to the work on revamping, but is calculated to bounce back in the coming year.

Veneto is poised to become a place of gathering for local residents, as well as receiving visitors from Beijing and Tianjin looking for a retail experience that is inclusive of the whole family. The revamping will be fully completed by the third quarter of 2017.

A number of international brands have joined Veneto in 2016.



## MAJOR PROJECTS COMPLETED OR IN PROGRESS DURING THE YEAR:

- ▶ Public rental housing development at Shek Kip Mei Estate Phases 3, 6 and 7
- ▶ Two term contracts for the alterations, additions, maintenance and repair of aided schools, buildings and lands and other properties for the Education Bureau
- ▶ Home ownership scheme at Kai Tak Site 1G1(B)
- ▶ Three-year outline agreement for design and construction of minor building/civil engineering works at CLP Power's premises
- ▶ A term contract for architectural and building works for MTR Corporation's railways and premises

### KING TAI COURT GREEN FORM SUBSIDISED HOME OWNERSHIP PILOT SCHEME PROJECT



### PUBLIC RENTAL HOUSING DEVELOPMENT AT SO UK ESTATE PHASE 1



# CONSTRUCTION

SOCAM seeks to take advantage of the tendering opportunities presented both in housing and in ancillary public amenity developments, maintenance and minor works projects. It remains vital that we balance project award success with continuing high quality in delivery and a fair profit margin.



HONG KONG CHILDREN'S HOSPITAL  
VIA THE JOINT VENTURE WITH CHINA STATE CONSTRUCTION



LONG CHING ESTATE  
PUBLIC RENTAL HOUSING  
DEVELOPMENT



PUBLIC RENTAL HOUSING DEVELOPMENT  
AT SO UK ESTATE PHASE 2



SPORTS CENTRE, COMMUNITY HALL AND  
DISTRICT LIBRARY COMPLEX IN SHATIN



WEST KOWLOON LAW COURTS BUILDING





# CONSTRUCTION



## OPERATING PROFIT

HK \$75 million  
2016

HK \$108 million  
2015

## NEW CONTRACTS SECURED

HK \$4.7 billion  
2016

HK \$3.7 billion  
2015

## TURNOVER

HK \$4.7 billion  
2016

HK \$5.6 billion  
2015

Public Rental Housing Development at So Uk Estate Phase I

## MARKET REVIEW

The scarcity of developable land for affordable housing, community facilities and leisure space in Hong Kong continues to be a major community concern. However, the HKSAR government is determined to resolve the shortage of affordable accommodation units as its top priority, and has recently reaffirmed its target to build 460,000 housing units in 10 years.

SOCAM seeks to take advantage of the tendering opportunities presented both in housing and in ancillary public amenity developments. We also intend to expand our order book in maintenance and minor works projects, and in areas such as revitalising industrial buildings and upgrading wet markets. Tendering requirements have put further emphasis on contractors' experience in the construction of eco-friendly buildings. SOCAM's construction division has stringent measures on environmental protection and considerable experience in attaining Building Environmental Assessment Method Plus (BEAM Plus) standards.

However, it remains vital to our sector profitability that we balance project award success with continuing high quality in delivery and a fair profit margin. Carefully calibrating costs, particularly in the prices of building materials and skilled labour, is a paramount consideration as SOCAM seeks to expand its order book.

There are tendering and subcontractor considerations that will receive the Group's particular attention in the immediate years ahead. We will give more detailed attention to fluctuating cost factors and more closely evaluate project difficulties particularly those with challenging civil engineering content. The shortage of skilled labour and escalating construction costs in Hong Kong remain a concern. To cope with the problem management has continued to provide training to enhance workers' skills and explore alternative ways to address the issue.

In Macau, the economy has seen the first period of growth since the second quarter of 2014. The market for redesigns of interior commercial space in Hong Kong similarly remained strong; a key market for Pat Davie, our interior design and fit out arm. Pat Davie is a consistent profit contributor to the Group and will seek to secure contracts in the private sector, with Macau being a supporting fit-out market to their diversified contract capture and delivery in Hong Kong.

## OPERATING PERFORMANCE

The Group's construction division reported a profit of HK\$75 million in 2016 (2015: HK\$108 million). Turnover for the year was HK\$4.7 billion (2015: HK\$5.6 billion). New contracts secured totaled HK\$4.7 billion (2015: HK\$3.7 billion).



Public Rental Housing Development at Long Ching Estate

Profits for the year were impacted by spikes in the cost of building materials and skilled labour particularly affecting the construction of the So Uk Estate Phase I public housing project, which led to a considerable book loss in that project, a rare occurrence for the construction arm.

As at 31 December 2016, the gross value of contracts on hand was HK\$18.6 billion and the value of outstanding contracts to be completed was HK\$9.7 billion, compared to HK\$18.4 billion and HK\$9.5 billion respectively as at 31 December 2015. Building design and construction methods in Hong Kong have seen immense changes since Shui On first entered the construction and materials business. SOCAM has helped lead the way in introducing rigorous site safety standards and consideration for the surrounding community as building work progresses. In the past year, the Company received a total of 37 awards for site management, site safety and building quality. These included the Considerate Contractors Site Award (Gold), Hong Kong Construction Environmental Award (Merit) and Quality Building Award - Hong Kong Non-Residential (New Building) Category (Merit).



Won **37** awards for site management, site safety and building quality

## SHUI ON BUILDING CONTRACTORS (SOBC)

In a competitive tendering environment, a number of new projects were secured totaling HK\$3.87 billion, which included:

- The construction of a public rental housing development at Shek Kip Mei Estate Phases 3, 6 and 7 at HK\$1,608 million;
- Two term contracts for the alterations, additions, maintenance and repair of aided schools, buildings and lands and other properties for the Education Bureau totaling HK\$1,138 million;
- The construction of a home ownership scheme at Kai Tak Site 1G1(B) at HK\$755 million;
- A three-year outline agreement for design and construction of minor building/civil engineering works at CLP Power's premises at HK\$302 million; and
- A term contract for architectural and building works for MTR Corporation's railways and premises at HK\$70 million.



Green Form Subsidised Home Ownership Pilot Scheme at King Tai Court

SOBC completed contracts for the construction of a public rental housing development at Long Ching Estate valued at HK\$440 million, design and construction of minor building/civil engineering works at CLP Power's premises valued at HK\$240 million, a four-year term contract for architectural and building works for MTR Corporation's railways and premises valued at HK\$140 million, and a term contract for the maintenance, improvement and vacant flat refurbishment for properties managed by the District Management Office of the Housing Authority valued at HK\$213 million.

Pacific Extend Limited, the Group's building maintenance arm, had a full order book and profitable year as it worked on several term contracts. Among these were works for the Housing Authority, the Architectural Services Department, the MTR Corporation and CLP Power.

### SHUI ON CONSTRUCTION (SOC)

Along with SOBC, SOC holds HKSAR government 'Group C' license for building works of unlimited value and is a Registered General Building Contractor of the Buildings Department.

Over the year, SOC completed two contracts for the construction of a Sports Centre, Community Hall, and District Library in Shatin valued at HK\$799 million and the Design and Construction of the West Kowloon Law Courts Building for the Architectural Services Department valued at HK\$2.2 billion. In addition the construction of the Hong Kong Children's Hospital, in a joint venture with the China State Construction, has progressed steadily.

### PAT DAVIE (PDL)

PDL, the Group's interior fit-out and building renovation arm, maintained a healthy order book. In 2016, PDL won 21 interior and fit-out contracts worth approximately HK\$858 million (2015: HK\$1,302 million). Four more contracts have further been awarded after the financial year in Hong Kong and Macau, worth an aggregate of HK\$478 million.



Won 21 new contracts worth

**HK\$858** million



Hong Kong Children's Hospital



Contracts secured in 2016 include two asset enhancement projects for Link valued at HK\$166 million, a HK\$150 million station improvement works for MTR Corporation, a HK\$104 million renovation works of Pacific Place Phases I and II, a HK\$85 million fit-out works for hotel development in Kwun Tong, and also projects for Bank of China, Murray Building hotel development and Cathay Pacific business class lounge at Hong Kong airport. PDL also secured more contracts with Wynn in 2016 that are due for completion in 2017.

PDL completed 29 projects during the year with an aggregate contract value of HK\$1,038 million (2015: HK\$940 million). These included sizeable projects both

in Hong Kong and Macau, the highest grossing of which were the fit-out works of Cityplaza Three offices valued at HK\$209 million and multiple projects for Wynn at an aggregate sum of HK\$201 million.

Other notable completions included a HK\$128 million project for Galaxy in Macau, a HK\$117 million fit-out project of IT and broadcasting office for Hong Kong Jockey Club, a HK\$79 million project for Bank of China and a HK\$51 million project for MTR Corporation. As the Hong Kong and Macau markets remain competitive, PDL will further consolidate its competitiveness in cost control, project quality and customer service.

## CASE STUDY

### THE INTERIOR FIT-OUT ARM PAT DAVIE

Acquired by SOCAM in 1985, Pat Davie (PDL) is the interior fit-out arm of the Group. With its professional service and quality workmanship, it has a reputable order book history and over the years has developed into a fit-out contractor known for its quality. PDL's primary focus is on asset enhancement of existing properties, and it continues to contend in the highly competitive Hong Kong and Macau markets. Among its clients are commercial institutes, hotels and clubs, shopping malls, retail outlets, making it a significant profit contributor to the Group.

In Hong Kong and Macau, our flexible services can occupy many market niches and find profitable opportunities for its order book, from enhancing luxury hotels to industrial buildings. Macau's flourishing hospitality industry has

particularly lent itself to many fit-out contracts won from high profile luxury hotels and gaming facilities such as Wynn Palace, The 13, MGM Grand, Studio City and Galaxy – and with many of them PDL has established long-term business relationships, demonstrating to our clients our attention to quality, timely delivery, and ability to meet their needs.

In Hong Kong, where different market circumstances lie, PDL also prospers by fulfilling a crucial need – development of the city with limited space. It won multiple contracts for upgrading and enhancing five malls with Link across Hong Kong. It was also awarded several hotel fit out contracts in 2016, including a contract for the upgrading of Murray Building, a project hailed as being an environmentally friendly way of fulfilling Hong Kong's developing hotel market without needs for demolition. Other contracts secured or completed during the year included a business class lounge for Cathay Pacific, and enhancements for the MTR Corporation, showcasing yet again our versatile services.



MANAGEMENT  
DISCUSSION AND ANALYSIS

# FINANCIAL REVIEW





## FINANCIAL RESULTS

The Group's loss attributable to shareholders for the year ended 31 December 2016 was HK\$1,382 million on a turnover of HK\$5,345 million, compared with a loss of HK\$1,126 million on a turnover of HK\$5,916 million for the previous year.

The Directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

Certain of the Group's property businesses are conducted through joint ventures and associates, hence the HK\$5,345 million turnover for the year has not included the Group's share of the turnover of these joint ventures and associates. An analysis is as follows:

|                                       | Year ended<br>31 December<br>2016<br>HK\$ million | Year ended<br>31 December<br>2015<br>HK\$ million |
|---------------------------------------|---|---|
| <b>Turnover</b>                       |   |   |
| <b>SOCAM and subsidiaries</b>         |   |   |
| Construction and building maintenance | 4,711   | 5,606   |
| Property                              | 634   | 306   |
| Others                                | –   | 4   |
| <b>Total</b>                          | <b>5,345</b>                                      | <b>5,916</b>                                      |
| <b>Joint ventures and associates</b>  |   |   |
| Property                              | 1,535   | 308   |
| Others                                | 37  | 55  |
| <b>Total</b>                          | <b>1,572</b>                                      | <b>363</b>  |
| <b>Total</b>                          | <b>6,917</b>                                      | <b>6,279</b>                                      |

The construction business recorded a 16% decrease in turnover for the year, as compared with the previous year. This was mainly due to the completion of certain construction contracts from the Architectural Services Department during the year, including the relocation of the Department of Justice and construction of the West Kowloon Law Courts Building and the Sports Centre, Community Hall and District Library Complex in Shatin, valued at approximately HK\$3.6 billion in total. Major new contracts, including the construction of Public Rental Housing Development at Shek Kip Mei and a housing development under Home Ownership Scheme at Kai Tai as well as two term maintenance contracts for the Education Bureau for a total contract sum of approximately HK\$3.5 billion, awarded during the year contributed limited turnover during their initial stages of construction works.



West Kowloon Law Courts Building



Revenue from the property business increased from HK\$306 million in the previous year to HK\$634 million in the current year, due mainly to the disposal of the Zunyi project for a consideration of approximately HK\$462 million in January 2016. Excluding this en-bloc disposal, property sales revenue continued to decrease this year because the inventories of the Group's wholly-owned property projects have been substantially sold over the last few years.

The consideration of approximately HK\$364 million for the disposal of the remaining 20% interest in Shenyang Project Phase II in January 2016 and the revenue derived from the strata-title sales of the apartment units of an investment property – Tower 18, Lakeville Regency in Shanghai, amounting to approximately HK\$362 million during the year, have not been included in turnover according to applicable accounting rules.

An analysis of the results attributable to shareholders is set out below:

The Group's share of property sales revenue from the jointly developed projects increased to HK\$1,535 million in the current year, from HK\$308 million in the previous year, was mainly attributable to the 81%-owned Chengdu Centropolitan which commenced handing over the pre-sold residential units to buyers from the third quarter of the year. In addition, higher residential sales revenue was recognised by the 22%-owned Dalian Tiandi in the current year. Revenue in the previous year mainly came from the strata-title sales of the apartments in the 65%-owned Beijing Centrium Residence and 80%-owned Shanghai Four Seasons Place, before these projects together with their remaining apartment units were disposed of en-bloc in April and July 2015 respectively.

|  | Year ended<br>31 December<br>2016<br>HK\$ million | Year ended<br>31 December<br>2015<br>HK\$ million |
|--|---|---|
| <b>Property</b>  |   |   |
| (Loss) profit from property sales and net rental expenses                  | (38)  | 22  |
| Fair value changes on investment properties, net of deferred tax provision | (29)  | (34)  |
| Share of losses of joint ventures and associates                           | (977)   | (494)   |
| Impairment loss on a property under development for sale                   | –   | (238)   |
| Operating expenses, net of project fee income                              | (155)   | (220)   |
|  | <b>(1,199)</b>                                    | <b>(964)</b>                                      |
| <b>Construction</b>  | <b>75</b>   | <b>108</b>  |
| <b>Cement - LSOC (discontinued operations)</b>                             |   |   |
| Share of losses, net of other income                                       | –   | (272)   |
| Net gain on disposal   | –   | 416   |
|  | –   | 144   |
| <b>Venture capital investments</b>   | <b>(25)</b>                                       | <b>(20)</b>                                       |
| <b>Net finance costs</b>   | <b>(125)</b>                                      | <b>(206)</b>                                      |
| <b>Corporate overheads</b>   | <b>(43)</b>                                       | <b>(63)</b>                                       |
| <b>Taxation and others</b>   | <b>(39)</b>                                       | <b>(108)</b>                                      |
| <b>Non-controlling interests</b>   | <b>(26)</b>                                       | <b>(17)</b>                                       |
| <b>Total</b>   | <b>(1,382)</b>                                    | <b>(1,126)</b>                                    |

## Property

Net loss on property sales for the current year was largely due to the transaction costs and taxes in relation to the disposal of the Zunyi project in January 2016, which cannot be covered by the limited profit contribution from sales of the already low inventory of the Group's wholly-owned projects. Impairment loss provision of HK\$238 million was already made in 2015 to write down the carrying value of the Zunyi project by reference to the amount of the contracted sales consideration.

Negative rentals after expenses were incurred by the Group's investment properties, consisting mainly of the shopping malls of Chongqing Creative Concepts Center and Shenyang Project Phase I.

The significant increase in the share of losses of the Group's jointly developed projects for this year was mainly due to the share of (a) HK\$462 million impairment losses provided on the property assets of the 81%-owned Chengdu Centropolitan project, as the selling prices of the apartment units remained depressed amid oversupply of housing in this 2-tier city, and (b) HK\$103 million revaluation loss on the investment properties in the 45%-owned Tianjin Veneto project.

During the current year, the Renminbi registered a further 6.8% depreciation against the Hong Kong dollar, and this brought about foreign exchange losses to the Group's property projects, including jointly developed ones, totalling HK\$115 million (2015: HK\$169 million).



Nanjing Scenic Villa



Shenyang Project Phase I

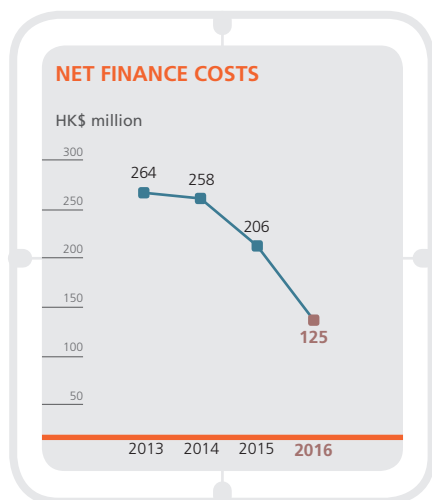
The Group recorded further saving in total operating expenses of some HK\$30 million in the current year as the assets monetisation steadily progressed and the organisation was streamlined further.

## Construction

Construction business reported a decrease in profit for the current year, which was partly attributable to lower turnover in Hong Kong and Macau. Average net profit margin decreased to 1.6% of turnover, from 1.9% in the previous year, mainly because of the movements in steel and labour costs not sufficiently covered by the fluctuation income received from the client on certain government construction projects, the HK\$5 million additional cost provision for the lead-in-water incident, and considerable cost overrun, largely resulting from under-performance of certain subcontractors, in one of the construction projects.

## Net finance costs

Net finance costs decreased significantly to HK\$125 million for the year, from HK\$206 million for the previous year, in line with the considerable reduction in bank and other borrowings during the current year.



## Corporate overheads

Considerable decrease in corporate overheads for the current year was the result of streamlining the organisation structure at the corporate level.

## ASSETS BASE

The total assets and net assets of the Group are summarised as follows:

|              | 31 December<br>2016<br>HK\$ million | 31 December<br>2015<br>HK\$ million |
|--------------|-------------------------------------|-------------------------------------|
| Total assets | 9,210                               | 12,339                              |
| Net assets   | 3,835                               | 5,542                               |

|                      | HK\$ | HK\$ |
|----------------------|------|------|
| Net assets per share | 7.9  | 11.4 |

Total assets of the Group decreased to HK\$9.2 billion at 31 December 2016 from HK\$12.3 billion at 31 December 2015, and this will be explained in the segment analysis

below. The decrease in net assets of the Group and net assets per share was largely attributable to the HK\$1,382 million loss for the year, and the reduction in the translation reserve of HK\$319 million as a result of the depreciation of the Renminbi against the Hong Kong dollar.

An analysis of the total assets by business segments is set out below:

|              | 31 December<br>2016<br>HK\$ million | %          | 31 December<br>2015<br>HK\$ million | %          |
|--------------|-------------------------------------|------------|-------------------------------------|------------|
| Property     | 6,479                               | 70         | 9,439                               | 76         |
| Construction | 1,934                               | 21         | 1,817                               | 15         |
| Others       | 797                                 | 9          | 1,083                               | 9          |
| <b>Total</b> | <b>9,210</b>                        | <b>100</b> | <b>12,339</b>                       | <b>100</b> |

The Group continued with the monetisation plan for its property assets in the Mainland. In 2016, the Group disposed of the Zunyi project, the remaining 20% interest in Shenyang Project Phase II and certain property inventories in Shanghai Lakeville Regency Tower 18, Shenyang Project Phase I and Guangzhou Parc Oasis. The sales proceeds were largely applied towards repayment of the Group's bank borrowings and settlement of other liabilities. In addition, the Group's property portfolio suffered decrease in book

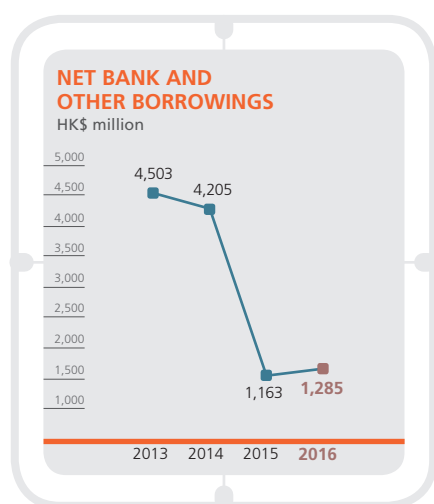


Sports Centre, Community Hall and District Library Complex in Shatin



The maturity profile of the Group's bank and other borrowings is set out below:

|                                       | 31 December 2016<br>HK\$ million | 31 December 2015<br>HK\$ million |
|---------------------------------------|----------------------------------|----------------------------------|
| Bank and other borrowings repayable:  |                                  |                                  |
| Within one year                       | <b>1,685</b>                     | 2,914                            |
| After one year but within two years   | <b>398</b>                       | 222                              |
| After two years but within five years | <b>271</b>                       | 199                              |
| Total bank and other borrowings       | <b>2,354</b>                     | 3,335                            |
| Bank balances, deposits and cash      | <b>(1,069)</b>                   | (2,172)                          |
| Net bank and other borrowings         | <b>1,285</b>                     | 1,163                            |



values due to (a) impairment loss provisions in Chengdu Centropolitan and Dalian Tiandi, (b) fair value loss of various investment properties by reference to the market valuation at 31 December 2016, and (c) foreign exchange loss on translation of the Renminbi-denominated assets into Hong Kong dollar, the Company's reporting currency, as a result of the depreciation of the Renminbi against the Hong Kong dollar. Accordingly, the Group saw a significant decrease in total assets, particularly property assets, during the year.

## EQUITY, FINANCING AND GEARING

The shareholders' equity of the Company decreased to HK\$3,835 million on 31 December 2016, from HK\$5,542 million on 31 December 2015, for the reasons outlined above.

The realisation of the Group's property projects and inventories in the Mainland has further reduced the total bank and other borrowings by approximately 29% to HK\$2,354 million on 31 December 2016, from HK\$3,335 million on 31 December 2015. Net bank and other borrowings of the Group, which represented bank and other borrowings, net of bank balances, deposits and cash, amounted to HK\$1,285 million on 31 December 2016, as compared with HK\$1,163 million on 31 December 2015. The slight increase in net bank and other borrowings was mainly attributable to the advances made by the Group to its jointly developed property projects during the year.

The net gearing ratio of the Group, calculated as net bank and other borrowings over shareholders' equity, increased to 33.5% at 31 December 2016, from 21.0% at 31 December 2015, mainly as a result of the significant decrease in shareholders' equity during the year as explained already.

## TREASURY POLICIES

The Group's financing and treasury activities are centrally managed and controlled at the corporate level.

The Group's bank borrowings are mainly denominated in the Hong Kong dollar and have been arranged on a floating-rate basis. Investments in the Chinese Mainland are partly funded by capital already converted into Renminbi and partly financed by borrowings in the Hong Kong dollar. Renminbi financing is primarily at project level where the sources of repayment are also Renminbi denominated. Given that income from operations in



Hong Kong Children's Hospital

the Chinese Mainland is denominated in Renminbi and property assets in the Chinese Mainland are normally priced in Renminbi on disposal, the Group expects that the fluctuations of Renminbi in the short-term will affect the Group's business performance and financial status. The Group has converted part of its existing Hong Kong dollar borrowings into Renminbi to hedge against currency risk exposure. Subsequent to the year end, major currency hedging contracts have been taken out to reduce potential foreign exchange risk in the short term arising from possible continued depreciation of the Renminbi.

It is the Group's policy not to enter into derivative transactions for speculative purposes.

### EMPLOYEES

At 31 December 2016, the number of employees in the Group was approximately 1,220 (31 December 2015: 1,340) in Hong Kong and Macau, and 480 (31 December 2015: 550) in subsidiaries and joint ventures in the Chinese Mainland. Remuneration packages are maintained at competitive levels and employees are rewarded on a performance-related basis. Other staff benefits, including

provident fund schemes and medical insurance, remained at appropriate levels. The Group continued to retain and develop talents through executive development and management trainee programmes. Based on the financial performance of the Group as well as the individual performance and contribution of the staff members each year, share options may be granted to senior management and staff members under different schemes as reward and long-term incentives. Likewise, in the Chinese Mainland, staff benefits are commensurate with market levels, with emphasis on building the corporate culture, and professional training and development opportunities are provided for local employees. It remains our objective to be regarded as an employer of choice to attract, develop and retain high calibre and competent staff.

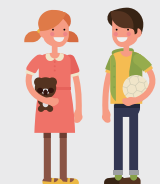
### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



This report follows the guidelines and principles laid down by the Environmental, Social and Governance (ESG) Reporting Guide of the Stock Exchange of Hong Kong. Further details about our corporate governance practices are set out in full in the Corporate Governance Report in this Annual Report.



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# INTRODUCTION

Parallel to SOCAM's commitment to sustainable development and growth, we see it as our core value to contribute to the wellbeing and skills development of our employees, the protection and enhancement of the environment, and the welfare and progress of the wider community. To fulfill these intrinsic values, we seek to find engaging and practical ways to implement them through life-affirming initiatives.

## Corporate Social Responsibility (CSR) Policy & Implementation

SOCAM has a long-established corporate culture based around integrity, innovation, quality and excellence in all we do. Our Corporate Social Responsibility model is built on team and cross-departmental collaboration, based on principles codified in a policy statement of 2008 that comprehensively defines our CSR goals. The Board has delegated the day-to-day responsibility for CSR related matters to the ESG Steering Committee and the CSR Steering Committee, with the former responsible for managing the ESG related impacts, and the latter responsible for coordination and implementation. Divisions and departments within the Group integrate CSR objectives into their operation and activities.

### Structure



### Shui On – We Care



#### Caring for the Environment

At an operational and individual level we take every opportunity to conserve energy and natural resources, and reduce waste and emissions. In the past years this has increasingly become a closely monitored, results-driven imperative.

#### Caring for the Community

We reach out to the disadvantaged on a personal level, particularly at holiday and festive times, with warm concern, small gifts, outings and activities. Allied with established charities, we give time and donations towards raising money for worthy causes.

#### Caring for our People

A significant part of our business operation is in construction. Safety is therefore a paramount concern. The interests of all staff are addressed in healthcare and wellbeing, skills and career development, as well as social and family activities.



# STAKEHOLDER ENGAGEMENT

Throughout the year, SOCAM had regular dialogue with our stakeholders to further develop mutually beneficial relationships in an atmosphere of transparency and clarity. At all times it serves to ensure cross-party understanding, through our initiatives and stakeholder feedback.



## Shareholders

- The Annual General Meeting is the primary point of contact between the Board and shareholders.
- Interim and annual reports, corporate websites.
- Announcements, notices of meetings, circulars.

## Business partners

- We hold regular meetings with partners to monitor staggered targets from quality to completion and asset enhancement.

## Clients

- We value regular meetings with government authorities and clients to share project management and building expectations.



## Subcontractors

- Annual seminars to set protocol and targets in quality, health, safety and the environment.
- Regular subcontractor meetings to discuss project progress and on-site concerns.
- Training sessions to update latest construction methodologies and worker safety.

## Suppliers

- We nurture long-standing relationships with suppliers. From risk management, site and factory visits, regular meetings to performance reviews.



## Property tenants and buyers

- Upgrading of shopping mall environment and facilities to deliver pleasant surroundings for tenants.
- Pre-purchase and after sales services are provided for buyers to enhance satisfaction and relationships.

## Employees

- Staff newsletters and intranet for business updates, staff engagement in CSR projects.
- Performance reviews and appraisals.

## Media

- Maintaining continuing and open dialogue with the media.
- Publishing corporate announcements and press releases online.



## Community and general public

- We work closely with interested parties in the neighbourhood of SOCAM's construction projects to ensure minimum local disruption.
- Our volunteers serve social needs particularly for disadvantaged children and the elderly.

# KEY FIGURES IN 2016

## Greenhouse gas emissions

(Tonnes CO<sub>2</sub>e)

**47,820**

2015: 68,013



## Accident rate per 1,000 workers



**9.0**

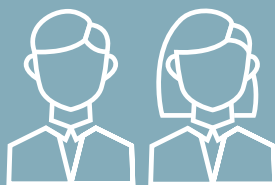
2015: 8.6 / Industry rate: 39.1

## Number of full-time staff

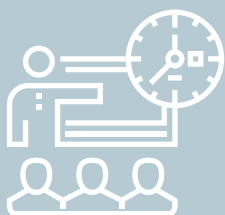
(Contract staff and staff in Nanjing Cement Plant Joint Venture not included)

**1,442**

2015: 1,440



## Number of staff training hours



**13,594** hours

**9.4** hours per staff

2015 : 18,331 hours  
12.7 hours per staff

## Corporate donation and sponsorship

HK\$ **2** million

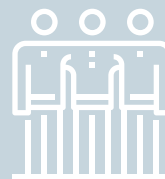
2015: HK\$2.33 million



## Number of volunteers

**611**

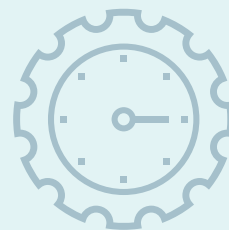
2015: 617



## Number of volunteering hours

**3,800** hours

2015: 4,368 hours







**S**OCAM has long been at the forefront of the adoption of sustainable construction methods and incorporation of energy saving protocols in our construction projects.

Minimising use of finite natural resources is a collective responsibility, particularly at the corporate level. We are committed to improving our performance and devoting systematic efforts to raising our conservation standards and creating wider environmental awareness. SOCAM is also sensitive to the need to reduce waste and emissions at both business operation and individual levels. Shui On Building Contractors and Shui On Construction have ISO 14001:2004 certifications for our Environmental Management System. These two divisions hold meetings every quarter regarding environment related matters, and policies are reviewed annually. Targets and delivery methods are established to ensure continuous performance improvement.

We strictly comply with all applicable environmental laws and regulations in Hong Kong, Macau and the Chinese Mainland, including but not limited to the Air Pollution Control Ordinance, Noise Control Ordinance, Water Pollution Control Ordinance, Waste Disposal Ordinance, Environmental Impact Assessment Ordinance and Building Regulations. To ensure full compliance at all times, internal audits are conducted for reviewing and inspecting documents, records, and measurement results on an ongoing basis. The Health, Safety and Environment (HSE) Steering Committee conducts legal compliance evaluations through internal audits, aiming to improve or revise the relevant environmental policies. In 2016, there were no significant fines nor non-monetary sanctions for non-compliance with environmental laws and regulations.

### Sustainable Use of Resources

This section reports on the Group's consumption of energy and water for selected projects of the construction division including five building, interior design and maintenance projects in Hong Kong, as well as shopping mall of the property division in Tianjin, China, which constitute some major operations of the Group. It also covers data for the head office in Hong Kong.



• ISO 14001:2004 certification

In 2016, for the above seven locations of operations, the total direct resources consumption can be broken down as follows :





• Mobile batching plant in So Uk Estate Phase 2

### Carbon Emissions

This year, we have drilled down deeper to get a more accurate understanding of the amount and sources of our carbon emissions. In our concern for such emissions on climate change, and to instigate focused efforts to reduce them, the scope of this analysis now extends to our other major business arms across Hong Kong and the Chinese Mainland. In addition to SOCAM head office, five construction sites in Hong Kong were included, in which three were public housing construction projects; while the other two were maintenance and interior design projects respectively. A property project in the Chinese Mainland was also included.

Our annual carbon emissions are much influenced by the project development cycles during the year. In 2016, the total carbon emission was 47,820 tonnes, a significant reduction compared to 2015. This is mainly due to a big reduction in the usage of concrete, resulting in a decrease in indirect emissions (Scope 3).

Carbon Emission

**47,820**  
tonnes

Concrete Trucks Carbon Emissions Reduction

**129**  
tonnes



An initiative in controlling carbon emissions called Mobile Batching Plant Equipment has also been introduced in our construction project So Uk Phase 2 site. The batching plant has reduced the carbon emission from concrete trucks by 129 tonnes in 2016.

| Carbon Emissions (CO <sub>2</sub> e) | 2016            | 2015            | 2014            |
|--------------------------------------|-----------------|-----------------|-----------------|
| Direct (Scope 1)                     | 1,688.5         | 2,259.3         | 1,277.9         |
| Indirect (Scope 2)                   | 4,238.0         | 4,843.9         | 1,934.4         |
| Indirect (Scope 3)                   | 41,893.9        | 60,909.6        | 74,148.7        |
| <b>Total Emissions</b>               | <b>47,820.4</b> | <b>68,012.8</b> | <b>77,361.0</b> |



The Company's greenhouse gas emissions include direct (Scope 1) emissions from fuels used in concrete pumps, power generators and vehicles; indirect emissions (Scope 2) due to purchased electricity consumed; and other indirect emissions (Scope 3) arising from water consumption, waste generation, transportation of waste and materials, and business air travel.

### Conserving Energy

SOCAM is committed to appreciable reduction in the consumption of energy. During the building construction phase, efficient use of available energy sources is a prime responsibility. The Company has put in place a structured Energy Management System that complies with the requirements of ISO 50001. Both Shui On Building Contractors and Shui On Construction obtained ISO 50001:2011 certification.

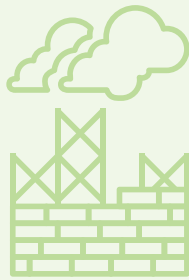
Our Energy Policy stringently advocates for the purchase of energy-efficient products and services, such as electrical equipment and machinery with energy saving features and automatic operational control. On-site, we encourage our staff and sub-contractors to avoid idle operation of equipment and machinery. We also make maximum use of solar-power technology to the point of installing solar panel charging facilities.



• Solar panels at Sports Centre, Community Hall and District Library Complex in Shatin

## Dust Emission Control

- We implement a number of simple but effective measures to reduce dust emissions from our construction works. Dusty materials are hosed down with waste water and cleared from on-site surfaces and access roads. This occurs four times daily during dry windy weather.
- Stockpiles of sand, aggregate or any other dusty materials are enclosed and stored in sheltered areas. For renovation works, we ensure the materials used must be free of any toxic and harmful substances.



## Waste Reduction and Control

- The HSE Steering Committee has established waste minimisation targets of recycling at least 30% of construction and demolition waste and recovering 100% plastic materials, metallic waste and non-contaminated paper and cardboard. We collect all chemical and oil-based waste for proper disposal by specialist contractors. Our increasing use of recyclable aluminum in slab form reduces reliance on an important natural resource, timber.
- We also operate an online platform for materials exchange between construction sites, as a means of optimising use of resources and recycling benefits between different projects.



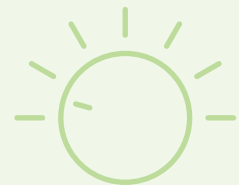
## Effluent Control

- Waste water associated with building construction is not discharged into storm drains unless prior pH adjustment is received. All sewer and drainage connections are sealed to prevent blockage by debris, soil, sand, etc. If there are any soil works or large amount of plastering works being carried out, discharge licenses will be applied for. Waste water on-site is diverted to the waste water treatment plant for purification. Recycled water is then reused for vehicle washing and irrigation.



## Noise Emission Control

- We strictly comply with the Noise Control Ordinance and only operate in permitted operation hours. We strive to minimise noise emissions, conducting regular noise level monitoring, regular maintenance of noise-reduction parts for on-site plant, installing noise barriers, scheduling of demolition of existing structures to a later stage so that they can act as a noise barrier until they are pulled down.



## General Environmental Sensitivity

In our shopping mall in Tianjin, maintenance works on the property's electrical appliances such as freezer and air-conditioning systems are conducted regularly to enhance energy efficiency. Without interfering with interior comfort, we have reduced air-conditioning energy consumption by turning off the systems one hour before close of business.

SOCAM entrusts a local contractor to handle the disposal of commercial and construction waste arising from our property, strictly complying with local relevant laws and regulations.

Similar diligence applies to our offices. The Group helps foster a sense of social responsibility and to think green among our staff through continuing initiatives. We organised green office campaigns, recycling campaigns and tree planting activities.







## Tangible Progress

SOCAM's commitment to environmental sustainability has been recognised by a number of awards and certifications. In Hong Kong, we target to subscribe to BEAM Plus Platinum Rating for our major building projects. Wherever applicable in our property projects in the Chinese Mainland, we have designed and built greening areas such as the communal garden, landscape stripe and landscape walkway in Tianjin Veneto to improve air quality and contribute to a green and pleasant environment.

SOCAM will continue to further embed the concept of environmental sustainability into our daily operations.

Internally, it is of vital importance that our employees share the same operational philosophy.

As such, the Company has been conducting environmental education and training activities throughout the year to raise employee awareness. In 2016, SOCAM organised eco-tours and organic farming activities to promote appreciation of nature. Recycling campaigns were organised for the collection of used red packets, mooncake boxes, books, computers and other household goods. We also set up various workshops on turning waste into a recyclable resource.



## Enabling Sustainable Living

King Tai Court in San Po Kong, a green form subsidised home ownership pilot scheme project, received BEAM Plus Provisional Platinum Rating. We adopted a balanced use of green technologies and basic architectural passive design principles. First, we used sustainable forest products accredited by the Forest Stewardship Council or the American Forest and Paper Association for all wood components in construction. Second, micro-climate and air ventilation assessments were conducted to enhance daylight, sun shading and ventilation. Third, we applied green living features such as two-level lighting control, green roof with photovoltaic panels and twin roof water tanks to help conserve energy and water usage.



## Love the Earth and Marine Life

The Group promotes green education to raise employee eco-awareness. A coastal clean-up activity in Ma Shi Chau was organised, where 39 of our volunteers spent a weekend morning removing 55.5kg of trash and debris from the high-tide mark. Employees were encouraged to join this meaningful activity with their families to spread the green message.



# Suppliers and Product Responsibility



- Policy statements on suppliers and sub-contractors management

## Suppliers

The Group's principal business focus is on property development, building construction, and related activities such as fit-out and maintenance. In all these business areas, we rely on a range of subcontractors, suppliers, property management firms and professional agencies to support the operation of our businesses. Building a socially responsible supply chain is an important process to recognise and adopt our culture and sustainability values. We have stringent standards for assessing suppliers and monitoring performance to ensure our clients get the product and service quality they expect.

## Supply Chain Management

Our Tendering Committee is responsible for the full implementation of our policies regarding the supply chain by monitoring, assessing, and reviewing the outline of operating processes. These include our dispute resolution policy, subcontractor training policy, and green procurement guidelines. We perform annual reviews to ensure their products and services are up to standard. Suppliers and contractors who cannot meet our criteria or with unsatisfactory performances may not be invited to tender for new projects.

To open the lines of communication between us and our supply chain, annual safety workshops are also held where subcontractors and their site managements are invited to share the latest developments and legislations in health, safety, environment, as well as quality. We also conduct regular factory visits for performance reviews.



## Product Responsibility

We strictly follow our quality policy and the HSE policy and our construction business have further met the international ISO 9001 requirements for our operating procedures. We also place high importance on our tenants, and any defect feedback is handled expeditiously.

# CARING FOR OUR PEOPLE



Crucial to the Group's operations is the cultivation of a workplace environment where our staff can excel, develop and grow with the Company. Motivation is provided by open access to career development training and promotion prospects, and upholding the Company's core values. We strengthen employee engagement to promote a culture of harmony and caring. We are also committed to building up a family-friendly working culture by adopting a wide range of family support measures including marriage leave and counselling services.



Family-Friendly Employer 2015/16 - Special Mention (Gold) Award •

At 31 December 2016, the Group employed 1,094 full-time staff in Hong Kong and Macau and 348 staff working in our project offices in Beijing, Guangzhou, Shanghai, Nanjing, Tianjin, Chongqing, Shenyang and Chengdu in the Chinese Mainland. Our construction division employs around 1,025 people (2015: 1,068), while our property division employs around 332 people (2015: 388). These figures exclude 122 construction contract workers in Hong Kong and 134 staff in Nanjing Cement plant.

Attracting and retaining talent has always been at the core of our commitment. We provide our employees with competitive packages, appraising their performance semi-annually to recognise dedicated efforts. We aim to create a fair and harmonious working environment by protecting our employees from all types of discrimination and harassment. Complying with the law and the Group's employment policy, we recruit new employees based on their skills and aptitude, regardless of gender, marital status, pregnancy, physical disability, family role or race. During the year, the Group reported no cases of child or forced labour.

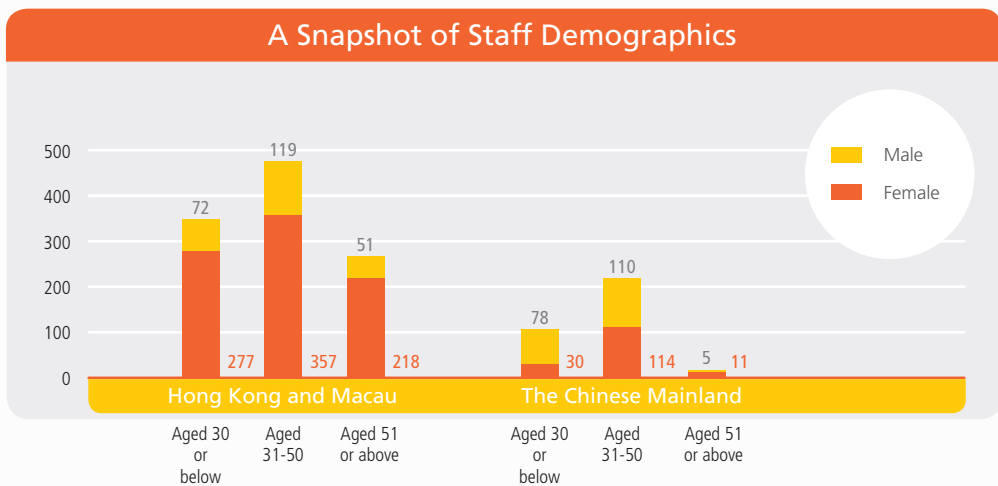
## Construction Division Staff

around  
**1,025**  
people

## Property Division Staff

around  
**332**  
people

## A Snapshot of Staff Demographics



The Group aims to maintain a talented and motivated workforce and positions itself to be regarded as an employer of choice. In 2016, our attrition rate averaged 16.8%, compared to 17% in 2015.





## Learning and Development

SOCAM fully supports and promotes a strong learning ethos for our employees. We are dedicated to upgrading our people through external and internal training programmes and the promotion of a life-long learning culture.

## Career development

During the year, we have been running Career Development Programmes, mainly for the construction business, to build a high-calibre workforce. Intensive training has been provided to prepare them for obtaining the professional qualifications from the authority or professional institutions, bringing new talent to the construction industry.



## Programmes and Number of Intake in 2016



In 2016, three graduate engineers graduated from our 4-year training programme and 12 graduate engineers were recruited. On-the-job training, secondment to external offices and job rotation are essential parts of the scheme to equip young engineers with all-round skills and exposure to SOCAM's multi-layered processes. The Graduate Engineer of the Year Award has been newly set-up this year to recognise the outstanding individuals and promote dedication among them. We have established clear-set career paths from trainee levels upwards.

We also provide internship opportunities to young talents to gain experience and insights in the construction industry and to equip them with the tools to build a successful career. A total of 42 interns from various disciplines were recruited in 2016, 14 of them becoming permanent staff after completion of their internship.

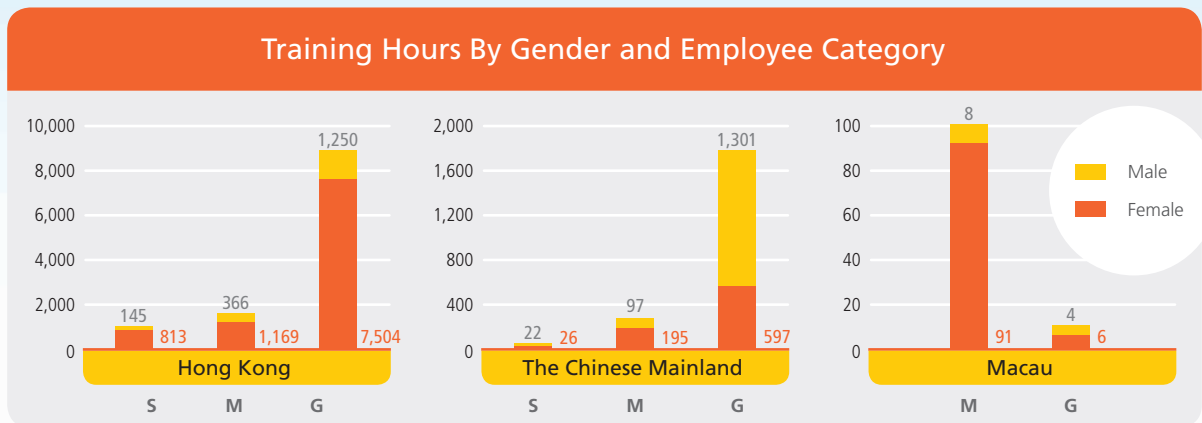
## Number of Training Hours by Topics



## Education Support Schemes

To further encourage personal development through workplace learning and obtaining professional qualifications, we offer study leave and tuition fee subsidies.

During the year, SOCAM conducted 91 in-house training classes and the number of hours of external and in-house training totaled 13,594. The average training hours per employee amounted to 9.4 hours. The average training hours per male and female employee were 10.4 hours and 7.3 hours respectively.



S = Senior Management M = Middle Management G = General Staff

## Employee Wellbeing and Engagement

SOCAM considers the wellbeing of our people as fundamental to achieving our and their goals and ambitions. We offer opportunities to achieve a work-life balance through participation in sponsored leisure and recreational activities. Professional counseling services are provided by an external party to assist the staff and their family members dealing with stress and emotional issues.

To foster closer ties and friendships, we hold an array of wellness initiatives including eco-tours, health and nutrition talks, sports activities, and reading club activities. These all help to create inter-personal relationships. Recreational groups were formed under the interest group development fund established by the Group, where staff are invited to participate in arts, calligraphy, yoga, and hiking.



## Commitment to integrity

SOCAM's commitment to integrity and trust in all of its operations is fundamental. We also have policies and measures in place for the guidance of our employees to high ethical standards, including a Whistle Blowing Policy, Employee Code of Conducts, and Business Ethics Policy, which are consistently followed. We aim to develop the best practices, strengthen internal controls and minimise corruption risks. Internal training is held regularly to promote anti-corruption.

### Nurturing Talent



"I was lucky enough to receive a place on the graduate engineer programme. I spent three years training with SOCAM, and it was a great experience. It gave me the type of knowledge and mindset I needed, and my mentor was really helpful and supportive. At first, I was a bit afraid of struggling with my career growth as the construction industry was dominated by men. But the Company gave me the chance to prove my worth regardless of gender. The opportunities and friendships were terrific and have paved my way to a good future."

Holiday Cheng  
– Graduate Engineer 2016

# Health and Safety

As a caring employer, SOCAM considers workplace safety and health to be of paramount importance. We strive to provide safe and healthy work environments as well as to ensure that employees and workers have the highest awareness of occupational safety and health, both for their own benefit and as a means to enhancing the efficiency of our operations.

We have long provided leadership in safety and health within Hong Kong's construction industry. Our Safety Committee was established before contractual or statutory obligations were introduced. Since 2000, our two subsidiaries, SOBC and SOC became Hong Kong's first construction company to obtain the Occupational Health and Safety Assessment Series (OHSAS) 18001 certification.



Health, Safety and Environment Target Seminar •

We hold annual seminars to share our knowledge of latest construction methodologies and worker safety; in 2016, over 280 participants from our employees, clients and subcontractors participated. We also held workshops and training sessions for our subcontractors in order to discuss project progress and on-site concerns. We involved family members to promote our culture of a safe working environment, and over 190 participants joined our Behaviour Base Safety Family Day. 121,967 attendees were recorded on safety related topics.

## Promoting Safe Working Environment



over  
**280**  
participants  
attended the Annual  
Target  
Seminar

over  
**190**  
participants  
joined our Behaviour  
Base Safety  
Family Day

**121,967**  
attendees  
were recorded on safety  
related topics





## Accident Rate

Our continued efforts to build a safety culture among our employees and subcontractors are seen in the Group's safety performance in terms of its accident rate among workers. This has consistently remained below the industry average.

In 2016, SOCAM recorded 6,444 lost days due to work injury. No significant non-compliances on occupational health and safety issues were identified in 2016.

Cultivating safety culture •

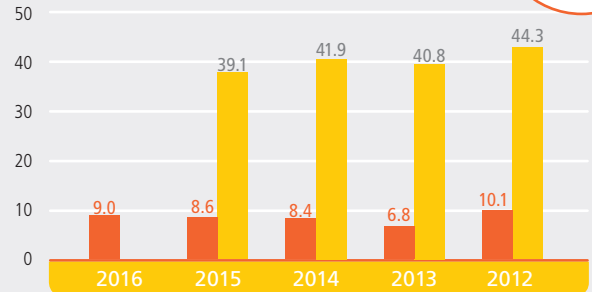


• Safety workplace

## Accident Rate

( per 1,000 workers )

■ SOCAM  
■ Industry rate



## Type and Number of Work Injury

|  | 2016        | 2015        |
|--|-------------|-------------|
| Fatal                                  | 0           | 0           |
| Non-fatal                              | 29          | 44          |
| <b>Injury rate (per 1,000 workers)</b> | <b>8.29</b> | <b>8.56</b> |

## Measures Adopted and Implemented

- ✓ Safety inspectors are continuously employed to stop unsafe acts of workers and enhance their safe work behaviour
- ✓ 22 safety alerts and 2 safety/environmental notices were issued to site staff as a reminder for preventing site incidents
- ✓ Cordless portable tools were promoted on site to reduce the risk of electric hazards and tripping hazards by electric cables
- ✓ Regular Safety Review Meetings attended by top management of relevant subcontractors are held to overview safety practices and highlight any infractions
- ✓ Adopted Radio Frequency Identification (RFID), a type of innovative technology for Material Hoists to improve efficiency and protection

## Adopted New Technology to Improve Protection

SOCAM constantly adopts new technologies that can benefit our safety measures. RFID, a new locking technology on construction sites in the use of material hoists, has been adopted since 2015. A major safety risk concerning the hoists is to do with every level needing a lock gate and inspection for safety due to the sheer height. The Radio Frequency Identification technology also works as a lock, but it receives signals from our Central Control Panels, and will only open accordingly as materials are being hoisted, leaving the gates secure at all times. This marks a step forward from the past of fallible manual locks and inspections, towards increased safety and decreased risks on-site.



# COMMUNITY OUTREACH



SOCAM's 'We Care' spirit has been a cornerstone of our CSR commitment since the founding of the Shui On Seagull Club in 1982. Through this initiative we encourage voluntary participation in contributing to the wider community to particularly benefit the elderly, people with disabilities, and underprivileged children and youth. The Group also encourages employees to volunteer under SOCAM's community service leave policy. Last year, our long-running concern for the community culminated in the '10 Years Plus Caring Company' recognition in 2016.



• Karaoke night with the elderly

## Our Contributions in 2016

In Hong Kong and the Chinese Mainland initiated and supported

39

community projects

Charitable donations and community sponsorships

2

million  
2015: HK\$2.33 million

Total services hours of volunteer team

3,800

2015: 4,368

No. of volunteers

611

2015: 617

No. of beneficiary organisations

41

Total number of community service leave taken

678

hours

## Youth Development

Youth development has long been a corporate social objective. Our ongoing commitments include providing support to the young people to help them deal with challenges and opportunities, development and growth. In 2016, SOCAM engaged in:

Personal support and mentorship

Career guidance

Dealing with challenges in their lives



• Gathering with children in Guizhou

Partnership for Children: supporting the promotion of the mental health and emotional wellbeing of children



Orphanages and children with special needs: paid regular visits and donated necessities for learning and winter needs

Mother's Choice: support teenage girls who face crisis pregnancy and children without families



Child Development Matching Fund: sponsoring poverty alleviation to match the personal savings of the participating youths and help them develop a savings habit

Career guidance and internship for local and overseas students



Upward Mobility Scholarship: we support the less privileged students to strive for self-improvement and maintain a positive attitude towards life and learning





## Caring for the Elderly and Disadvantaged

With Hong Kong's growing elderly population, our socially conscious staff were particularly active in helping senior citizens. In 2016, we organised eighth programmes, and paid home visits, organised outings, bringing food and small gifts to the elderly during festive seasons. Our concern and contributions extend to many more of those in need.

• Promoting social inclusion



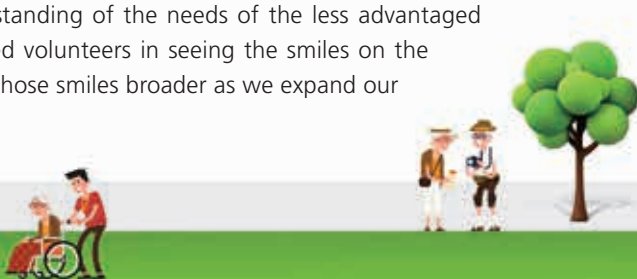
### Long-term Partnership with YWCA (8 years)

The Seagull Club has been partnering with the Hong Kong Young Women's Christian Association (YWCA) since 2009 to bring smiles to the deprived and often forgotten senior citizens who live in the Sham Shui Po area, one of the five districts with the highest poverty rates in Hong Kong. We continued to run the 'Colourful Life for the Elderly' programme by launching a series of activities over festive seasons with home visits, karaoke nights and delivering hot soup. We build long-term relationships with the elderly through continuing activities.



## A Continuing and Expanding Commitment

Through reaching out to the wider community where we have a corporate presence, SOCAM staff show an inexhaustible willingness and enthusiasm to help the needy. We do so with compassion, enjoyment and monetary donations and along the way we develop a deeper understanding of the needs of the less advantaged in our society. There is a particular reward for our dedicated volunteers in seeing the smiles on the faces of those they reach out to. We will continue to make those smiles broader as we expand our societal commitment.





# DIRECTORS AND SENIOR MANAGEMENT



WEST KOWLOON LAW COURTS BUILDING  
西九龍法院大樓

### Executive Directors



**Mr. Lo Hong Sui, Vincent** *GBS, JP*

aged 69, has been the Chairman of the Company since 1997. He is the Chairman of the Shui On Group, which he founded 46 years ago, and the Chairman of Shui On Land Limited ("SOL"), which he established in 2004 and became listed in Hong Kong in 2006. He is a Director of Shui On Company Limited ("SOCL"), the controlling shareholder of the Company. He is also the Chairman of China Central Properties Limited, a subsidiary of the Company which was privatised in 2009, and a Director of certain other subsidiaries of the Company. Mr. Lo is a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference, the Chairman of the Hong Kong Trade Development Council, the President of the Council for the Promotion & Development of Yangtze, an Economic Adviser of the Chongqing Municipal Government, a Vice Chairman of the Chamber of International Commerce Shanghai, the Honorary Life President of the Business and Professionals Federation of Hong Kong and an Honorary Court Chairman of The Hong Kong University of Science and Technology. He is currently a Non-executive Director of Great Eagle Holdings Limited and Hang Seng Bank, Limited, both of which are listed in Hong Kong.

Mr. Lo was awarded the Gold Bauhinia Star in 1998 and appointed a Justice of the Peace in 1999 by the Government of the Hong Kong Special Administrative Region. He was named Businessman of the Year at the Hong Kong Business Awards in 2001 and won the Director of the Year Award from The Hong Kong Institute of Directors in 2002 and Chevalier des Arts et des Lettres by the French government in 2005. He was honoured with "Ernst & Young China Entrepreneur Of The Year 2009" and also, as "Entrepreneur Of The Year 2009" in the China Real Estate Sector. Mr. Lo was made an Honorary Citizen of Shanghai in 1999 and Foshan in 2011. In 2012, the 4th World Chinese Economic Forum honoured Mr. Lo with the Lifetime Achievement Award for Leadership in Property Sector.



**Mr. Wong Yuet Leung, Frankie**

aged 68, has been appointed as an Executive Director, the Chief Executive Officer and Chief Financial Officer of the Company with effect from 1 January 2017. Mr. Wong was a Non-executive Director of the Company from September 2011 to August 2014, Vice Chairman of the Company from January 1997 to July 2004 and from April 2010 to August 2011 and the Chief Executive Officer of the Company from July 2004 to March 2010. Mr. Wong joined the Shui On Group in 1981. He is currently an Executive Director of Shui On Holdings Limited and a Director of SOCL, the controlling shareholder of the Company. He was a Director of SOL from May 2004 to May 2006 prior to its listing in Hong Kong in October 2006. He was appointed as a Non-executive Director of SOL in August 2011 and served as an Executive Director of SOL from June 2015 to December 2016 before his re-designation as its Non-executive Director with effect from 1 January 2017. He is also one of the Trustees of the Shui On Provident and Retirement Scheme. Prior to joining the Shui On Group, Mr. Wong had many years of banking experience with several major international banks in Hong Kong. He graduated with a Bachelor of Science degree in Economics and a Master of Arts degree from the London School of Economics and Political Science and The University of Lancaster in the United Kingdom respectively. Mr. Wong is currently a Non-executive Chairman of Walcom Group Limited, a company listed on the Alternative Investment Market of the London Stock Exchange plc. He was a Non-executive Director of Solomon Systech (International) Limited, which is listed in Hong Kong, from February 2004 to December 2006, an Independent Non-executive Director of this company from January 2007 to May 2014 and a Director of Sichuan Shuangma Cement Co., Ltd., a company listed in Shenzhen, from July 2012 to August 2015.



## Non-executive Director



### Mr. Tsang Kwok Tai, Moses

aged 68, was appointed as an Independent Non-executive Director of the Company in January 2010 and re-designated as a Non-executive Director in September 2014. Mr. Tsang is the Chairman of AP Capital Holdings Inc. and the Chairman and Chief Executive Officer of EC Investment Services Limited. Prior to joining AP Capital Holdings Inc., he was a General Partner of Goldman Sachs Group where he led the establishment of the Fixed Income Group in Tokyo and headed the Debt Syndicate Group in London. He was the Chairman of Goldman Sachs (Asia) L.L.C. between 1989 and 1994, the Chairman and Managing Partner of Ajia Partners Inc. between 2003 and 2010 and a Non-executive Director of North Asia Strategic Holdings Limited between 2009 and 2010. Mr. Tsang is currently an Independent Non-executive Director of Fubon Bank (Hong Kong) Limited and a Non-executive Director of China Xintiandi Limited, a subsidiary of SOL. Mr. Tsang serves as Co-chair of the Asia Pacific Council and is a member of the Board of Directors of The Nature Conservancy. He is also a Trustee of The Hong Kong Centre for Economic Research of The University of Hong Kong and a member of the Brown University Advisory Council in Asia.

## Independent Non-executive Director



### Ms. Li Hoi Lun, Helen

aged 61, has been an Independent Non-executive Director of the Company since August 2008. She is a qualified lawyer in the jurisdictions of Hong Kong, England and Wales and New South Wales, Australia. She studied law in England and commenced practising law in Hong Kong in 1982. Ms. Li worked in private practice, with emphasis on property, commercial and corporate work with a China focus. Prior to joining the Company, she was employed as an in-house legal counsel for the companies, and an Executive Director of the property arm, of the Shui On Group and took early retirement in 2005.



### Independent Non-executive Directors



#### Mr. Chan Kay Cheung

aged 70, has been an Independent Non-executive Director of the Company since January 2010. Mr. Chan is a Senior Adviser of The Bank of East Asia, Limited (“BEA”), the Vice Chairman of The Bank of East Asia (China) Limited and the Chairman of Shaanxi Fuping BEA Rural Bank Corporation. He possesses extensive knowledge and experience in the banking industry. Mr. Chan joined BEA in 1965 and was appointed as an Executive Director and Deputy Chief Executive of BEA in 1996 and 1997 respectively. He retired from BEA in May 2007 after serving it for over 41 years. Mr. Chan is a Fellow of The Hong Kong Institute of Bankers, a member of the Committee of Overseers of Lee Woo Sing College of The Chinese University of Hong Kong, a member of The China UnionPay International Advisory Group and an International Senior Economic Consultant of The People’s Government of Shaanxi Province. He is also an Independent Non-executive Director of China Electronics Corporation Holdings Company Limited, Chu Kong Shipping Enterprises (Group) Company Limited, Dah Chong Hong Holdings Limited and Hong Kong Food Investment Holdings Limited, all of which are listed in Hong Kong.



#### Mr. William Timothy Addison

aged 64, has been appointed as an Independent Non-executive Director of the Company with effect from 25 May 2016. Mr. Addison is currently the Chairman and Chief Executive Officer of Theron Capital International Limited, a company that provides strategic advisory services for China businesses. He is a former investment banker with more than 30 years of investment banking and global capital and debt market experience. He worked previously at The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) for over 21 years. He was a Director of HSBC Corporate Finance Limited from 1992 until he left HSBC in 2002, at which time he held the position of Chief Operating Officer, Corporate Finance of HSBC Markets (Asia) Limited. Between 2005 and 2008, Mr. Addison served as a Managing Director and the Chief Financial Officer of SOL.

## Senior Management

### Mr. Li Chi Keung, Evans

aged 55, is the Director – Corporate Finance and also a Director of certain subsidiaries of the Company. He joined the Shui On Group in 1991 and has over 30 years of accounting, finance and company secretarial experience. He holds a Master's degree in Business Administration from the University of Leicester. He is a Fellow of The Association of Chartered Certified Accountants and an Associate of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

### Mr. Wong Shing Chuen, Leonard

aged 56, is an Executive Director of SOCAM Asset Management (HK) Limited and a Director of certain other subsidiaries of the Company. He joined the Company in 2007 and has over 33 years of experience in the property development and construction industry. He is on the panel of arbitrators of the China International Economic and Trade Arbitration Commission. He is also an accredited mediator of the Hong Kong International Arbitration Centre. He holds a Master's degree in Arbitration and Dispute Resolution from the City University of Hong Kong and an Associateship in Building Technology and Management from The Hong Kong Polytechnic University. He is a Fellow of both The Chartered Institute of Building and the Chartered Institute of Arbitrators. He is also a member of The Hong Kong Institution of Engineers.

### Mr. Ng Yat Hon, Gilbert

aged 56, is an Executive Director of Pat Davie Limited, specialising in interior fitting out and renovation in Hong Kong and Macau. He also holds directorships in certain other subsidiaries of the Company. Mr. Ng joined the Shui On Group in 1996 and has over 30 years of experience in construction. He holds a Bachelor's degree in Civil Engineering from The University of Manchester and a Master's degree in Project Management from The University of New South Wales. He is a chartered civil engineer.

### Mr. Chan Ngai Shing, David

aged 62, is an Executive Director of Shui On Building Contractors Limited and Shui On Construction Company Limited. He also holds directorships in certain other subsidiaries of the Company. Mr. Chan joined the Shui On Group in 1989 and has over 30 years of experience in construction. He is currently a Council member of The Hong Kong Construction Association, Limited and a Vice Chairman of its Building Committee. He holds a Master's degree in Civil Engineering from the McMaster University and is a chartered civil engineer. He is a Fellow of The Hong Kong Institution of Engineers.



# CORPORATE GOVERNANCE REPORT

King Tai Court



The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of integrity, transparency, accountability and independence. The Board of Directors of the Company believes that good corporate governance is essential for sustainable development and growth of the Company, enhancement of its credibility as well as shareholders' value. In light of the regulatory requirements and the needs of the Company, the Board has reviewed the Company's corporate governance practices along with the adoption and improvement of the various procedures and documentation, which are detailed in this report.

Throughout the year ended 31 December 2016, the Company complied with all the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for certain deviations as specified with considered reasons below.

## THE BOARD

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company, and the Directors are collectively responsible for promoting the success of the Company by directing and supervising its affairs and overseeing the achievement of strategic plans to enhance shareholders' value. Directors are expected to make decisions objectively in the interests of the Company.

The Board is responsible for all major aspects of the Company's affairs, including the approval and monitoring of key policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions (including, in particular, those which may involve conflicts of interest), major capital expenditure, appointment of Directors and Board Committee members, and other significant financial and operational matters. The Board also plays a central support and supervisory role in the Company's corporate governance duties to ensure the Company maintains a sound governance framework for long-term sustainable shareholders' value.

All operational decisions are delegated to the Executive Directors. The day-to-day management, administration and operation of the Company are the responsibilities of senior management of different business divisions, and their functions and work tasks are periodically reviewed. The Board gives clear directions to management as to their powers and circumstances where management should report back. Approval has to be obtained from the Board prior to any decision being made or any commitments being entered into on behalf of the Company that are outside the limits of the authority given to them by the Board.

The relevant roles of the Board and management and their relationships are clearly delineated, and functions reserved to the Board and those delegated to management are set out in a Board Charter adopted in 2008 upon the recommendation of an external consultant following a Board evaluation. The Board Charter is reviewed by the Board annually to ensure that it remains appropriate to meet the Company's needs.

## Composition

At the date of this report, the Board comprises six members, including two Executive Directors and four Non-executive Directors, three of whom are Independent Non-executive Directors. The current composition of the Board is set out as follows:

### Executive Directors:

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Mr. Lo Hong Sui, Vincent (*Chairman*)

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Mr. Wong Yuet Leung, Frankie  
(*Chief Executive Officer and Chief Financial Officer*)

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### Non-executive Director:

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Mr. Tsang Kwok Tai, Moses

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### Independent Non-executive Directors:

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Ms. Li Hoi Lun, Helen

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Mr. Chan Kay Cheung

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Mr. William Timothy Addison

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With effect from 25 May 2016, Mr. William Timothy Addison has been appointed as an Independent Non-executive Director of the Company. Due to retirement, Mr. Wong Fook Lam, Raymond, being the former Managing Director and Chief Financial Officer of the Company, stepped down from the Board with effect from

# CORPORATE GOVERNANCE REPORT

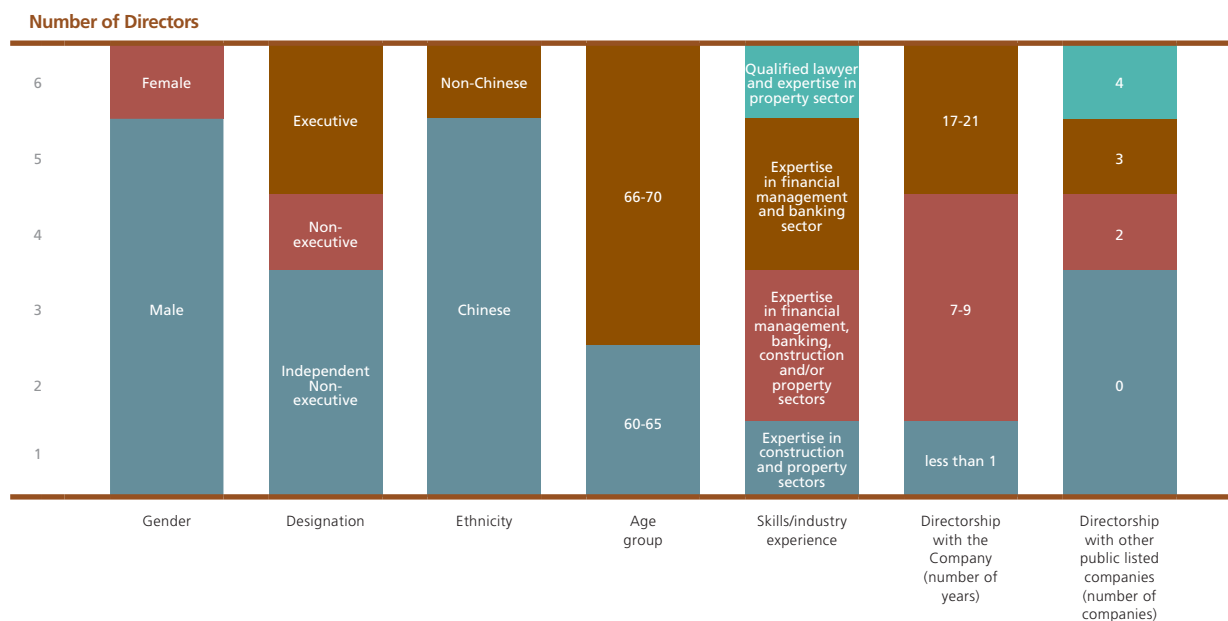
1 January 2017. Mr. Wong Yuet Leung, Frankie, who was a Director of the Company between 1997 and 2014 and had previously served as the Chief Executive Officer of the Company for nearly 6 years during this period, was appointed as an Executive Director, the Chief Executive Officer and Chief Financial Officer of the Company to succeed Mr. Raymond Wong. In addition, Mr. Gerrit Jan de Nys, after serving the Board for more than 9 years and having reached the age of 73, resigned as a Non-executive Director of the Company with effect from 1 March 2017 so as to devote more time to pursuing personal interests.

Following the appointment of Mr. William Timothy Addison to the Board, the Company has three Independent Non-executive Directors, representing half of the total number of Directors of the Company,

with two of them possessing appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. The Company has received written annual confirmation from each Independent Non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all of its Independent Non-executive Directors to be independent of management and free of any relationship that could materially interfere with the exercise of their judgment.

The composition, structure and size of the Board are reviewed at least annually by the Nomination Committee to ensure that it has a balance of appropriate skills, experience and diversity of perspectives to meet the business needs of the Group.

An analysis of the current Board composition is set out in the following chart:



Members of the Board have a diverse range of business, financial and professional expertise. Brief biographical details of the Directors are set out in the Directors and Senior Management section of this Annual Report.

## Chairman and Chief Executive Officer

The distinct roles of the Chairman and the Chief Executive Officer are acknowledged. Their respective responsibilities are clearly defined in the Board Charter, as amended following a review by the Board at the year end.

The Chairman is responsible for ensuring the effectiveness of the Board in fulfilling its roles and responsibilities. He provides leadership to the Board in setting the overall strategy and making major development decisions of the Group and monitoring their implementation, to ensure value creation for shareholders. He takes part in cultivating and maintaining good relationships with strategic associates and creating a favourable environment for the development of the Group's businesses.

The Chief Executive Officer is responsible for leading the management and day-to-day operation of the business divisions to achieve their business and financial targets, proposing strategies to the Board and ensuring the effective implementation of the strategies and policies adopted by the Board, including the maintenance of a strong corporate culture and staff morale within the Group during the course of the assets monetisation for the benefits of the Company's shareholders. The Chief Executive Officer, also in the capacity of Chief Financial Officer, takes full responsibilities for all financial matters and oversees relationship with bankers and joint venture partners of the Group.

## **Appointment, re-election and removal of Directors**

The procedures and processes of appointment, re-election and removal of Directors are laid down in the Bye-laws of the Company. The Board, with the recommendation of the Nomination Committee, is responsible for developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession of Directors and assessing the independence of Independent Non-executive Directors.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In 2013, the Board adopted a Board Diversity Policy upon the recommendation of the Nomination Committee to set out the approach to achieve diversity of the Board members. A summary of the Board Diversity Policy is set out in the Nomination Committee Report contained in this Annual Report.

The process for the nomination of Directors is led by the Nomination Committee. When recommending nominations to the Board for approval, the Nomination Committee will consider the merit and contribution that the selected candidates will bring to the Board, having due regard to a range of diversity perspectives (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) as set out in the Board Diversity Policy. External recruitment agencies may be engaged to assist in the recruitment and selection process.

Each of the Non-executive Directors of the Company is appointed for a specific term of two or three years, subject to the provisions on Directors' retirement as set out in the Bye-laws of the Company. All Directors appointed by the Board in the case of filling a casual vacancy shall hold office only until the next general meeting of the Company, while those appointed as an addition to the Board shall hold office until the next annual general meeting of the Company. Every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

In accordance with the Bye-laws of the Company, Mr. Lo Hong Sui, Vincent, Mr. Wong Yuet Leung, Frankie, Ms. Li Hoi Lun, Helen and Mr. William Timothy Addison shall retire at the forthcoming annual general meeting of the Company to be held on 26 May 2017. All the said Directors, being eligible, will offer themselves for re-election at the annual general meeting.

## **Board Committees**

The Board has set up six standing Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Finance Committee, the Investment Committee and the Executive Committee, to oversee particular aspects of the Company's affairs.

Each of these Committees has been established with written terms of reference, which were approved by the Board, setting out the Committee's major duties. The terms of reference of the Committees are reviewed by the Board from time to time to cope with any regulatory changes and the needs of the Company. The updated terms of reference of the various Committees are available on the websites of the Company and the Stock Exchange.



Code provision B.1.2 of the CG Code provides that the terms of reference of the Remuneration Committee should include, as a minimum, the responsibilities to (i) determine or make recommendations to the Board on the remuneration packages of the individual Executive Director and senior management; (ii) review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment; and (iii) review and approve the remuneration proposals for management with reference to the Board's corporate goals and objectives. The Remuneration Committee has reviewed its functions and considered that these responsibilities in relation to the remuneration and compensation of management should be vested in the Executive Directors who have a better understanding of the level of expertise, experience and performance expected of the management in the daily business operations of the Group. The Remuneration Committee would continue to be primarily responsible for the review and determination of the remuneration package of the individual Executive Director. After due consideration, the Board adopted the revised terms of reference of the Remuneration Committee with the said responsibilities in relation to the remuneration and compensation of management excluded from its scope of duties, which deviates from code provision B.1.2.

Notwithstanding such deviation, the Remuneration Committee is still responsible for reviewing, approving and making recommendations to the Board on the guiding principles applicable to the determination of the remuneration packages of senior management.

Having reviewed the practices and procedures of remuneration committees in other jurisdictions, the Remuneration Committee decided that it would be better practice for the Non-executive Directors to cease involvement in recommending their own remuneration. Such recommendations were made to the Board by the Chairman of the Company, taking the advice of external professionals as appropriate. This practice has been formally adopted, and the Board approved the amendment to the terms of reference of the Remuneration Committee in this respect, which deviates from the stipulation in code provision B.1.2 that the Remuneration Committee should make recommendations to the Board on the remuneration of Non-executive Directors. The Non-executive Directors abstain from voting in respect of the determination of their own remuneration at the relevant Board meetings.

The Board Committees are provided with sufficient resources to discharge their duties and, upon request, are able to seek independent professional advice at the Company's expense.

The major roles, compositions and frequencies of meetings of the Board Committees are summarised as follows:

## Audit Committee

| Major roles and functions  | Current composition  | Frequency of meetings      |
|--|--|----------------------------|
| <ul style="list-style-type: none"> <li>To review the consolidated financial statements of the Group</li> <li>To review the accounting policies adopted by the Group and their implementation</li> <li>To review the effectiveness of the risk management and internal control systems</li> <li>To oversee the engagement of, services provided by and remuneration of the external auditor and its independence</li> <li>To review and monitor the effectiveness of the internal audit function</li> </ul> | <p><b>Independent Non-executive Directors</b></p> <p>Mr. Chan Kay Cheung<br/>(Chairman)</p> <p>Ms. Li Hoi Lun, Helen</p> <p>Mr. William Timothy Addison</p> <p>(Notes 1 and 2)</p> | At least four times a year |

## Remuneration Committee

| Major roles and functions  | Current composition  | Frequency of meetings |
|--|--|-----------------------|
| <ul style="list-style-type: none"> <li>To make recommendations to the Board on the policy and structure for remuneration of Directors and senior management</li> <li>To determine the remuneration package of individual Executive Director</li> <li>To review and approve performance-based remuneration of Executive Directors with reference to the corporate goals and objectives</li> </ul> | <p><b>Independent Non-executive Directors</b><br/>Ms. Li Hoi Lun, Helen<br/>(Chairman)<br/>Mr. Chan Kay Cheung</p> <p><b>Executive Director</b><br/>Mr. Lo Hong Sui, Vincent</p> | At least twice a year |

## Nomination Committee

| Major roles and functions   | Current composition  | Frequency of meetings |
|---|--|-----------------------|
| <ul style="list-style-type: none"> <li>To review the structure, size and composition of the Board at least annually</li> <li>To identify, select and make recommendations to the Board on individuals nominated for appointment as Directors</li> <li>To assess the independence of Independent Non-executive Directors</li> <li>To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors</li> <li>To review annually the time commitment required of Directors</li> <li>To review the Board Diversity Policy and monitor its implementation</li> </ul> | <p><b>Executive Director</b><br/>Mr. Lo Hong Sui, Vincent<br/>(Chairman)</p> <p><b>Independent Non-executive Directors</b><br/>Ms. Li Hoi Lun, Helen<br/>Mr. Chan Kay Cheung</p> | At least once a year  |

## Finance Committee

| Major roles and functions   | Current composition  | Frequency of meetings      |
|---|--|----------------------------|
| <ul style="list-style-type: none"> <li>To set overall financial objectives and strategies for the Group</li> <li>To adopt a set of financial policies for the Group and oversee its consistent application throughout the Group</li> <li>To review funding for investment projects/ major capital expenditure to be undertaken and advise on the financing viability of the investment projects/major capital expenditure</li> <li>To monitor cash flow and review financing requirements of the Group and compliance of bank loan covenants</li> </ul> | <p><b>Executive Director</b><br/>Mr. Wong Yuet Leung,<br/>Frankie (Chairman)</p> <p><b>Non-executive Director</b><br/>Mr. Tsang Kwok Tai, Moses</p> <p><b>Independent Non-executive Directors</b><br/>Mr. Chan Kay Cheung<br/>Mr. William Timothy Addison<br/>(Notes 1 to 4)</p> | At least four times a year |

# CORPORATE GOVERNANCE REPORT

## Investment Committee

| Major roles and functions  | Current composition   | Frequency of meetings |
|--|---|-----------------------|
| <ul style="list-style-type: none"> <li>To review preliminary and detailed investment and disposal recommendations on target property projects and projects currently owned by the Group respectively</li> <li>To make recommendation to the Board as to whether the Group should acquire a property project or, as the case may be, dispose of a property project and if so, the terms, timing and strategy</li> <li>To review the overall investment/divestment strategy of the Group, make recommendation to the Board on any proposed change to the strategy, and monitor its implementation</li> </ul> | <p><b>Executive Director</b><br/>Mr. Wong Yuet Leung,<br/>Frankie (<i>Chairman</i>)</p> <p><b>Independent Non-executive Directors</b><br/>Ms. Li Hoi Lun, Helen<br/>Mr. Chan Kay Cheung<br/>Mr. William Timothy Addison</p> <p>(Notes 2 to 4)</p> | On an as needed basis |

## Executive Committee

| Major roles and functions  | Current composition  | Frequency of meetings |
|--|--|-----------------------|
| <ul style="list-style-type: none"> <li>To monitor the macro business environment and market trends with respect to the current and potential business areas of the Group</li> <li>To evaluate and set business strategies for ensuring the long-term growth and competitiveness of the core business of the Group</li> <li>To formulate corporate goals and plans and allocate human and financial resources for execution</li> <li>To monitor the execution of approved strategies and business plans</li> <li>To review and approve acquisitions and disposals of assets in the ordinary course of business with investment costs/net book values not exceeding certain thresholds</li> <li>To review the operating performance and financial position of the Company and its strategic business units on a monthly basis</li> </ul> | <p><b>Executive Directors</b><br/>Mr. Wong Yuet Leung,<br/>Frankie (<i>Chairman</i>)<br/>Mr. Lo Hong Sui, Vincent</p> <p><b>Other key executives</b><br/>(Notes 3 and 4)</p> | Monthly               |

### Notes:

- Mr. Gerrit Jan de Nys ceased to be a member of the Audit Committee as well as a member and the Chairman of the Finance Committee following his resignation from the Board effective 1 March 2017.
- Mr. William Timothy Addison was appointed as a member of the Finance Committee and the Investment Committee effective 26 August 2016. In addition, he was appointed as a member of the Audit Committee in place of Mr. de Nys effective 1 March 2017.
- Mr. Wong Fook Lam, Raymond ceased to be a member of the Finance Committee as well as a member and the Chairman of the Investment Committee and the Executive Committee following his retirement from the Board effective 1 January 2017.
- Mr. Wong Yuet Leung, Frankie was appointed as a member of the Finance Committee as well as a member and the Chairman of the Investment Committee and the Executive Committee to succeed Mr. Raymond Wong effective 1 January 2017. In addition, he was appointed as the Chairman of the Finance Committee in place of Mr. de Nys effective 1 March 2017.

The work performed by the Audit Committee, the Remuneration Committee and the Nomination Committee is summarised in the separate reports of these Committees contained in this Annual Report.



## **Board and Board Committee meetings**

The Board meets at least four times each year and more frequently as the needs of the business demand. Apart from the Board meetings, the Board would from time to time devote separate sessions to consider and review the Group's strategy and business activities. The frequencies of the Board Committee meetings have been set out in the section above.

The annual meeting schedule and the agenda of each meeting are made available to Directors in advance.

Notices of regular Board meetings are served on all Directors at least 14 days before the meetings. For other Board and Committee meetings, reasonable notices are given.

Papers for Board meetings or Committee meetings together with all relevant information are normally sent to all Directors or Committee members at least three days before each meeting to enable them to make informed decisions with sufficient details.

The Company Secretary of the Company is responsible for maintaining minutes of all meetings of the Board and its Committees. Draft minutes are circulated to Directors for comment within a reasonable time after each meeting and the final version thereof, as approved formally by the Board or the relevant Committee, is filed for record purposes. All Directors have access to the minutes of the Board and Committee meetings of the Company.

According to the current Board practice, any material transaction involving a conflict of interest with a substantial shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring the Directors to abstain from voting and not

to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

## **Access to information**

Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Management has an obligation to supply to the Board and its Committees adequate, complete and reliable information in a timely manner to enable them to make informed decisions. A Director's portal has been in place to facilitate online access to information needed by Board members, including all papers and minutes for the meetings of the Board and its Committees and the monthly management updates on the Group's financials. Each Director also has separate and independent access to management.

## **Directors' commitment**

Each Director is expected to give sufficient time and attention to the affairs of the Company. The Board, through the Nomination Committee, reviews annually the time commitment required of Directors to perform their responsibilities to the Company. All Directors have disclosed to the Company the number and nature of offices held in public listed companies and other organisations as well as other significant commitments, with the identity of the public listed companies and other organisations and an indication of the time involved. Each Director is also requested to provide a confirmation to the Company semi-annually and notify the Company Secretary in a timely manner of any change of such information.

# CORPORATE GOVERNANCE REPORT

The individual attendance records of each Director at the Board and Committee meetings as well as the general meeting of the Company held during the year are set out below:

| Name of Director  | Number of meetings attended/entitled to attend |                          |                                 |                              |                            |                              |                              |                        |
|---|--|--------------------------|---------------------------------|------------------------------|----------------------------|------------------------------|------------------------------|------------------------|
|   | Board Meetings                                 | Audit Committee meetings | Remuneration Committee meetings | Nomination Committee meeting | Finance Committee meetings | Investment Committee meeting | Executive Committee meetings | Annual general meeting |
| Mr. Lo Hong Sui, Vincent                                  | 4/4  | N/A                      | 2/2                             | 1/1                          | N/A                        | N/A                          | 12/12                        | 0/1<br>(Note 1)        |
| Mr. Wong Fook Lam, Raymond<br>(retired on 1 January 2017) | 4/4  | N/A<br>(Note 2)          | N/A                             | N/A                          | 4/4                        | 1/1                          | 11/12                        | 1/1                    |
| Mr. Tsang Kwok Tai, Moses                                 | 4/4  | N/A                      | N/A                             | N/A                          | 4/4                        | N/A                          | N/A                          | 0/1                    |
| Mr. Gerrit Jan de Nys<br>(resigned on 1 March 2017)       | 4/4  | 4/4                      | N/A                             | N/A                          | 4/4                        | N/A                          | N/A                          | 1/1                    |
| Ms. Li Hoi Lun, Helen                                     | 4/4  | 4/4                      | 2/2                             | 1/1                          | N/A                        | 1/1                          | N/A                          | 1/1                    |
| Mr. Chan Kay Cheung                                       | 4/4  | 4/4                      | 2/2                             | 1/1                          | 4/4                        | 1/1                          | N/A                          | 1/1                    |
| Mr. William Timothy Addison<br>(appointed on 25 May 2016) | 2/2  | N/A                      | N/A                             | N/A                          | 1/1<br>(Note 3)            | N/A<br>(Note 3)              | N/A                          | N/A                    |

## Notes:

- As stipulated in code provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting of the Company. Due to sickness, Mr. Lo Hong Sui, Vincent, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 23 May 2016. In his absence, the then Managing Director and Chief Financial Officer of the Company chaired the meeting and responded to shareholders' questions about the Group's affairs.
- By invitation, Mr. Wong Fook Lam, Raymond, being the then Chief Financial Officer of the Company, attended all meetings of the Audit Committee held during the year.
- Mr. William Timothy Addison was appointed as a member of the Finance Committee and the Investment Committee effective 26 August 2016. The Investment Committee did not hold any meeting during the year after his appointment.

## Induction, training and continuous professional development

Each new Director receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the businesses and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Since 2007, the Board has further enhanced its induction process for all new Directors, including a comprehensive introduction to the strategies and activities of the Group, its history and its principal policies and procedures. This induction is supplemented by visits to selected operational sites to provide a better understanding of the operations of the Group to the new Directors.

Site visits to the existing property projects of the Group in the Chinese Mainland are also arranged for the Directors as and when appropriate.

The Company continues its effort in providing updates on the changes in the relevant regulatory requirements applicable to the Group from time to time and recommending and organising relevant seminars/conferences and internal briefing sessions to the Directors as and when appropriate. During the year, the Company organised certain in-house seminar/presentation for the Board, and the Directors' participation is set out as follows:

| Participating Directors                                | Seminar in<br>March 2016<br>(Note 1) | Presentation<br>in August 2016<br>(Note 2) |
|--|--------------------------------------|--|
| Mr. Lo Hong Sui, Vincent                               | –                                    | ✓  |
| Mr. Wong Fook Lam, Raymond (retired on 1 January 2017) | ✓                                    | ✓  |
| Mr. Tsang Kwok Tai, Moses                              | ✓                                    | ✓  |
| Mr. Gerrit Jan de Nys (resigned on 1 March 2017)       | ✓                                    | ✓  |
| Ms. Li Hoi Lun, Helen                                  | ✓                                    | ✓  |
| Mr. Chan Kay Cheung                                    | ✓                                    | ✓  |
| Mr. William Timothy Addison (appointed on 25 May 2016) | N/A                                  | ✓  |

Notes:

1. Seminar entitled "Introduction to the Hong Kong Competition Ordinance – Implications for SOCAM", presented by an external solicitor
2. Presentation entitled "China's debt: time bomb or red herring" at a Board meeting, given by the chief economist of the Shui On Group

During the year, discussion sessions were also held among the Chairman of the Board and all the Non-executive Directors to review the business and corporate strategies of the Group.

The Directors acknowledge the need for continuous professional development, and the Company provides support whenever relevant and necessary. All Directors are required to provide the Company with the records of the training they received annually.

The Board also recognises the importance of ongoing professional development of senior management so that they can continue contributing to the Company. To keep them abreast of the market development and applicable rules and regulations for the fulfilment of their duties and responsibilities, the Company has in place a programme for continuous professional development of senior management. Such programme is reviewed by the Board annually to ensure its effectiveness, and all members of senior management are required to provide the Company with the records of the training they received annually.

## Performance evaluation

In 2008, the Company engaged an external consultant to carry out an independent evaluation of the performance of the Board as a whole and of individual Directors. Further, in 2011, the Board conducted a self-evaluation to assess its overall performance and effectiveness and to identify areas for improvement. These Board evaluations concluded with a series of recommendations, on the basis of which various Board practices and procedures have been developed or enhanced to promote the functioning of the Board, such as formulating and adopting a Board Charter, arranging strategy sessions for the Board to discuss the corporate strategy and growth plan, and organising more informal meetings amongst Directors and management to enhance communication.



The Board continues to seek improvement in its functioning. To this end, the Chairman holds informal meetings with the Non-executive Directors at least annually, without the presence of the other Executive Directors, to evaluate the performance of the Board. Informal meetings would also be held between the Executive Directors and the Non-executive Directors to promote effective working relationship.

### Directors' insurance

The Company has arranged appropriate insurance cover for the Directors in connection with the discharge of their responsibilities.

### THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Following specific enquiries by the Company, all Directors have confirmed that they complied with the required standards set out in the Model Code throughout the year ended 31 December 2016.

The Company has also established written guidelines on no less exacting terms than the Model Code for dealings in the Company's securities by relevant employees who are likely to be in possession of unpublished inside information in relation to the Company or its securities.

### RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment in respect of annual and interim reports, announcements of inside information and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledge their responsibility for preparing the financial statements of the Company for each financial period.

The following statement, which should be read in conjunction with the independent external auditor's report, is made with a view to distinguishing for shareholders how the responsibilities of the Directors differ from those of the external auditor in relation to the financial statements.

### Annual report and financial statements

The Directors are responsible for the preparation of financial statements, which give a true and fair view of the state of affairs of the Group at the end of the financial year and of the profit or loss for the financial year. The Directors have prepared the financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

### Accounting policies

The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed.

### Accounting records

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Hong Kong Companies Ordinance and the Listing Rules.

### Safeguarding assets

The Board is responsible for safeguarding the assets of the Company and for taking reasonable steps for preventing and detecting fraud and other irregularities.

### Going concern

After making appropriate enquiries and examining major areas which could give rise to significant financial exposures, the Board is satisfied that no material or significant exposures exist, other than as reflected in this Annual Report. The Board therefore has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

## AUDITOR'S REMUNERATION

The Company has in place a formal policy on engaging non-audit services from its external auditor to ensure that the independence and objectivity of the external auditor would not be impaired by its provision of any non-audit services to the Group.

For the year ended 31 December 2016, the remuneration paid or payable to the external auditor of the Company in respect of audit services and non-audit services amounted to approximately HK\$4.2 million and HK\$1.5 million respectively. The costs incurred for the non-audit services represented professional fees mainly in connection with the review of interim accounts.

## RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board has overall responsibility for the maintenance of sound risk management and internal control systems within the Group and reviewing their effectiveness. The Board has delegated to management the implementation and monitoring of such systems.

The Board has entrusted the Audit Committee with the responsibility to review the risk management and internal control systems of the Group, which include financial, operational and compliance controls. A risk management system is in place to ensure the regular identification, evaluation and management of the risks faced by the Group. Procedures have been set up for, inter alia, safeguarding assets against unauthorised use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications. Management throughout the Group maintains and monitors the risk management and internal control systems on an ongoing basis.

The Board has conducted a review of the Group's risk management and internal control systems for the year ended 31 December 2016, including financial, operational and compliance controls, and assessed the effectiveness of such systems by considering the work performed by the Audit Committee, executive

management, external and internal auditors. The Board was satisfied that the systems are effective and adequate for their purposes.

## Internal audit

The internal audit function, which is fully independent of the daily operations of the Group, is carried out by the Company's Corporate Evaluation Department, the senior executive in charge of which reports directly to the Audit Committee with unrestricted access to all the Group's assets, records and personnel in the course of audit, and at the Audit Committee's instruction, briefs the Managing Director/Chief Executive Officer on the results of all internal audit assignments. The Managing Director/Chief Executive Officer, with the approval of the Audit Committee, may instruct the senior executive in charge of the Corporate Evaluation Department to undertake internal audit activities of an urgent or sensitive nature. All other Directors are informed of the findings of these assignments. During the year, the Department carries out an analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group through, among others, observation in management's risk management workshops and examination of risk-related documentation as well as internal control self-assessment questionnaires. When considered appropriate and with the approval of the Audit Committee, certain review work is outsourced because of the need for assistance of specialists or due to the high volume of work to be undertaken during a specific period of time.

The senior executive in charge of the Corporate Evaluation Department attends all Audit Committee meetings to explain the internal audit findings and respond to queries from members. Four meetings were held by the Audit Committee in 2016 and details of the major areas reviewed are set out in the Audit Committee Report contained in this Annual Report. The Audit Committee regularly reviews the key performance indicators relating to the work of the Corporate Evaluation Department and considers its view on the latest specific risk assessments of the Group.

### **Risk management and internal control**

The Group has diverse business activities for which a high level of autonomy in operational matters has been vested in divisional managers who are also responsible for the development of their divisions. In the circumstance, well-designed systems of risk management and internal controls are necessary to help the Group achieve its long-term objectives. The systems and policies of the Group are designed to minimise internal control risks and manage business risks, protect the assets of the Group from loss or impairment, accurately report the performance of the Group and its financial position, and ensure compliance of relevant legislation, regulations and best practices. This includes taking into consideration social, environmental and ethical matters. The systems, which are annually reviewed by the Board to ensure its effectiveness, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

A formal risk management policy has been put in place to ensure the regular identification, evaluation and management of the risks faced by the Group. The Managing Director/Chief Executive Officer, as Chief Risk Officer, takes the lead in the effective implementation of the risk management policy by all divisions and business units. Risk assessment and evaluation are an integral part of the annual planning process. Each division/business unit is to set its strategic objectives, identify specific risks and assess the effectiveness of its risk management actions and internal control measures to help ensure that the risks it faces are addressed by the controls that have been or will be implemented. Inherent risk level of each specific risk is ranked into five levels ranging from very-low to very-high based on the combined effect of its financial or other impact on the Group and the likelihood of occurrence. The most appropriate strategy is developed and implemented to tackle each of the identified specific risks, unless the desired residual risk level is attained.

Workshops are organised for management staff annually to ensure proper appreciation, implementation and evaluation of the systems and procedures. Risk registers are regularly updated and continuous follow-up actions are taken by management and reported to the Board at least annually.

The Audit Committee reports to the Board on any material matters that have arisen from the Committee's review of how the risk management and internal control processes have been applied including any major control weakness noted. Management is asked to resolve the control weaknesses identified by themselves or by auditors in the agreed timeframe, and is required to report the status to the Audit Committee for considering the significance of both the resolved and unresolved weaknesses to the Group's financial performance or condition.

### **SHAREHOLDER AND INVESTOR RELATIONS**

The Board places considerable importance on communication with shareholders and recognises the significance of transparency and timely disclosure of corporate information, which enables shareholders and investors to make the most informed investment decisions. To ensure effective ongoing dialogue with shareholders, a Shareholders' Communication Policy was adopted by the Board in 2012. The Policy is available on the Company's website and is regularly reviewed to ensure its effectiveness.

Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars published in accordance with the Listing Rules. Such published documents, together with the latest corporate information and news, are also available on the Company's website.

The annual general meeting of the Company provides a valuable forum for the Board to communicate directly with shareholders each year. The Chairman of the Board or, in his absence, the Managing Director/Chief Executive Officer chairs the annual general meeting to answer any questions from shareholders. In addition, the chairpersons of the various Board Committees, or in their absence, other members of the relevant Committees and the Company's external auditor are available to answer questions at the meeting.

The Company also maintains an ongoing active dialogue with institutional shareholders. The Chairman and the Managing Director/Chief Executive Officer are closely involved in promoting investor relations. Meetings and briefings with financial analysts and investors are conducted by the Managing Director/Chief Executive Officer.



Systems are in place for the protection and proper disclosure of information that has not already been made public. For further enhancement in this respect, the Company's Disclosure Policy was adopted by the Board in 2012 to set out the Company's approach towards the determination and dissemination of inside information and the circumstances under which the confidentiality of information shall be maintained. The Directors adhere strictly to the statutory requirement for their responsibilities of keeping information confidential.

## SHAREHOLDERS' RIGHTS

Pursuant to the Companies Act 1981 of Bermuda (as amended) (the "Bermuda Companies Act") and the Bye-laws of the Company, shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition, to convene a special general meeting. The requisition must state the purposes of the meeting and must be signed by the requisitionists and deposited at the head office of the Company in Hong Kong (for the attention of the Company Secretary). If, within 21 days from the date of such deposit, the Board fails to proceed to convene such meeting, the requisitionists, or any of them representing more than one half of their total voting rights, may convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Pursuant to Section 79 of the Bermuda Companies Act, any shareholders holding not less than one-twentieth of the total voting rights of all shareholders having a right to vote at a general meeting of the Company, or a number of not less than 100 shareholders, can submit a written requisition to move a resolution at a general meeting. The requisition must be accompanied by a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. It must also be signed by all the requisitionists and deposited at the head office of the Company in Hong Kong (for the attention of the Company Secretary) not less than six weeks before the general meeting in case of a requisition requiring notice of a resolution, or not less than one week before the general meeting in case of any other requisitions. For a proposal in relation to the election of a person as a Director of the Company, the relevant procedures are set out in the document titled "Procedures for Shareholders to Elect Directors" which is available on the website of the Company.

Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publicly available. Such request shall be in written form and addressed to the Company's Corporate Communications Head at the head office of the Company in Hong Kong or through email at [socamcc@shuion.com.hk](mailto:socamcc@shuion.com.hk). Shareholders should direct their enquiries about their individual shareholding information to the Company's branch share registrar in Hong Kong, Tricor Standard Limited. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the head office of the Company.

## CONSTITUTIONAL DOCUMENTS

No changes have been made to the Memorandum of Association and Bye-laws of the Company during the year. The latest version of the Company's Memorandum of Association and Bye-laws is available on the websites of the Company and the Stock Exchange.

## CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code, but about promoting and developing an ethical and healthy corporate culture. We will continue to review, and where appropriate, improve our current practices on the basis of our experience, regulatory changes and development.

On behalf of the Board  
**Lo Hong Sui, Vincent**  
*Chairman*

Hong Kong, 24 March 2017

# AUDIT COMMITTEE REPORT

The members of the Audit Committee at the date of this report are shown below:

Mr. Chan Kay Cheung (*Chairman*)  
Ms. Li Hoi Lun, Helen  
Mr. William Timothy Addison

The composition of the Audit Committee was changed subsequent to the year-end. Mr. Gerrit Jan de Nys stepped down from the Audit Committee following his resignation as a Non-executive Director of the Company with effect from 1 March 2017. Mr. William Timothy Addison, an Independent Non-executive Director of the Company, was appointed as a member of the Committee to succeed Mr. de Nys with effect from the same date.

After the change in composition, all the Committee members are Independent Non-executive Directors of the Company, with both the Chairman and Mr. Addison having the appropriate professional qualifications, accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). No member of the Audit Committee is a former partner of the Company's existing external auditor. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public listed companies.

## MEETING ATTENDANCE

The Audit Committee met four times during the year and the attendance of individual members is set out as follows:

| Name of Committee member                                | Number of meetings attended/ entitled to attend |
|---|---|
| Mr. Chan Kay Cheung                                     | 4/4   |
| Mr. Gerrit Jan de Nys<br>(stepped down on 1 March 2017) | 4/4   |
| Ms. Li Hoi Lun, Helen                                   | 4/4   |

Other attendees at meetings of the Committee include the senior executive in charge of the Company's Corporate Evaluation Department responsible for the internal audit function and, by invitation, the Managing Director/Chief Executive Officer and Chief Financial Officer and the Director – Corporate Finance responsible for the finance and accounting function, together with the engagement partner and senior representatives of the external auditor. The Company Secretary acts as the secretary to the Committee.

## ROLE AND DUTIES

Under its terms of reference, the principal responsibilities of the Audit Committee include the review of both the Group's consolidated financial statements and the effectiveness of its risk management and internal control systems. The Audit Committee also oversees the engagement of the external auditor and reviews its independence as well as the effectiveness of the audit process. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee. The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

## SUMMARY OF WORK DONE

During the year, the Audit Committee:

- reviewed and discussed with management and external auditor the audited consolidated financial statements of the Group for the year ended 31 December 2015 (including estimates and judgments of a material nature made by management in accordance with the accounting policies of the Group) and the related final results announcement, with a recommendation to the Board for approval after due consideration given to the matters raised by staff responsible for the accounting and financial reporting, compliance and internal audit functions;
- reviewed the disclosures in the Corporate Governance Report, the Audit Committee Report and the Corporate Social Responsibility Report included in the 2015 Annual Report of the Company, with a recommendation to the Board for approval;
- reviewed and discussed with management and external auditor the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016 (including estimates and judgments of a material nature made by management in accordance with the accounting policies of the Group) and the related interim results announcement, with a recommendation to the Board for approval;
- reviewed and considered the reports and management letters submitted by the external auditor, which summarised matters arising from its audit of the Group's consolidated financial statements for the year ended 31 December 2015 and its review of the Group's condensed consolidated financial statements for the six months ended 30 June 2016;
- reviewed and considered the reports of the Corporate Evaluation Department on the business risks, operational and financial controls of selected property projects and on the internal approval

procedure for the disposals of certain property assets of the Group in the Chinese Mainland;

- reviewed and considered the reports of the Corporate Evaluation Department on the overall business risk of a selected construction project in the public sector and the operational controls of the Group's construction and fitting-out businesses in Hong Kong;
- reviewed and considered the reports of the Corporate Evaluation Department on the test check of special control points responded by management in the self-assessment questionnaire for the review of the Group's internal control systems;
- considered and endorsed the proposed amendments to the Company's risk management structure and policy on connected transactions, with a recommendation to the Board for approval;
- reviewed the quarterly reports of the Corporate Evaluation Department on connected transactions, including the compliance of the Company's policy on connected transactions;
- conducted an annual review of the Company's policy on engaging non-audit services from the external auditor and the whistle-blowing policy of the Company, and approved the amendments to the former policy;
- reviewed and considered the adequacy of the Group's provisions for doubtful debts on a quarterly basis;
- reviewed and considered the scope of work and fee proposals of the external auditor for the review of the Group's condensed consolidated financial statements for the six months ended 30 June 2016 and for the audit of the Group's consolidated financial statements for the year ended 31 December 2016;
- reviewed the key performance indicators and annual work programme of the Corporate Evaluation Department as well as its work progress, staffing and resources planning;
- reviewed and approved the internal audit activity charter for the Group's adoption; and
- conducted a review of the effectiveness of the risk management and internal control systems of the Group at the year-end, which covered all material controls in financial, operational and compliance areas and included a review of the adequacy of resources, staff qualifications and experience, and training programmes and budgets of the Company's accounting, financial reporting and internal audit functions.

The Committee members also serve as the contact persons under the whistle-blowing policy of the Company. During the year, a few complaints regarding the business conduct of certain staff of the Construction Division were received through this reporting channel, and these complaints were investigated by independent personnel.

The Committee reviews the Group's risk management and internal control systems annually based on the work of the Corporate Evaluation Department, the identification and assessment of risks by divisional and functional heads, and evaluation of the issues raised by the external auditor. As part of the Committee's review of these systems, the Committee examines the Group's framework and policies for identifying, assessing, and taking appropriate actions to contain the different types of risk in its various operations, and deal with the incidences of any significant control failings or weaknesses that have been identified and may give unforeseen outcomes about the Group's financial performance or condition.

In addition, the Committee keeps under constant review changes to the Hong Kong Financial Reporting Standards with the assistance of the senior executive in charge of the Corporate Evaluation Department and the external auditor to assess their application to the accounting policies adopted by the Group and, where applicable, their effective adoption by the Group.

All the recommendations of the Committee to management and the Board were accepted and implemented.

Subsequent to the financial year end, the Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2016, including the accounting principles and practices adopted by the Group, in conjunction with the external auditor, with a recommendation to the Board for approval.

The Committee was satisfied with the external auditor's work, its independence and objectivity, and therefore recommended the re-appointment of Deloitte Touche Tohmatsu as the Company's external auditor for 2017 for shareholders' approval at the forthcoming annual general meeting of the Company.

**Chan Kay Cheung**  
*Chairman, Audit Committee*

Hong Kong, 24 March 2017

# REMUNERATION COMMITTEE REPORT

The members of the Remuneration Committee at the date of this report are shown below:

Ms. Li Hoi Lun, Helen (*Chairman*)  
Mr. Lo Hong Sui, Vincent  
Mr. Chan Kay Cheung

With the exception of Mr. Lo Hong Sui, Vincent who is an Executive Director and the Chairman of the Company, the members of the Committee are Independent Non-executive Directors of the Company.

## MEETING ATTENDANCE

The Remuneration Committee held two meetings and passed one written resolution during the year. The attendance of individual members at the meetings is set out as follows:

| Name of Committee member | Number of meetings attended/ entitled to attend |
|--------------------------|---|
| Ms. Li Hoi Lun, Helen    | 2/2   |
| Mr. Lo Hong Sui, Vincent | 2/2   |
| Mr. Chan Kay Cheung      | 2/2   |

Where appropriate, the Company's Managing Director/ Chief Executive Officer and the senior executive in charge of the human resources function of the Group attend meetings of the Committee by invitation. The Company Secretary acts as the secretary to the Committee.

## ROLE AND DUTIES

The Remuneration Committee has specific terms of reference, which are available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Remuneration Committee is given the tasks to:

- make recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- determine, with delegated responsibility, the remuneration package of individual Executive Director, which include benefits in kind, pension

rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), taking into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

- review and approve performance-based remuneration of Executive Directors with reference to corporate goals and objectives set by the Board from time to time;
- review and approve the compensation payable to Executive Directors for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and
- review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

Code provision B.1.2 of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange provides that the terms of reference of the Remuneration Committee should include, as a minimum, the responsibilities to (i) determine or make recommendations to the Board on the remuneration packages of the individual Executive Director and senior management; (ii) review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment; and (iii) review and approve the remuneration proposals for management with reference to the Board's corporate goals and objectives. The Remuneration Committee has reviewed its functions and considered that these responsibilities in relation to the remuneration and compensation of management should be vested in the Executive Directors who have a better understanding of the level of expertise, experience and performance expected of the management in the daily business operations of the Group. The Remuneration Committee would continue to be primarily responsible for the review and determination of the remuneration package of the individual Executive Director. After due consideration, the Board adopted the revised terms of reference of the Remuneration Committee with the said responsibilities in relation to the remuneration and compensation of



management excluded from its scope of duties, which deviates from code provision B.1.2. Notwithstanding such deviation, the Remuneration Committee is still responsible for reviewing, approving and making recommendations to the Board on the guiding principles applicable to the determination of the remuneration packages of senior management.

Having reviewed the practices and procedures of remuneration committees in other jurisdictions, the Remuneration Committee decided that it would be better practice for the Non-executive Directors to cease involvement in recommending their own remuneration. Such recommendations were made to the Board by the Chairman of the Company, taking the advice of external professionals as appropriate. This practice has been formally adopted, and the Board approved the amendment to the terms of reference of the Remuneration Committee in this respect, which deviates from the stipulation in code provision B.1.2 that the Remuneration Committee should make recommendations to the Board on the remuneration of Non-executive Directors. The Non-executive Directors abstain from voting in respect of the determination of their own remuneration at the relevant Board meetings.

## REMUNERATION POLICY

The remuneration of the Executive Directors of the Company is determined by the Remuneration Committee, having regard to the Company's operating results, individual role and performance and market statistics, while those of the Non-executive Directors (including Independent Non-executive Directors) are decided by the Board based on the recommendation of the Chairman of the Company that has taken into account their contributions to the Board and the market level of directors' fees. No individual Director is involved in deciding his or her own remuneration.

The remuneration policy of the Group for rewarding its employees is based on their performance, qualifications and competence displayed. Through its remuneration policy, the Company aims to attract, motivate and retain competent, high calibre staff while ensuring that the remuneration is aligned with the Company's goals, objectives and performance.

The Remuneration Committee sets and maintains the policy for the remuneration of Executive Directors which is as follows:

- the balance between short-term and long-term elements of remuneration is important and should be retained;
- salary levels will continue to be reviewed regularly against those in companies of a similar size or nature listed on the Stock Exchange; and
- emphasis will be given to corporate and individual performance, taking into account the respective responsibilities of the Executive Directors, who will be rewarded by bonus payable for achievement of stretch targets and the grant of share options, where appropriate.

The Company's policy is to encourage the participation of Executive Directors and employees in the equity of the Company. In this regard, the Company has in place a share option scheme and details about the scheme are set out in the section headed "Share Options" below.

## REMUNERATION STRUCTURE

The remuneration of the Executive Directors and senior management comprises salary and benefits, performance bonuses, pension scheme contributions, share option grants and long-term incentives. In determining remuneration appropriate for the Executive Directors, developments in executive remuneration in Hong Kong, the Chinese Mainland and other parts of the world are reviewed and monitored from time to time with the assistance of external consultants engaged by the Company.

Upon the retirement of Mr. Wong Fook Lam, Raymond as Managing Director and Chief Financial Officer effective 1 January 2017, Mr. Wong Yuet Leung, Frankie has been appointed as an Executive Director, the Chief Executive Officer and Chief Financial Officer of the Company to succeed him. As approved by the Remuneration Committee, the salary and bonus components of the remuneration of the new Executive Director, Chief Executive Officer and Chief Financial Officer are set to be normally related to his aggregate total cash remuneration as follows:

# REMUNERATION COMMITTEE REPORT

| Cash remuneration components   | Proportion |
|--|------------|
| Salary and other benefits  | Half       |
| Bonus for achievement of targets (100% based on corporate performance) | Half       |

Where appropriate, to recognise the contribution of the Executive Director, Chief Executive Officer and Chief Financial Officer, the bonus element could be increased, relative to performance delivered, to up to twice the amount that would be given normally.

Further details about the remuneration of the Directors and senior management of the Company are set out in the below sections headed "Remuneration of Directors" and "Remuneration of Senior Management" respectively.

## SHARE OPTIONS

The Company operates a share option scheme for directors and employees of the Group. The share option scheme adopted on 27 August 2002 (the "Old Scheme") had expired and was replaced by a new share option scheme approved by the shareholders of the Company on 22 August 2012. No further option can be granted under the Old Scheme after its expiration, but all options granted previously remain exercisable in accordance with the terms of the Old Scheme and the relevant letters of offers to the respective grantees.

## Annual grants

To reward employees for their contributions to the success of the Group through acquisition of an interest in the share capital of the Company, the Board, upon the recommendation of the Remuneration Committee, may offer annual grants of share options to selected employees in Senior Manager grade and above, taking into account the financial performance of the Group as well as the individual performance and contribution of these employees during the relevant year.

## Long-term incentive ("LTI") grants

The Board adopted the proposal of the Remuneration Committee to give long-term incentive to the Executive Directors through grants of share options and applied vesting conditions based on certain performance criteria to such grants. Under this LTI arrangement, the total shareholders' return ("TSR") was used as an important measurement criterion for such awards made during 2007 – 2009. Share options were granted conditionally to the Executive Directors over rolling 3-year periods that would vest only if the TSR of the Company at the end of each specific 3-year period was positive and equaled to or exceeded the return of the Hang Seng Index. External consultants were retained to assist with the measurement of the TSR of the Company and the return of the Hang Seng Index.

In view of the volatility of share prices affected by market sentiment and the global financial crisis, the Committee observed that share options using TSR as a performance measurement criterion could no longer serve as an effective way to motivate and reward the Executive Directors. Therefore, in 2010, the Committee reviewed the performance measurement for LTI awards and, after consideration, recommended to the Board to adopt a new set of performance measurement criteria for the future grants of share options to the Executive Directors under the LTI scheme. The new measurement criteria comprise a range of specific performance criteria/targets that the Executive Directors were required to achieve in a 3-year performance period for creating shareholders' value, which include return on equity, free cash flow and risk management, achievement of strategic goals, financial and operational performance targets.

In 2011, the Committee further reviewed the LTI scheme for award of share options and recommended the Board to adopt a new LTI plan which aimed at aligning management interests with the overall achievement of a 3-year strategic plan of the Group to promote significant and integrated growth in the coming years. With the shareholders' approval at a special general meeting of the Company, share options were granted to certain Executive Directors and selected key executives in 2011 pursuant to the new LTI plan (the "2011 LTI Grant"). Vesting of such share options was based on, in the case of grants to Executive Directors, the achievement of corporate performance targets covering the three major areas of financial performance, project-specific achievements and future growth potential and, in the case of grants to selected key executives, both the

achievement of the said corporate performance targets as well as individual performance, over a period of 3.5 years from 1 July 2011 to 31 December 2014. During 2014, the Remuneration Committee conducted its assessment of the Company's performance to date in accordance with the provisions of the 2011 LTI Grant and determined that all those portions of options whose vesting was conditional upon the achievement of corporate performance targets would not vest, which options were then cancelled by the Board upon the recommendation of the Remuneration Committee. All

those portions of options whose vesting was based on individual performance were maintained through to the end of the 3.5-year performance period on 31 December 2014, subsequent to which the Committee determined their vesting and made a recommendation for Board approval pursuant to the terms of the 2011 LTI Grant.

Details of the outstanding share options granted by the Company under the annual grants and the LTI grants are set out in the Directors' Report contained in this Annual Report.

## REMUNERATION OF DIRECTORS

The remuneration paid to those Directors of the Company who held the office during the year ended 31 December 2016 was as follows:

|   | Director's<br>fees<br>(Note 1)<br>HK\$'000 | Salary<br>and other<br>benefits<br>HK\$'000 | Other<br>service<br>fees<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | For the<br>year ended<br>31 December<br>2016<br>Total<br>HK\$'000 | For the<br>year ended<br>31 December<br>2015<br>Total<br>HK\$'000 |
|---|--|---|--------------------------------------|--|---|---|
| <b>Executive Directors</b>                                |  |   |                                      |  |   |   |
| Mr. Lo Hong Sui, Vincent                                  | 10   | –   | –                                    | –  | 10  | 10  |
| Mr. Wong Fook Lam, Raymond<br>(retired on 1 January 2017) | 10   | 4,765                                       | –                                    | 18   | 4,793   | 4,753   |
| <b>Non-executive Directors</b>                            |  |   |                                      |  |   |   |
| Mr. Tsang Kwok Tai, Moses                                 | 315  | –   | –                                    | –  | 315   | 315   |
| Mr. Gerrit Jan de Nys<br>(resigned on 1 March 2017)       | 420  | –   | 766<br>(Note 2)                      | –  | 1,186   | 2,669<br>(Note 2)   |
| <b>Independent Non-executive Directors</b>                |  |   |                                      |  |   |   |
| Ms. Li Hoi Lun, Helen                                     | 485  | –   | –                                    | –  | 485   | 458   |
| Mr. Chan Kay Cheung                                       | 595  | –   | –                                    | –  | 595   | 595   |
| Mr. William Timothy Addison<br>(appointed on 25 May 2016) | 196  | –   | –                                    | –  | 196   | –   |
| <b>TOTAL</b>  | <b>2,031</b>                               | <b>4,765</b>                                | <b>766</b>                           | <b>18</b>  | <b>7,580</b>  | <b>8,800</b>  |

# REMUNERATION COMMITTEE REPORT

## Notes:

1. According to the fee schedule as approved by the Board for the year ended 31 December 2016, each Executive Director was entitled to an annual fee of HK\$10,000 while a Non-executive Director or an Independent Non-executive Director was entitled to an annual fee of HK\$250,000. In addition, a Non-executive Director or an Independent Non-executive Director also received an annual fee for his chairmanship or membership in the following Board Committees:

| Board Committees                    | Fees per annum<br>HK\$ |
|-------------------------------------|------------------------|
| Audit Committee chairmanship        | 150,000                |
| Audit Committee membership          | 75,000                 |
| Remuneration Committee chairmanship | 65,000                 |
| Remuneration Committee membership   | 35,000                 |
| Nomination Committee membership     | 30,000                 |
| Finance Committee chairmanship      | 95,000                 |
| Finance Committee membership        | 65,000                 |
| Investment Committee membership     | 65,000                 |

2. Pursuant to a consultancy engagement agreement entered into between the Company and Mr. Gerrit Jan de Nys on 20 November 2015 as disclosed in the announcement of the Company dated 20 November 2015, an additional consultancy fee in an amount of HK\$766,250 was paid to Mr. de Nys for his consultancy services provided during the year ended 31 December 2016 (2015: HK\$2,222,500).
3. With effect from 1 January 2017, Mr. Wong Yuet Leung, Frankie has been appointed as an Executive Director, Chief Executive Officer and Chief Financial Officer of the Company for annual salary and allowances of HK\$6,744,000, as approved by the Remuneration Committee.

## REMUNERATION OF SENIOR MANAGEMENT

The remuneration paid to the members of the senior management for the year was within the following bands:

|                               | Number of individuals |
|-------------------------------|-----------------------|
| HK\$3,000,000 – HK\$4,000,000 | 3                     |
| HK\$5,000,000 – HK\$6,000,000 | 1                     |

## SERVICE CONTRACTS

No service contract of any Director contains a notice period exceeding 12 months.

## SUMMARY OF WORK DONE

During the year, the Remuneration Committee:

- considered and determined that no bonus be awarded to the former Managing Director and Chief Financial Officer in view of the financial loss of the Company for the year ended 31 December 2015;

- considered and endorsed that no annual grant of share options be made to management staff in view of the financial loss of the Company for the year ended 31 December 2015, with a recommendation to the Board for approval;
- reviewed and endorsed the Remuneration Committee Report included in the 2015 Annual Report of the Company, with a recommendation to the Board for approval; and
- considered and approved the remuneration package and target bonus formula for the new Executive Director, Chief Executive Officer and Chief Financial Officer, who was appointed on 1 January 2017, taking into account the report of an external consultant on the analysis of executive remuneration in comparable Hong Kong listed companies, and reviewed the 2017 salary review guidelines for the Group as a whole.

**Li Hoi Lun, Helen**

*Chairman, Remuneration Committee*

Hong Kong, 24 March 2017



# NOMINATION COMMITTEE REPORT

The members of the Nomination Committee at the date of this report are shown below:

Mr. Lo Hong Sui, Vincent (*Chairman*)  
Ms. Li Hoi Lun, Helen  
Mr. Chan Kay Cheung

With the exception of Mr. Lo Hong Sui, Vincent who is an Executive Director and the Chairman of the Company, the members of the Committee are Independent Non-executive Directors of the Company.

## MEETING ATTENDANCE

The Nomination Committee held one meeting and passed three written resolutions during the year. The attendance of individual members at the meeting is set out as follows:

| Name of Committee member | Number of meeting attended/entitled to attend |
|--------------------------|---|
| Mr. Lo Hong Sui, Vincent | 1/1   |
| Ms. Li Hoi Lun, Helen    | 1/1   |
| Mr. Chan Kay Cheung      | 1/1   |

The Company Secretary acts as the secretary to the Committee.

## ROLE AND DUTIES

Under its terms of reference, the Nomination Committee is delegated by the Board with the following principal responsibilities:

- to review the structure, size and composition of the Board at least annually to ensure that it has a balance of appropriate skills, experience and diversity of perspectives to meet the business needs of the Group;

- to assess the independence of the Independent Non-executive Directors;
- to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors;
- to make recommendations to the Board on membership of the Board Committees;
- to review the time commitment required of Directors; and
- to review the Board Diversity Policy and monitor its implementation.

The terms of reference of the Nomination Committee are available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## BOARD DIVERSITY POLICY

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In 2013, upon the recommendation of the Nomination Committee, a Board Diversity Policy was adopted by the Board to set out the approach to achieve the diversity of the Board members.

All Board appointments will be based on meritocracy, and candidates will be considered against the objective criteria (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service) as set out in the Board Diversity Policy, having due regard for the benefits of diversity. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Under its terms of reference, the Nomination Committee is delegated with the tasks to review the Board Diversity Policy, the measurable objectives that the Board has set for implementing this policy as well as the progress on achieving these objectives.

## NOMINATION COMMITTEE REPORT

The Nomination Committee reviews the Board composition annually against the objective criteria as set out in the Board Diversity Policy. An analysis of the current Board composition based on these criteria is set out in the Corporate Governance Report contained in this Annual Report. The Committee considers that the existing members of the Board have a diverse range of business, financial and professional expertise in light of the current business needs of the Group. For future appointments to the Board, the Committee opines that educational background, professional experience, skills and knowledge are important elements that should be taken into account in view of the prevailing business strategy of the Group, while it is not appropriate to set specific requirements for such criteria as gender, ethnicity and age although due consideration should also be given to these criteria for the benefits of diversity.

### SUMMARY OF WORK DONE

During the year, the Nomination Committee:

- reviewed the structure, size and composition of the Board against the objective criteria as set out in the Board Diversity Policy;
- reviewed the independence of the Independent Non-executive Directors;
- considered the nomination of two retiring Directors for the Board's recommendation to stand for re-election by shareholders at the 2016 annual general meeting of the Company;
- reviewed the time commitment required of Directors to perform their responsibilities to the Company;
- reviewed and endorsed the Nomination Committee Report included in the 2015 Annual Report, with a recommendation to the Board for approval;
- considered the proposed appointment of an Independent Non-executive Director and his service contract, with a recommendation to the Board for approval;

- considered the proposed appointment of the new Independent Non-executive Director to the Finance Committee and the Investment Committee, with a recommendation to the Board for approval; and
- considered the proposed appointment of an Executive Director, the Chief Executive Officer and Chief Financial Officer as well as the proposed changes of the composition of the Finance Committee, the Investment Committee and the Executive Committee in view of the retirement of the Managing Director and Chief Financial Officer, with recommendations to the Board for approval.

**Lo Hong Sui, Vincent**

*Chairman, Nomination Committee*

Hong Kong, 24 March 2017

# DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries, joint ventures and associates are set out in notes 41, 42 and 43 to the consolidated financial statements respectively.

## BUSINESS REVIEW

A fair review of the business of the Group during the year, a discussion on the Group's future business development and a description of the principal risks and uncertainties facing the Group are provided in the Chairman's Statement and the Management Discussion and Analysis sections of this Annual Report. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2016 are included in the abovementioned sections. Also, the financial risk management objectives and policies of the Group can be found in note 39 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights and Financial Review sections of this Annual Report. In addition, discussions on the Group's environmental policies, including compliance with the relevant laws and regulations that have a significant impact on the Group, and relationships with its key stakeholders are included in the Environmental, Social and Governance Report contained in this Annual Report. All the above discussions form part of this report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the Consolidated Statement of Profit or Loss.

The Directors do not recommend the payment of a final dividend.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

## RESERVES

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity.

At 31 December 2016, no reserves were available for distribution to shareholders by the Company.

## INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 15 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

### Executive Directors:

Mr. Lo Hong Sui, Vincent  
Mr. Wong Yuet Leung, Frankie  
(appointed on 1 January 2017)  
Mr. Wong Fook Lam, Raymond  
(retired on 1 January 2017)

### Non-executive Directors:

Mr. Tsang Kwok Tai, Moses  
Mr. Gerrit Jan de Nys  
(resigned on 1 March 2017)

### Independent Non-executive Directors:

Ms. Li Hoi Lun, Helen  
Mr. Chan Kay Cheung  
Mr. William Timothy Addison  
(appointed on 25 May 2016)

## DIRECTORS' REPORT

In accordance with Bye-law 86(2) of the Bye-laws of the Company, Mr. Wong Yuet Leung, Frankie and Mr. William Timothy Addison shall retire at the forthcoming annual general meeting (the "2017 AGM") of the Company to be held on 26 May 2017. In addition, in accordance with Bye-law 87(1) of the Bye-laws of the Company, Mr. Lo Hong Sui, Vincent and Ms. Li Hoi Lun, Helen shall retire by rotation at the 2017 AGM. All the said Directors, being eligible, will offer themselves for re-election.

No Director proposed for re-election at the 2017 AGM has a service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INDEMNITIES

Pursuant to the Bye-laws of the Company and subject to the relevant provision therein, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may incur in or sustain by the execution of his/her duty or otherwise in relation thereto. The Company has arranged appropriate insurance cover for the Directors in connection with the discharge of their responsibilities.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

At 31 December 2016, the interests of the Directors and chief executive of the Company in the shares and underlying shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long positions in the shares and underlying shares of the Company

| Name of Director                                       | Number of shares   |                  |                      | Number of underlying shares | Total       | Approximate percentage of issued shares (Note 1) |
|--|--------------------|------------------|----------------------|-----------------------------|-------------|--|
|  | Personal interests | Family interests | Other interests      | Share options               |             |  |
| Mr. Lo Hong Sui, Vincent                               | –                  | 312,000 (Note 2) | 234,381,000 (Note 3) | –                           | 234,693,000 | 48.44%   |
| Mr. Wong Fook Lam, Raymond (retired on 1 January 2017) | 32,000             | –                | –                    | 700,000 (Note 4)            | 732,000     | 0.15%  |



Notes:

1. Based on 484,410,164 shares of the Company in issue at 31 December 2016.
2. These shares were beneficially owned by Ms. Loletta Chu ("Mrs. Lo"), the spouse of Mr. Lo Hong Sui, Vincent ("Mr. Lo"). Under the SFO, Mr. Lo was deemed to be interested in such shares and both Mr. Lo and Mrs. Lo were also deemed to be interested in 234,381,000 shares mentioned in Note 3 below.
3. These shares were beneficially owned by Shui On Company Limited ("SOCL"). Of these 234,381,000 shares beneficially owned by SOCL, 232,148,000 shares were held by SOCL itself and 2,233,000 shares were held by Shui On Finance Company Limited, an indirect wholly-owned subsidiary of SOCL. SOCL was owned by the Bosrich Unit Trust, the trustee of which was Bosrich Holdings (PTC) Inc. ("Bosrich"). The units of the Bosrich Unit Trust were the property of a discretionary trust, of which Mr. Lo was one of the discretionary beneficiaries and HSBC International Trustee Limited ("HSBC Trustee") was the trustee. Accordingly, Mr. Lo, Mrs. Lo, HSBC Trustee and Bosrich were deemed to be interested in such shares under the SFO.

4. It represents the interests of Mr. Wong Fook Lam, Raymond in 700,000 underlying shares of the Company through a share option granted to him under the share option scheme adopted by the Company on 27 August 2002, details of which are set out under the section headed "Share Options" below.

Save as disclosed above, at 31 December 2016, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

At 31 December 2016, the following substantial shareholder (not being a Director or chief executive of the Company or his/her respective associate(s)) had interests in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 336 of the SFO:

| Name of shareholder               | Capacity           | Number of shares/<br>underlying shares | Approximate<br>percentage<br>of issued<br>shares<br>(Note 1) |
|-----------------------------------|--------------------|--|--|
| Penta Investment Advisers Limited | Investment manager | 82,309,839 (L)<br>(Note 2)             | 16.99%   |

Notes:

1. Based on 484,410,164 shares of the Company in issue at 31 December 2016.
2. It included the interests held by this shareholder in 11,582,552 underlying shares of the Company, representing approximately 2.39% of the issued shares of the Company, pursuant to certain unlisted cash settled derivatives.
3. The letter "L" denotes a long position.

Save as disclosed above and under the foregoing section headed "Interests of Directors and Chief Executive", at 31 December 2016, no interests or short positions of substantial shareholders and other persons in the shares and underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

## SHARE OPTIONS

The Company adopted a share option scheme on 22 August 2012 (the "Existing Scheme"), which has a life of 10 years until 21 August 2022, to replace the share option scheme adopted on 27 August 2002 (the "Old Scheme") that had expired on 30 August 2012. Since then, no further option can be granted under the Old Scheme, but all options granted previously remain exercisable in accordance with the terms of the Old Scheme and the relevant letters of offers to the respective grantees. Particulars of the Old Scheme and the Existing Scheme are set out in note 35 to the consolidated financial statements.

## DIRECTORS' REPORT

The movements in the share options of the Company during the year are set out as follows:

| Name or category of eligible participant(s)                                   | Date of grant | Subscription price per share<br>HK\$ | Number of shares subject to options |                         |                           |                        |                           | At 31.12.2016    | Period during which the options are exercisable |
|---|---------------|--------------------------------------|-------------------------------------|-------------------------|---------------------------|------------------------|---------------------------|------------------|---|
|   |               |                                      | At 1.1.2016                         | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled during the year |                  |   |
| <b>Former Directors</b>   |               |                                      |                                     |                         |                           |                        |                           |                  |   |
| Mr. Wong Fook Lam, Raymond (retired on 1 January 2017)<br>(Notes 1 and 2)     | 12.4.2010     | 12.22                                | 700,000                             | -                       | -                         | -                      | -                         | 700,000          | 12.4.2013 to 11.4.2020                          |
|   | 23.6.2011     | 10.90                                | 250,000                             | -                       | -                         | (250,000)              | -                         | -                | 23.12.2011 to 22.6.2016                         |
| Mr. Choi Yuk Keung, Lawrence (retired on 31 December 2015)<br>(Notes 1 and 3) | 9.4.2009      | 7.63                                 | 380,000                             | -                       | -                         | (380,000)              | -                         | -                | 9.4.2012 to 8.4.2019                            |
|   | 12.4.2010     | 12.22                                | 700,000                             | -                       | -                         | (700,000)              | -                         | -                | 12.4.2013 to 11.4.2020                          |
|   | 23.6.2011     | 10.90                                | 250,000                             | -                       | -                         | (250,000)              | -                         | -                | 23.12.2011 to 22.6.2016                         |
| <b>Sub-total</b>  |               |                                      | <b>2,280,000</b>                    | <b>-</b>                | <b>-</b>                  | <b>(1,580,000)</b>     | <b>-</b>                  | <b>700,000</b>   |   |
| <b>Employees</b>  |               |                                      |                                     |                         |                           |                        |                           |                  |   |
| (in aggregate)  | 13.5.2011     | 10.66                                | 3,210,000                           | -                       | -                         | (3,210,000)            | -                         | -                | 13.11.2011 to 12.5.2016                         |
|   | 23.6.2011     | 10.90                                | 730,000                             | -                       | -                         | (730,000)              | -                         | -                | 23.12.2011 to 22.6.2016                         |
|   | 28.7.2011     | 10.00                                | 2,886,000                           | -                       | -                         | (568,000)              | -                         | 2,318,000        | 1.5.2015 to 27.7.2021                           |
|   | 26.11.2012    | 8.18                                 | 3,396,000                           | -                       | -                         | (352,000)              | -                         | 3,044,000        | 26.5.2013 to 25.11.2017                         |
|   | 14.6.2013     | 9.93                                 | 4,040,000                           | -                       | -                         | (430,000)              | -                         | 3,610,000        | 14.12.2013 to 13.6.2018                         |
| <b>Sub-total</b>  |               |                                      | <b>14,262,000</b>                   | <b>-</b>                | <b>-</b>                  | <b>(5,290,000)</b>     | <b>-</b>                  | <b>8,972,000</b> |   |
| <b>Total</b>  |               |                                      | <b>16,542,000</b>                   | <b>-</b>                | <b>-</b>                  | <b>(6,870,000)</b>     | <b>-</b>                  | <b>9,672,000</b> |   |

### Notes:

- Mr. Wong Fook Lam, Raymond and Mr. Choi Yuk Keung, Lawrence were previously granted share options in excess of their respective maximum individual entitlement of 1%.
- In accordance with the terms of the Old Scheme and subject to the terms of the relevant offer letter, the outstanding share option held by Mr. Wong Fook Lam, Raymond remains exercisable within a period of 12 months from the date of his retirement.
- In accordance with the terms of the Old Scheme and subject to the terms of the relevant offer letters, the outstanding share options held by Mr. Choi Yuk Keung, Lawrence were exercisable within a period of 12 months from the date of his retirement, following which all these share options lapsed accordingly.

- The share options granted on 28 July 2011, 26 November 2012 and 14 June 2013 are exercisable by the eligible participants during the exercise period in accordance with the schedules as set out in the respective offer letters. Details about the vesting schedules for the share options granted are set out in note 35 to the consolidated financial statements.

## ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance through its continuous effort in improving its corporate governance practices. Details about the corporate governance practices adopted by the Company are set out in the Corporate Governance Report contained in this Annual Report.

## CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions which constituted non-exempt connected transactions of the Company and are required to be disclosed herein under Chapter 14A of the Listing Rules.

### (1) Engagement of contractor for a fit-out project in Nanjing

On 12 August 2016, 江蘇九西建設發展有限公司 (Jiangsu Jiu Xi Development Co., Ltd.) ("Jiangsu Jiu Xi", a joint venture company indirectly owned as to approximately 50% by the Company as well as a subsidiary of the Company under the Listing Rules) confirmed, by way of a letter of acceptance (the "Letter of Acceptance"), the engagement of 上海德建裝飾工程有限公司 (Shanghai Pat Davie Limited) ("Shanghai Pat Davie", an indirect wholly-owned subsidiary of Shui On Land Limited ("SOL")) as a contractor to carry out interior decoration and electrical works (the "Fit-out Works") for a show flat of the Nanjing Scenic Villa project (the "Nanjing Project") for a total contract sum of approximately RMB2.46 million, including a contingency provision of RMB200,000 for any variation of the Fit-out Works as approved by Jiangsu Jiu Xi.

SOL is an associate of Mr. Lo, the Chairman and the controlling shareholder of the Company. Therefore, Shanghai Pat Davie, being a subsidiary of SOL, is a connected person of the Company under the Listing Rules. As such, the engagement of Shanghai Pat Davie by Jiangsu Jiu Xi to carry out the Fit-out Works under the Letter of Acceptance (the "Transaction") constituted a connected transaction of the Company.

In the 12 months preceding the Transaction, Jiangsu Jiu Xi also engaged Shanghai Pat Davie to provide other fit-out services to the Nanjing Project for an aggregate sum of approximately RMB1.62 million pursuant to the contracts entered into between the parties. As the total amount of the Transaction and these previous transactions exceeded HK\$3 million but all the applicable percentage ratios calculated on an aggregate basis pursuant to Rule 14.07 of the Listing Rules were less than 5%, the Transaction was subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the Transaction have been set out in the announcement dated 12 August 2016 issued by the Company.

### (2) Granting of loan facilities by Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") and Chinese Mercantile Bank, Guangzhou Branch ("CMB")

On 22 November 2016, (i) Pacific Hill Limited ("Pacific Hill", an indirect wholly-owned subsidiary of the Company) entered into a facility agreement (the "Offshore Facility Agreement") with ICBC (Asia), pursuant to the terms and conditions of which ICBC (Asia) agreed to grant a term loan facility in a principal amount of HK\$270 million (the "Offshore Loan Facility") to Pacific Hill for a term of 36 months at an interest rate of 3-month Hong Kong Inter-bank Offered Rate plus 3% per annum; and (ii) Shenyang Hua Hui Properties Co. Ltd. ("Shenyang Hua Hui", a wholly-owned subsidiary of Pacific Hill, which owns the Shenyang Project Phase I (the "Shenyang Project")) entered into a facility agreement (the "Onshore Facility Agreement", together with the Offshore Facility Agreement, the "Facility Agreements") with CMB (a wholly-owned subsidiary of ICBC (Asia)), pursuant to the terms and conditions of which CMB agreed to grant a term loan facility in a principal amount of RMB50 million (the "Onshore Loan Facility", together with the Offshore Loan Facility, the "Loan Facilities") to Shenyang Hua Hui for a term of 36 months at an interest rate of 130% of the relevant benchmark lending rate as promulgated by the People's Bank of China, for the purpose of refinancing the existing bank loans granted over the Shenyang Project. The Loan Facilities are secured by, among other things,

(i) a charge over all the issued shares of Pacific Hill; (ii) a pledge over all the equity interests in Shenyang Hua Hui; (iii) a pledge over the entire retail portion of the Shenyang Project; and (iv) guarantees of the Company with respect to the payment obligations of Pacific Hill and Shenyang Hua Hui under the Facility Agreements.

As an associate of ICBC (Asia) and CMB is a substantial shareholder of a subsidiary of the Company, both ICBC (Asia) and CMB are connected persons of the Company at the subsidiary level under the Listing Rules. As such, the entering into of the Facility Agreements and the related security arrangements constituted connected transactions of the Company. Despite that certain applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules exceeded 5%, these connected transactions, entered into with connected persons at the subsidiary level, were subject to the reporting and announcement requirements only but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the transactions have been set out in the announcement dated 22 November 2016 issued by the Company.

### **(3) Payment of fees to Innovate Zone Group Limited ("Innovate Zone") for funding to Dalian Tiandi**

Pursuant to a contribution agreement dated 31 December 2015 (the "Contribution Agreement") entered into among Main Zone Group Limited ("Main Zone", a wholly-owned subsidiary of the Company), Innovate Zone (a wholly-owned subsidiary of SOL), Many Gain International Limited ("Many Gain", a wholly-owned subsidiary of Yida China Holdings Limited) and Richcoast Group Limited ("Richcoast"), Main Zone, Innovate Zone and Many Gain (collectively, the "JV Shareholders") agreed, among other things, to provide additional funding to Richcoast and its subsidiaries (collectively, the "Dalian Group", which holds the Dalian Tiandi project (the "Dalian Project")) by way of shareholders' loans in an aggregate amount of not exceeding RMB781 million (the "Contributing Loans") in proportion to their respective effective shareholding ratios of 22%, 48% and 30% in the Dalian Group for financing the Dalian Project. In addition, under the Contribution Agreement, each of the JV Shareholders may from time to time extend additional loan(s) to the Dalian

Group under the terms and conditions as set out in separate agreement(s) with Richcoast, and any JV Shareholder which does not make any matching loan(s) to the Dalian Group in proportion to its effective shareholding ratio therein, and/or has not contributed its share of the Contributing Loans, shall pay to the JV Shareholder which has extended the additional loan(s) to the Dalian Group, and/or contributed its share of the Contributing Loans, a fee equal to 12% per annum of the outstanding amount of the additional loan(s) provided, and/or the excess corresponding Contributing Loans extended, by such JV Shareholder multiplied by the effective shareholding ratio in the Dalian Group of that non-matching or non-contributing JV Shareholder.

On 5 December 2016, Innovate Zone entered into a financial support agreement with Richcoast, pursuant to which Innovate Zone agreed to provide an unilateral loan in an amount up to RMB289 million (the "Unilateral Loan") to the Dalian Group for the purpose of repayment of its existing indebtedness with near term maturities. The Unilateral Loan is repayable on a date no later than 7 December 2019. As Main Zone does not intend to make any matching loan to the Dalian Group in proportion to its 22% effective shareholding ratio therein, a fee of up to approximately RMB22.9 million (the "Non-matching Loan Fee") will have to be paid by Main Zone to Innovate Zone with respect to the Unilateral Loan in accordance with the terms of the Contribution Agreement.

In relation to the Contributing Loans, Main Zone has not fully provided and does not expect to provide the outstanding balance of its share of the Contributing Loans to the Dalian Group on or before 31 December 2017. As such, Main Zone will have to pay to Innovate Zone, which has provided its share of the Contributing Loans to the Dalian Group, a fee of up to approximately RMB4.9 million (the "Non-contributing Loan Fee", together with the Non-matching Loan Fee, the "Relevant Payments") in accordance with the terms of the Contribution Agreement.

SOL is an associate of Mr. Lo, the Chairman and the controlling shareholder of the Company. Therefore, Innovate Zone, being a subsidiary of SOL, is a connected person of the Company under the Listing Rules. As such, the Relevant Payments to Innovate Zone contemplated by Main Zone pursuant to the



Contribution Agreement constituted connected transactions of the Company. As the total amount of the Relevant Payments exceeded HK\$3 million but all the applicable percentage ratios calculated on an aggregate basis pursuant to Rule 14.07 of the Listing Rules were less than 5%, these connected transactions were subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the transactions have been set out in the announcement dated 5 December 2016 issued by the Company.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

During the year and up to the date of this report, the following Directors are considered to have interests in the businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules:

- (1) Mr. Lo is a director and the controlling shareholder of SOCL which, through its subsidiaries, including (among others) SOL, principally engages in property development and investment projects in the People's Republic of China (the "PRC").
- (2) Mr. Lo is a director of Great Eagle Holdings Limited which, through its subsidiaries, engages in (among others) property development and investment, trading of building materials, and asset management in the PRC.
- (3) Mr. Wong Yuet Leung, Frankie is a director of SOCL which, through its subsidiaries, including (among others) SOL, principally engages in property development and investment projects in the PRC.
- (4) Mr. Tsang Kwok Tai, Moses is a director of China Xintiandi Limited which is a subsidiary of SOL. China Xintiandi Limited, through its subsidiaries, principally engages in investing, operating and managing premium commercial properties in the PRC.

As the Board of Directors of the Company is independent from the boards of directors of the aforesaid companies and the above Directors are unable to control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

## **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

Save as disclosed under the section headed "Connected Transactions" above, no transactions, arrangements or contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party, and in which a Director of the Company (or an entity connected with him/her) had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **MANAGEMENT CONTRACTS**

Save for service contracts, no contract by which a person undertakes the management and administration of the whole or any substantial part of the Company's business was entered into or subsisted during the year.

## **EQUITY-LINKED AGREEMENTS**

Other than the share option schemes adopted by the Company as mentioned under the section headed "Share Options" above, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

## **RETIREMENT BENEFIT PLANS**

Details of the Group's retirement benefit plans are shown in note 31 to the consolidated financial statements.

## **MAJOR SUPPLIERS AND MAJOR CUSTOMERS**

The five largest suppliers of the Group accounted for less than 14% of the total purchases of the Group for the year.

The five largest customers of the Group accounted for approximately 78% of the total turnover of the Group for the year with the largest customer, Hong Kong Housing Authority, accounting for approximately 34% of the turnover of the Group.

None of the Directors, their close associates or any shareholder (which, to the knowledge of the Directors, owns more than 5% of the number of issued shares of the Company) has a beneficial interest in the five largest suppliers or customers of the Group.

## DIRECTORS' REPORT

### DONATIONS

During the year, the Group made donations of approximately HK\$2 million to business associations and institutions as well as charity communities.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this report, the Company maintains a sufficient public float as required under the Listing Rules.

### DISCLOSURE UNDER RULES 13.20 AND 13.22 OF THE LISTING RULES

Financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK\$4,606 million at 31 December 2016, details of which are as follows:

| Affiliated companies              | Balance at 31 December 2016                  |   |  |                           |                       |
|-----------------------------------|--|---|--|---------------------------|-----------------------|
|                                   | Approximate effective percentage of interest | Unsecured loans   |  | Guarantee<br>HK\$ million | Total<br>HK\$ million |
|                                   |  | Interest free with no fixed repayment terms<br>HK\$ million | Interest bearing with no fixed repayment terms<br>HK\$ million<br>(Note 1) |                           |                       |
| Cosy Rich Limited                 | 50%  | 443   | –  | 302                       | 745                   |
| Gracious Spring Limited           | 81%  | –   | 1,163  | 440                       | 1,603                 |
| Lamma Yue Jie Company Limited     | 60%  | 6   | –  | –                         | 6                     |
| Nanjing Jiangnan Cement Co., Ltd. | 60%  | 71  | –  | –                         | 71                    |
| Richcoast Group Limited           | 28%  | 485   | 809  | 580                       | 1,874                 |
| Win Lead Holdings Limited         | 50%  | 224   | –  | 83                        | 307                   |
|                                   |  | 1,229   | 1,972  | 1,405                     | 4,606                 |

The proforma combined statement of financial position of the above affiliated companies at 31 December 2016 is as follows:

|                           | HK\$ million |
|---------------------------|--------------|
| Non-current assets        | 9,942        |
| Current assets            | 8,830        |
| Current liabilities       | (9,921)      |
| Net current liabilities   | (1,091)      |
| Non-current liabilities   | (10,236)     |
| Non-controlling interests | (539)        |
| Shareholders' deficits    | (1,924)      |

Details of the above affiliated companies are set out in notes 42 and 43 to the consolidated financial statements.

Notes:

- Loans made by the Group to the following affiliated companies are charged at various interest rates.

| Affiliated companies    | Interest rate per annum   |
|-------------------------|---|
| Gracious Spring Limited | Fixed at 13%  |
| Richcoast Group Limited | 5% on a total amount of HK\$242 million, and 110% of the prevailing 1-year base lending rate published by the People's Bank of China on the remaining balance |

- All affiliated companies are accounted for as joint ventures or associates of the Group.

## AUDITOR

Deloitte Touche Tohmatsu will retire and, being eligible, offer itself for re-appointment at the 2017 AGM. A resolution will be proposed at the 2017 AGM to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Lo Hong Sui, Vincent**

*Chairman*

Hong Kong, 24 March 2017

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**

德勤

**TO THE MEMBERS OF  
SOCAM DEVELOPMENT LIMITED**

(incorporated in Bermuda with limited liability)

## OPINION

We have audited the consolidated financial statements of SOCAM Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 91 to 174, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

| Key Audit Matter  | How our audit addressed the key audit matter  |
|---|---|
| <b>Valuation of investment properties other than those classified as assets held for disposal</b>   |   |
| We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the judgements associated with determining their fair value. | Our procedures in relation to the valuation of investment properties included: <ul style="list-style-type: none"><li>• Obtaining an understanding of the management's process for reviewing and evaluating the work of the Valuers;</li><li>• Evaluating the competence, capabilities and objectivity of the Valuers and obtaining an understanding of their scope of work and their terms of engagement;</li></ul> |



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**Key Audit Matter****How our audit addressed the key audit matter**

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As disclosed in note 15 to the consolidated financial statements, the investment properties other than those classified as assets held for disposal are situated in Shenyang and Chongqing in the People's Republic of China and carried at a total value of HK\$1,752 million as at 31 December 2016, which represented 19% of the Group's total assets. The amount of fair value changes of HK\$37 million relating to these investment properties was recognised in the consolidated statement of profit or loss for the year then ended.

All of the Group's investment properties other than those classified as assets held for disposal are stated at fair value based on the valuations carried out by independent qualified professional valuers (the "Valuers"). Details of the valuation technique and key inputs used in the valuations are disclosed in note 15 to the consolidated financial statements. The valuations of investment properties are dependent on certain key inputs, including capitalisation rate and market rent.

- Evaluating the reasonableness of valuation techniques and key inputs, including capitalisation rate and market rent, adopted by the management of the Group and the Valuers by comparing these estimates to comparables of similar properties in Shenyang and Chongqing.

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**Valuation of receivables due from a former subsidiary group and the related financial guarantee**

We identified the valuation of receivables of HK\$423 million due from a former subsidiary group (the "Debtor") and accounting for the related financial guarantee as a key audit matter due to the significant judgements involved in estimating the future cash flows expected to be derived from the receivables and the likelihood of the outflow of resources resulting from the financial guarantee.

As disclosed in notes 24(b) and 37(d) to the consolidated financial statements, the Group disposed of a former subsidiary group in prior years. With respect to the disposal, the Group has outstanding receivables of HK\$423 million from the Debtor and remained as a guarantor for a loan granted to the Debtor of HK\$606 million plus related interest. Courts in the People's Republic of China have issued notices to attach the property interests held by the Debtor to cause the Debtor to settle part of the onshore outstanding receivables.

Our procedures in relation to valuation of the receivables due from a former subsidiary group and the related financial guarantee included:

- Obtaining an understanding of the management's process of reviewing the recoverable amount of the receivables and the accounting impact of the related financial guarantee and reading internal reports prepared by the designated team;
- Enquiring with management and lawyers to understand the progress of the Auction and the Sale of Equity Interest and how the management performed the assessment on the recoverability of the receivables;
- Inspecting the relevant agreements which the Group entered into, court judgements and notices issued up to the date of our report, and the legal opinion issued by an external lawyer to assess the appropriateness of the management's basis in evaluating the latest progress of the legal cases; and

# INDEPENDENT AUDITOR'S REPORT

| Key Audit Matter  | How our audit addressed the key audit matter  |
|---|---|
| <p>The management expects that the receivables of HK\$423 million will be fully settled either through public auction of the property interest (the "Auction") or the sale of the equity interest of the entity holding the property interest (the "Sale of Equity Interest"). In addition, the financial guarantee in respect of the outstanding principal amount of the loan amounting to HK\$606 million and the related interest amounting to HK\$388 million will be fully released upon completion of the Auction or the Sale of Equity Interest.</p> | <ul style="list-style-type: none"><li>Assessing the appropriateness of the valuation of the underlying property interest held by the Debtor performed by an independent professional valuer with reference to comparable properties and market transactions as available in the market to evaluate the reasonableness of these judgments.</li></ul> |

## Construction contracts revenue, costs and the amounts due from/to customers for contract work

We identified construction contracts revenue, costs and amounts due from/to customers for contract work as a key audit matter as they are quantitatively significant to the consolidated financial statements as a whole and there are significant judgments exercised by the management of the Group in determining the total outcome of the construction project as well as the percentage of completion of construction works and the amount of contracts revenue recognised.

As disclosed in notes 6, 12 and 22 to the consolidated financial statements, the construction contracts revenue, costs and amounts due from/to customers for contract work amounted to HK\$4,711 million, HK\$4,488 million, HK\$374 million and HK\$223 million respectively for the year ended 31 December 2016. As set out in note 5 to the consolidated financial statements, the Group recognised contracts revenue and profit or loss on a construction contract according to the management's estimation of the total outcome of the construction project as well as the percentage of completion of construction works. Notwithstanding that the management reviews and revises the estimates of both construction contracts revenue and costs of the construction contracts as the contract work progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimations and this will affect the revenue and profit or loss recognised.

Our procedures in relation to the construction contracts revenue and costs and the amounts due from/to customers for contract work included:

- Testing the Group's internal controls over the recognition of contracts revenue and over the authorisation and recording of costs;
- Discussing with project managers, internal quantity surveying managers and the management of the Group and checking the supporting documents such as contracts and variation orders to evaluate the reasonableness of their bases of estimation of the budget revenue and costs, and the percentage of completion recognised and construction costs of the project incurred on a sample basis;
- Checking the basis of the budgeted revenue to underlying construction contracts entered into with the employers and other relevant correspondences and supporting documents in respect of variations in construction works or price adjustments;
- Evaluating the reasonableness of budgeted costs, including (i) for subcontracting costs contracted for, agreeing the budgeted costs to the underlying contracts; (ii) for estimation of costs not supported by contracts, checking that the costs are built in accordance with the construction contract; and (iii) comparing the budgeted data with the actual data recorded, taking into account the stage of completion reached;
- Recalculating the percentage of completion based on value of work performed to date relative to the estimated total contract revenue; and

- Assessing the appropriateness of the basis of deriving the amounts due from/to customers for contract work by checking, on a sample basis, to the amount of costs recorded in the subcontractor payment certificates and supplier invoices, and progress billings to the architect's certificates issued by the third party surveyors.
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## **OTHER INFORMATION**

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

## **RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Ka Lai Man.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

24 March 2017



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

|  | Notes | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|-------|----------------------|----------------------|
| <b>Continuing operations</b>   |       |                      |                      |
| Turnover   |       |                      |                      |
| The Company and its subsidiaries   |       | 5,345                | 5,916                |
| Share of joint ventures/associates   |       | 1,572                | 363                  |
|  |       | <b>6,917</b>         | <b>6,279</b>         |
| Group turnover   | 6     | 5,345                | 5,916                |
| Other income and gains   | 7     | 103                  | 116                  |
| Changes in inventories of finished goods, work in progress,<br>contract work in progress and cost of properties sold |       | (466)                | (141)                |
| Raw materials and consumables used   |       | (432)                | (472)                |
| Staff costs  |       | (679)                | (697)                |
| Depreciation   |       | (11)                 | (14)                 |
| Subcontracting, external labour costs and other expenses   |       | (4,000)              | (4,819)              |
| Fair value changes on investment properties  | 15    | (43)                 | (45)                 |
| Dividend income from available-for-sale investments  |       | 1                    | 2                    |
| Finance costs  | 8     | (195)                | (286)                |
| Impairment loss recognised on properties under development for sale  | 23(b) | –                    | (238)                |
| Share of results of joint ventures   | 6     | (834)                | (345)                |
| Share of results of associates   | 6     | (151)                | (162)                |
| Loss before taxation   |       | (1,362)              | (1,185)              |
| Taxation   | 9     | 6                    | (68)                 |
| Loss for the year from continuing operations   |       | (1,356)              | (1,253)              |
| <b>Discontinued operations</b>   |       |                      |                      |
| Profit for the year from discontinued operations   | 10    | –                    | 144                  |
| <b>Loss for the year</b>   |       | <b>(1,356)</b>       | <b>(1,109)</b>       |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

|   | Notes | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|-------|----------------------|----------------------|
| Attributable to:  |       |                      |                      |
| Owners of the Company                                   |       |                      |                      |
| Loss for the year from continuing operations            |       | <b>(1,382)</b>       | (1,270)              |
| Profit for the year from discontinued operations        |       | –                    | 144                  |
| <hr/>   |       |                      |                      |
| Loss for the year attributable to owners of the Company |       | <b>(1,382)</b>       | (1,126)              |
| Non-controlling interests                               |       |                      |                      |
| Profit for the year from continuing operations          |       | <b>26</b>            | 17                   |
| <hr/>   |       |                      |                      |
|   |       | <b>(1,356)</b>       | (1,109)              |
| <hr/>   |       |                      |                      |
| Loss per share  | 14    |                      |                      |
| From continuing and discontinued operations             |       |                      |                      |
| Basic   |       | <b>HK\$(2.86)</b>    | HK\$(2.33)           |
| Diluted   |       | <b>HK\$(2.86)</b>    | HK\$(2.33)           |
| From continuing operations                              |       |                      |                      |
| Basic   |       | <b>HK\$(2.86)</b>    | HK\$(2.63)           |
| Diluted   |       | <b>HK\$(2.86)</b>    | HK\$(2.63)           |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| <b>Loss for the Year</b>  | <b>(1,356)</b>       | (1,109)              |
| <b>Other comprehensive income (expense)</b>   |                      |                      |
| <b>Items that may be subsequently reclassified to profit or loss:</b>                     |                      |                      |
| Fair value changes of available-for-sale investments                                      | (14)                 | 9                    |
| Exchange differences arising on translation of financial statements of foreign operations | (407)                | (398)                |
| Share of exchange differences of joint ventures   | 91                   | 37                   |
| Share of exchange differences of associates   | (3)                  | (13)                 |
| Share of other comprehensive expense of a joint venture                                   | (13)                 | –                    |
| Reclassification adjustments for amounts transferred to profit or loss:                   |                      |                      |
| – upon disposal of interest in a joint venture  | –                    | (767)                |
| – upon deregistration of a joint venture  | –                    | (13)                 |
| – upon disposal of property inventories, net of deferred tax of nil (2015: nil)           | (3)                  | (1)                  |
| – upon recognition of impairment loss on available-for-sale investments                   | 5                    | –                    |
| <b>Item that will not be reclassified to profit or loss:</b>                              |                      |                      |
| Recognition of actuarial gain (loss)  | 18                   | (19)                 |
| Other comprehensive expense for the year  | (326)                | (1,165)              |
| <b>Total comprehensive expenses for the year</b>  | <b>(1,682)</b>       | (2,274)              |
| Total comprehensive (expenses) income attributable to:                                    |                      |                      |
| Owners of the Company   | (1,708)              | (2,291)              |
| Non-controlling interests   | 26                   | 17                   |
|   | <b>(1,682)</b>       | (2,274)              |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

|  | Notes | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|-------|----------------------|----------------------|
| <b>Non-current Assets</b>                    |       |                      |                      |
| Investment properties                        | 15    | 1,752                | 1,909                |
| Property, plant and equipment                | 16    | 23                   | 29                   |
| Interests in joint ventures                  | 17    | 118                  | 122                  |
| Available-for-sale investments               | 18    | 50                   | 64                   |
| Interests in associates                      | 19    | –                    | 146                  |
| Club memberships                             |       | 1                    | 1                    |
| Trade debtors                                | 24    | –                    | 12                   |
| Amounts due from joint ventures              | 20    | 1,399                | 1,986                |
| Amounts due from associates                  | 21    | 1,294                | 1,296                |
|  |       | <b>4,637</b>         | <b>5,565</b>         |
| <b>Current Assets</b>                        |       |                      |                      |
| Properties held for sale                     | 23    | 213                  | 354                  |
| Properties under development for sale        | 23    | 65                   | 554                  |
| Debtors, deposits and prepayments            | 24    | 1,877                | 1,658                |
| Amounts due from customers for contract work | 22    | 374                  | 342                  |
| Amounts due from joint ventures              | 20    | 689                  | 617                  |
| Amounts due from associates                  | 21    | 272                  | 292                  |
| Amounts due from related companies           | 25    | 1                    | 2                    |
| Taxation recoverable                         |       | 4                    | 27                   |
| Restricted bank deposits                     | 26    | 482                  | 732                  |
| Bank balances, deposits and cash             | 24    | 587                  | 1,440                |
|  |       | <b>4,564</b>         | <b>6,018</b>         |
| Assets classified as held for disposal       | 27    | 9                    | 756                  |
|  |       | <b>4,573</b>         | <b>6,774</b>         |



|   | Notes | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|-------|----------------------|----------------------|
| <b>Current Liabilities</b>                                  |       |                      |                      |
| Creditors and accrued charges                               | 28    | 1,992                | 1,772                |
| Sales deposits received                                     |       | 13                   | 255                  |
| Amounts due to customers for contract work                  | 22    | 223                  | 350                  |
| Amounts due to joint ventures                               | 20    | 106                  | 108                  |
| Amounts due to associates                                   | 21    | 1                    | 2                    |
| Amounts due to related companies                            | 25    | 374                  | 337                  |
| Amounts due to non-controlling shareholders of subsidiaries | 25    | 14                   | 6                    |
| Taxation payable  |       | 35                   | 217                  |
| Bank and other borrowings due within one year               | 29    | 1,685                | 2,914                |
|   |       | <b>4,443</b>         | 5,961                |
| <b>Net Current Assets</b>                                   |       |                      |                      |
|   |       | <b>130</b>           | 813                  |
| <b>Total Assets Less Current Liabilities</b>                |       |                      |                      |
|   |       | <b>4,767</b>         | 6,378                |
| <b>Capital and Reserves</b>                                 |       |                      |                      |
| Share capital   | 30    | 484                  | 484                  |
| Reserves  |       | 3,351                | 5,058                |
| Equity attributable to owners of the Company                |       | <b>3,835</b>         | 5,542                |
| Non-controlling interests                                   |       | <b>37</b>            | 38                   |
|   |       | <b>3,872</b>         | 5,580                |
| <b>Non-current Liabilities</b>                              |       |                      |                      |
| Bank and other borrowings                                   | 29    | 669                  | 421                  |
| Defined benefit liabilities                                 | 31    | 112                  | 152                  |
| Deferred tax liabilities                                    | 32    | 114                  | 225                  |
|   |       | <b>895</b>           | 798                  |
|   |       | <b>4,767</b>         | 6,378                |

The consolidated financial statements on pages 91 to 174 were approved and authorised for issue by the Board of Directors on 24 March 2017 and are signed on its behalf by:

**Lo Hong Sui, Vincent**  
Chairman

**Wong Yuet Leung, Frankie**  
Executive Director, Chief Executive Officer and Chief Financial Officer

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

|   | Attributable to owners of the company |                       |                     |                              |              |                                       |                      |                         |                                |                        |              |                           | total equity |
|---|---------------------------------------|-----------------------|---------------------|------------------------------|--------------|---------------------------------------|----------------------|-------------------------|--------------------------------|------------------------|--------------|---------------------------|--------------|
|   | Share capital                         | Share premium account | Translation reserve | Contributed surplus (Note a) | Goodwill     | Retained profits/(accumulated losses) | Share option reserve | Actuarial gain and loss | Investment revaluation reserve | Other reserve (Note b) | Total        | Non-controlling interests |              |
|   | HK\$ million                          | HK\$ million          | HK\$ million        | HK\$ million                 | HK\$ million | HK\$ million                          | HK\$ million         | HK\$ million            | HK\$ million                   | HK\$ million           | HK\$ million | HK\$ million              |              |
| At 1 January 2016   | 484                                   | 3,172                 | 450                 | 197                          | (3)          | 967                                   | 47                   | (84)                    | 9                              | 303                    | 5,542        | 38                        | 5,580        |
| Fair value changes of available-for-sale investments                                      | -                                     | -                     | -                   | -                            | -            | -                                     | -                    | -                       | (14)                           | -                      | (14)         | -                         | (14)         |
| Exchange differences arising on translation of financial statements of foreign operations | -                                     | -                     | (407)               | -                            | -            | -                                     | -                    | -                       | -                              | -                      | (407)        | -                         | (407)        |
| Share of exchange differences of joint ventures   | -                                     | -                     | 91                  | -                            | -            | -                                     | -                    | -                       | -                              | -                      | 91           | -                         | 91           |
| Share of exchange differences of associates   | -                                     | -                     | (3)                 | -                            | -            | -                                     | -                    | -                       | -                              | -                      | (3)          | -                         | (3)          |
| Share of other comprehensive expense of a joint venture                                   | -                                     | -                     | -                   | -                            | -            | -                                     | -                    | -                       | -                              | (13)                   | (13)         | -                         | (13)         |
| Recognition of actuarial gain   | -                                     | -                     | -                   | -                            | -            | -                                     | -                    | 18                      | -                              | -                      | 18           | -                         | 18           |
| Impairment loss recognised in respect of available-for-sale investments                   | -                                     | -                     | -                   | -                            | -            | -                                     | -                    | -                       | 5                              | -                      | 5            | -                         | 5            |
| Disposal of property inventories  | -                                     | -                     | -                   | -                            | -            | -                                     | -                    | -                       | -                              | (3)                    | (3)          | -                         | (3)          |
| Loss for the year   | -                                     | -                     | -                   | -                            | -            | (1,382)                               | -                    | -                       | -                              | -                      | (1,382)      | 26                        | (1,356)      |
| Total comprehensive (expense) income for the year   | -                                     | -                     | (319)               | -                            | -            | (1,382)                               | -                    | 18                      | (9)                            | (16)                   | (1,708)      | 26                        | (1,682)      |
| Recognition of share-based payments   | -                                     | -                     | -                   | -                            | -            | -                                     | 1                    | -                       | -                              | -                      | 1            | -                         | 1            |
| Transfer upon lapse of share options  | -                                     | -                     | -                   | -                            | -            | 24                                    | (24)                 | -                       | -                              | -                      | -            | -                         | -            |
| Dividends payable to non-controlling interests  | -                                     | -                     | -                   | -                            | -            | -                                     | -                    | -                       | -                              | -                      | -            | (27)                      | (27)         |
| At 31 December 2016   | 484                                   | 3,172                 | 131                 | 197                          | (3)          | (391)                                 | 24                   | (66)                    | -                              | 287                    | 3,835        | 37                        | 3,872        |

|   | Attributable To Owners Of The Company |                       |                     |                              |              |                  |                      |                         |                                |                        |              |                           |              |
|---|---------------------------------------|-----------------------|---------------------|------------------------------|--------------|------------------|----------------------|-------------------------|--------------------------------|------------------------|--------------|---------------------------|--------------|
|   | Share capital                         | Share premium account | Translation reserve | Contributed surplus (note a) | Goodwill     | Retained profits | Share option reserve | Actuarial gain and loss | Investment revaluation reserve | Other reserve (note b) | Total        | Non-controlling interests | Total Equity |
|   | HK\$ million                          | HK\$ million          | HK\$ million        | HK\$ million                 | HK\$ million | HK\$ million     | HK\$ million         | HK\$ million            | HK\$ million                   | HK\$ million           | HK\$ million | HK\$ million              | HK\$ million |
| At 1 January 2015   | 484                                   | 3,172                 | 1,497               | 197                          | (3)          | 2,063            | 74                   | (65)                    | –                              | 414                    | 7,833        | 37                        | 7,870        |
| Fair value changes of available-for-sale investments                                      | –                                     | –                     | –                   | –                            | –            | –                | –                    | –                       | 9                              | –                      | 9            | –                         | 9            |
| Exchange differences arising on translation of financial statements of foreign operations | –                                     | –                     | (398)               | –                            | –            | –                | –                    | –                       | –                              | –                      | (398)        | –                         | (398)        |
| Share of exchange differences of joint ventures   | –                                     | –                     | 37                  | –                            | –            | –                | –                    | –                       | –                              | –                      | 37           | –                         | 37           |
| Share of exchange differences of associates   | –                                     | –                     | (13)                | –                            | –            | –                | –                    | –                       | –                              | –                      | (13)         | –                         | (13)         |
| Recognition of actuarial loss   | –                                     | –                     | –                   | –                            | –            | –                | –                    | (19)                    | –                              | –                      | (19)         | –                         | (19)         |
| Disposal of interest in a joint venture   | –                                     | –                     | (660)               | –                            | –            | –                | –                    | –                       | –                              | (107)                  | (767)        | –                         | (767)        |
| Deregistration of a joint venture   | –                                     | –                     | (13)                | –                            | –            | –                | –                    | –                       | –                              | –                      | (13)         | –                         | (13)         |
| Disposal of property inventories  | –                                     | –                     | –                   | –                            | –            | –                | –                    | –                       | –                              | (1)                    | (1)          | –                         | (1)          |
| Loss for the year   | –                                     | –                     | –                   | –                            | –            | (1,126)          | –                    | –                       | –                              | –                      | (1,126)      | 17                        | (1,109)      |
| Total comprehensive (expense) income for the year   | –                                     | –                     | (1,047)             | –                            | –            | (1,126)          | –                    | (19)                    | 9                              | (108)                  | (2,291)      | 17                        | (2,274)      |
| Disposal of interest in a subsidiary  | –                                     | –                     | –                   | –                            | –            | –                | –                    | –                       | –                              | (3)                    | (3)          | 8                         | 5            |
| Deregistration of a subsidiary  | –                                     | –                     | –                   | –                            | –            | –                | –                    | –                       | –                              | –                      | –            | 1                         | 1            |
| Recognition of share-based payments   | –                                     | –                     | –                   | –                            | –            | –                | 3                    | –                       | –                              | –                      | 3            | –                         | 3            |
| Transfer upon lapse of share options  | –                                     | –                     | –                   | –                            | –            | 30               | (30)                 | –                       | –                              | –                      | –            | –                         | –            |
| Dividends payable to non-controlling interests  | –                                     | –                     | –                   | –                            | –            | –                | –                    | –                       | –                              | –                      | –            | (25)                      | (25)         |
| At 31 December 2015   | 484                                   | 3,172                 | 450                 | 197                          | (3)          | 967              | 47                   | (84)                    | 9                              | 303                    | 5,542        | 38                        | 5,580        |

Notes:

- (a) The contributed surplus of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1997.
- (b) Other reserve of the Group mainly include (i) an amount of HK\$231 million (2015: HK\$231 million) recognised in prior years, which arose when the Group entered into agreements with Shui On Company Limited ("SOCL"), the Company's substantial shareholder, to co-invest in Shui On Land Limited during the year ended 31 March 2005; (ii) an amount of HK\$16 million (2015: HK\$19 million), which represents the Group's share of revaluation reserve of a then associate, China Central Properties Limited ("CCP"), arising from an acquisition achieved in stages by CCP during the year ended 31 December 2009, net of the amount released as a result of subsequent disposal of property inventories; and (iii) an amount of HK\$22 million (2015: HK\$22 million), which represents the revaluation surplus of the Group's 42.88% previously held interest in CCP, recognised upon the acquisition of the remaining 57.12% interest in CCP during the year ended 31 December 2009, net of the amount released as a result of subsequent disposal of property inventories.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| <b>OPERATING ACTIVITIES</b>  |                      |                      |
| Loss for the year  | (1,356)              | (1,109)              |
| Adjustments for:   |                      |                      |
| Taxation   | (6)                  | 68                   |
| Impairment loss on available-for-sale investments                                | 5                    | –                    |
| Gain on disposal of interests in joint ventures                                  | –                    | (416)                |
| Gain on deregistration of a joint venture  | –                    | (11)                 |
| Reversal of impairment loss recognised in respect of interest in a joint venture | (29)                 | –                    |
| Impairment loss recognised on properties under development for sale              | –                    | 238                  |
| Share of results of joint ventures   | 834                  | 621                  |
| Share of results of associates   | 151                  | 162                  |
| Interest income  | (60)                 | (80)                 |
| Finance costs  | 195                  | 286                  |
| Loss on disposal of property inventories through disposal of a subsidiary        | 34                   | –                    |
| Dividend income from available-for-sale investments                              | (1)                  | (2)                  |
| Fair value changes on investment properties                                      | 43                   | 45                   |
| Depreciation of property, plant and equipment                                    | 11                   | 14                   |
| Unrealised effect on income from associates/joint ventures                       | (2)                  | (2)                  |
| Share-based payment expense  | 1                    | 3                    |
| Expense recognised in respect to defined benefit scheme                          | 18                   | 20                   |
| Operating cash flows before movements in working capital                         | (162)                | (163)                |
| Decrease in properties held for sale   | 118                  | 127                  |
| Increase in properties under development for sale                                | –                    | (4)                  |
| Increase in debtors, deposits and prepayments                                    | (221)                | (18)                 |
| Increase in amounts due from customers for contract work                         | (31)                 | (46)                 |
| Decrease (increase) in amounts due from related companies                        | 2                    | (3)                  |
| Increase in amounts due from associates  | –                    | (27)                 |
| Decrease in amounts due from joint ventures                                      | 82                   | 19                   |
| Increase (decrease) in creditors and accrued charges                             | 242                  | (77)                 |
| Decrease in sales deposits received in respect of properties for sale            | (11)                 | (55)                 |
| (Decrease) increase in amounts due to customers for contract work                | (127)                | 56                   |
| Increase (decrease) in amounts due to joint ventures                             | 2                    | (20)                 |
| Increase in amounts due to related companies                                     | 34                   | 55                   |
| Decrease in amounts due to associates  | (1)                  | –                    |
| Contribution to defined benefit scheme   | (40)                 | (27)                 |
| Cash used in operations  | (113)                | (183)                |
| Hong Kong Profits Tax paid   | (21)                 | (18)                 |
| Hong Kong Profits Tax refunded   | 2                    | 2                    |
| Income tax of other regions in the People's Republic of China ("PRC") paid       | (221)                | (127)                |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                                     | <b>(353)</b>         | <b>(326)</b>         |



|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| <b>INVESTING ACTIVITIES</b>   |                      |                      |
| Investment in a joint venture   | –                    | (13)                 |
| Advance to joint ventures   | <b>(657)</b>         | (108)                |
| Advance to associates   | <b>(324)</b>         | (195)                |
| Repayment from joint ventures   | <b>213</b>           | 746                  |
| Repayment from associates   | <b>291</b>           | –                    |
| Return of investment from a joint venture   | –                    | 56                   |
| Return of investment from an associate  | <b>4</b>             | –                    |
| Additions in property, plant and equipment  | <b>(7)</b>           | (7)                  |
| Payment for construction of investment properties   | –                    | (5)                  |
| Interest received   | <b>34</b>            | 24                   |
| Proceeds from sales of property, plant and equipment  | <b>1</b>             | 3                    |
| Dividends received from available-for-sale investments  | <b>1</b>             | 2                    |
| Net proceeds from disposal of an associate classified as held for disposal (note a)                     | <b>331</b>           | –                    |
| Net proceeds from disposal of subsidiaries  | –                    | 15                   |
| Net proceeds from disposal of joint ventures  | –                    | 2,499                |
| Net proceeds from disposal of a property inventory through disposal of a subsidiary (note b)            | <b>441</b>           | –                    |
| Sales deposits received in respect of disposal of investment properties classified as held for disposal | <b>139</b>           | 710                  |
| Restricted bank deposits placed   | <b>(372)</b>         | (239)                |
| Restricted bank deposits refunded   | <b>586</b>           | 1                    |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>   | <b>681</b>           | 3,489                |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| <b>FINANCING ACTIVITIES</b>                                    |                      |                      |
| New bank and other borrowings raised                           | 1,656                | 1,570                |
| Loan from related companies                                    | –                    | 400                  |
| Repayment to related companies                                 | –                    | (400)                |
| Repayment of bank and other borrowings                         | (2,590)              | (4,858)              |
| Interest paid  | (171)                | (240)                |
| Other borrowing costs paid                                     | (15)                 | (46)                 |
| Proceeds from partial disposal of interest in a subsidiary     | –                    | 5                    |
| Dividends paid to non-controlling shareholders of subsidiaries | (19)                 | (21)                 |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                   | <b>(1,139)</b>       | <b>(3,590)</b>       |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>               | <b>(811)</b>         | <b>(427)</b>         |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>  | <b>1,440</b>         | <b>1,919</b>         |
| <b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>                 | <b>(42)</b>          | <b>(52)</b>          |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>        | <b>587</b>           | <b>1,440</b>         |
| <b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>   |                      |                      |
| Bank balances, deposits and cash                               | 587                  | 1,440                |

Notes:

- (a) During the year, the Group disposed of 20% interest in an associate, which indirectly owns a property development project in Shenyang and was classified as held for disposal. Accordingly, the net cash inflow of approximately HK\$331 million arising therefrom was included in cash flows from investing activities as such disposal was effected through disposal of an associate, rather than operating activities.
- (b) During the year, the Group disposed of a property asset classified as properties under development for sale under current assets, through disposal of equity interest in a subsidiary holding this property. According to HKAS 7 "Cash Flow Statement", as such disposal was effected through disposal of a subsidiary, the net cash inflow of approximately HK\$441 million (2015: Nil) arising therefrom was included in cash flows from investing activities, rather than operating activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information in the annual report.

The principal activity of the Company is investment holding. Its subsidiaries, joint ventures and associates are principally engaged in property development and investment, asset management, construction and contracting, renovation and fitting out, and investment holding.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are mandatorily effective for the Group's financial period beginning on 1 January 2016.

|   |  |
|---|--|
| HKFRSs (Amendments)                         | Annual Improvements to HKFRSs 2012-2014 Cycle                        |
| HKFRS 10, HKFRS 12 and HKAS 28 (Amendments) | Investment Entities: Applying the Consolidation Exception            |
| HKFRS 11 (Amendments)                       | Accounting for Acquisitions of Interests in Joint Operations         |
| HKAS 1 (Amendments)                         | Disclosure Initiative  |
| HKAS 16 and HKAS 38 (Amendments)            | Clarification of Acceptable Methods of Depreciation and Amortisation |
| HKAS 16 and HKAS 41 (Amendments)            | Agriculture: Bearer Plants   |

The application of these amendments to HKFRSs has had no material effect on the amounts reported and disclosures set out in the consolidated financial statements of the Group for the current or prior accounting periods.

## 3. POTENTIAL IMPACT ARISING ON THE NEW AND AMENDMENTS TO ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective.

|                                   |  |
|-----------------------------------|--|
| HKFRS 9                           | Financial Instruments <sup>2</sup>   |
| HKFRS 15                          | Revenue from Contracts with Customers and the related Amendments <sup>2</sup>                      |
| HKFRS 16                          | Leases <sup>3</sup>  |
| HKFRS 2 (Amendments)              | Classification and Measurement of Share-based Payment Transactions <sup>2</sup>                    |
| HKFRS 4 (Amendments)              | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>2</sup>               |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup> |
| HKAS 7 (Amendments)               | Disclosure Initiative <sup>1</sup>   |
| HKAS 12 (Amendments)              | Recognition of Deferred Tax Assets for Unrealized Losses <sup>1</sup>                              |

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

4 Effective for annual periods beginning on or after a date to be determined

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 3. POTENTIAL IMPACT ARISING ON THE NEW AND AMENDMENTS TO ACCOUNTING STANDARDS NOT YET EFFECTIVE (CONTINUED)

HKFRS 9 introduces new requirements for classification and measurement of financial assets, financial liabilities, general hedging accounting and impairment requirements for financial assets.

With regard to classification and measurement, HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to change in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

HKFRS 15 was issued in 2014 which establishes a single model to deal with revenue arising from contracts with customers. When HKFRS 15 becomes effective, HKFRS 15 will supersede HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract(s)
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract(s)
- Step 5: Recognise revenue when the entity satisfies a performance obligation

With regard to step 5, an entity should recognise revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Specifically, HKFRS 15 requires entities to recognise revenue over time when certain conditions are met. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.



### **3. POTENTIAL IMPACT ARISING ON THE NEW AND AMENDMENTS TO ACCOUNTING STANDARDS NOT YET EFFECTIVE (CONTINUED)**

In 2016, the HKICPA issued Clarification to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors of the Company will assess the impact on the application of HKFRS 9 and HKFRS 15. For the moment, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 and HKFRS 15 until the Group performs a detailed review.

The Directors of the Company are also in the process of assessing the potential impact of the other new and amendments to HKFRSs, and at this stage have not yet determined the effect of the application of these standards on the results and financial position of the Group.

### **4. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance (Cap 622).

#### **Basis of preparation**

The consolidated financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values at the end of each reporting periods, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the elements of control listed above.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All inter-company transactions and balances within the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

### Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another HKFRSs.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments in associates and joint ventures

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for disposal (in which case it is accounted for under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"). The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates and joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of profit or loss and other comprehensive income of the associates and the joint ventures, less any identified impairment loss. When the Group's share of losses equals or exceeds its interest in the associate or the joint venture (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits or losses are eliminated to the extent of the Group's interest in the associate or the joint venture.

### Investments in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the operators sharing control.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Investments in joint operations (Continued)

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation of the Group (such as a sale of assets), profits or losses are recognised only to the extent of other party's interest in the joint operation.

When a group entity transacts with a joint operation of the Group (such as a purchase of assets), the Group does not recognise its share of the profits or losses until it resells those assets to a third party.

#### Non-current assets held for disposal

Non-current assets or disposal groups are classified as held for disposal if their carrying amount will be recovered principally through a disposal transaction rather than through continuing use. This condition is regarded as met only when the disposal is highly probable and the asset (or disposal group) is available for immediate disposal in its present condition. For the disposal to be highly probable, management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (or disposal groups) classified as held for disposal are measured at the lower of the assets' (or disposal groups') previous carrying amount and fair value less costs to sell.

When an investment in an associate or a joint venture, or portion thereof, meets the above criteria to be classified as held for disposal, the portion of the investment to be disposed of is classified as assets (disposal groups) held for disposal. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for disposal continued to be accounted for using the equity method until disposal of the portion that is classified as held for disposal takes place. After the disposal takes place, the Group will account for any retained interest in the associate or joint venture in accordance with HKAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for disposal no longer meets the above criteria to be classified as held for disposal, the investment that has been classified as held for disposal is accounted for using the equity method retrospectively, as from the date of its classification as held for disposal. Financial statements for the comparative period since classification as held for disposal are amended accordingly.



## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

### Sales of properties

Revenue from the sale of properties in the ordinary course of business is recognised when properties are delivered, and when all the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Payments received from purchasers prior to this stage are recorded as sales deposits received under current liabilities.

### Others

Revenue from a contract to provide construction services is recognised by reference to the stage of completion of the contract. The Group's policy for recognition of revenue from construction contracts is described in the accounting policy for construction and building maintenance contracts below.

Rental income from operating lease is recognised on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognised when the Group's right to receive the relevant payment has been established.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognised when services are provided.

### Construction and building maintenance contracts

Where the outcome of a construction and building maintenance contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction and building maintenance contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that probably will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under debtors, deposits and prepayments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model and stated at fair value at the end of the reporting period. Gains or losses arising from changes in the fair value of investment properties are included as profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the year in which the item is derecognised.

#### Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, if any, using the straight-line method. Both the useful life of an asset and its residual value and depreciation method, if any, are reviewed annually.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of profit or loss in the year in which the item is derecognised.

#### Club memberships

On initial recognition, club memberships are stated at cost less impairment. After initial recognition, club memberships with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Club memberships are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

#### Properties held for sale

Properties held for sale are completed properties and are stated at the lower of cost and net realisable value. Costs relating to the development of properties, comprising prepaid lease payments for lands, development costs and capitalised borrowing costs, are included in properties held for development for sale until such time when they are completed. Net realisable value represents the estimated selling price less all anticipated costs to be incurred in marketing and selling.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Properties under development for sale

Properties under development, which are intended to be held for sale, are measured at the lower of cost and net realisable value. Cost includes costs of land, development expenditure incurred, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to such properties. These assets are recorded as current assets as they are expected to be realised in, or are intended for sale within the Group's normal operating cycle. Net realisable value represents the estimated selling price less all anticipated costs of completion and costs to be incurred in marketing and selling. Upon completion, the assets are recorded as properties held for sale.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

### Impairment of assets (other than goodwill, club memberships with indefinite useful life and financial assets)

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 "Income Taxes". Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The group as lessor

Rental income from operating leases is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the relevant lease.

#### The group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised as profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included as profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in translation reserve. Such exchange differences are recognised as profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 April 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on acquisitions of foreign operations prior to 1 April 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

### Retirement benefits costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, which are defined contribution schemes, are recognised as an expense when employees have rendered service entitling them to the contributions.

For the defined benefit retirement scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. All actuarial gains and losses of defined benefit scheme are recognised immediately in other comprehensive income in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The amount recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

### Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

##### Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All purchases or sales of financial assets in the regular way are recognised and derecognised on a trade date basis. Purchases or sales in the regular way are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including debtors, amounts due from joint ventures, associates and related companies, restricted bank deposits and bank balances, deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see the accounting policy on impairment loss on financial assets below).

##### Available-for-sale investments

Available-for-sale investments are non-derivatives that are neither designated nor classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At the end of the reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

##### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for any impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade debtors, assets that are assessed not to be impaired individually are in addition assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amounts of financial assets are reduced by impairment directly except for trade debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated under investment revaluation reserve.

#### Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

##### Borrowings

Bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

##### Financial liabilities and equity (Continued)

##### Other financial liabilities

Other financial liabilities (including creditors, amounts due to joint ventures, associates, related companies and non-controlling shareholders of subsidiaries) are subsequently measured at amortised cost, using the effective interest method.

##### Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

##### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### Share-based payment transactions

##### Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, for share options, which are conditional upon satisfying specified non-market performance vesting conditions, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the share option reserve.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

The Group accounts for the cancellation of share options as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. In estimating the amount to be recognised in the event of cancellation, the Group takes into account the Group's estimate of the number of options that would have vested had the cancellation not occurred.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key judgements, estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Valuation of investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have used a method of valuation, which involves certain estimates of market conditions. As disclosed in note 15, the investment properties other than those classified as assets held for disposal carried at a total value of HK\$1,752 million (2015: HK\$1,909 million). In relying on the valuation report, the Directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss.

### Valuation of receivables due from a former subsidiary group and the related financial guarantee

The Group reviews the carrying amounts of the receivables due from a former subsidiary group at the end of the reporting period to determine whether there is any indication that these receivables have suffered an impairment loss. Management has exercised judgement to estimate the timing and future cash flows expected to be derived from the receivables and ascertain their recoverable amounts. Where the recoverable amounts of the receivables are estimated to be less than their carrying amounts, an impairment loss will be provided for such receivables and recognised in the consolidated statement of profit or loss.

As disclosed in notes 24(b) and 37(d), the Group disposed of a former subsidiary group (the "Debtor") in prior years. With respect to the disposal, the Group had outstanding receivables of HK\$423 million at 31 December 2016 and remained as a guarantor for a loan granted to the Debtor at a principal amount of HK\$606 million plus related interest. The receivables of HK\$423 million (2015: HK\$417 million) are expected to be settled either through public auction of the property interest (the "Auction") or the sale of the equity interest of the entity holding the property interest (the "Sale of Equity Interest"), and the financial guarantee in respect of the outstanding principal amount of the loan amounting to HK\$606 million (2015: HK\$647 million) and the related interest amounting to HK\$388 million (2015: HK\$334 million) will be fully released upon completion of the Auction or the Sale of Equity Interest. With some positive events as mentioned in note 24(b) and the fact that the Company has put in place a dedicated team in the PRC, with focused efforts and through various commercial and judicial channels, management expects that the issues will be resolved. With the devoted effort of the dedicated team and advices from lawyers, management expects that the Auction will be materialised, and that the receivables will be recovered and the guarantee will be released soon after the Auction.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### Valuation of receivables due from a former subsidiary group and the related financial guarantee (Continued)

In determining the recoverable amount of such receivables and whether provision should be recognised in respect of the related financial guarantee contract, management has exercised judgement in estimating the timing and future cash flows to be recovered and evaluation of the probability of resources outflow that will be required, with reference to the market value of the underlying property interest held by the Debtor assessed by an independent professional valuer based on the comparable properties and market transactions as available in the market, and determined that no impairment or provision was necessary at the end of the reporting period. Management has closely monitored the progress. If the actual outcome and timing regarding the abovementioned public auction and hence the recoverability are different from expectation, an impairment loss may arise.

#### Construction contracts revenue, costs and the amounts due from/to customers for contract work

The Group recognises contract revenue and profit or loss on a construction contract according to the management's estimation of the total outcome of the project as well as the percentage of completion of construction works, which are primarily estimated with reference to the terms of the relevant contracts, subsequent variations in works and costs, and past experience accumulated. As disclosed in notes 6, 12 and 22, the construction contracts revenue, costs and amounts due from/to customers for contract work amounted to HK\$4,711 million, HK\$4,488 million, HK\$374 million and HK\$223 million (2015: HK\$5,606 million, HK\$5,389 million, HK\$342 million and HK\$350 million) respectively. Notwithstanding that the management regularly discusses with the project managers/quantity surveying managers in order to review and revise the estimates of both contract revenue and costs of the construction contract as the contract work progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimations and this will affect the revenue and profit or loss recognised.

#### Determination of net realisable value of properties under development for sale and properties held for sale

Properties under development for sale and properties held for sale are stated at lower of the cost and net realisable value. As disclosed in notes 23, the carrying value of properties under development for sale and properties held for sale were HK\$213 million and HK\$65 million (2015: HK\$354 million and HK\$554 million) respectively. The net realisable value is the estimated selling price (based on the direct comparison method) less estimated selling expenses and estimated cost of completion (if any), which are determined based on best available information and valuation performed by independent professional valuers. Where there is any decrease in the estimated selling price arising from any changes to the property market conditions in the PRC, the loss will be recognised on the properties under development for sale and properties held for sale in the consolidated statement of profit or loss.

#### Impairment of other assets

The Group reviews the carrying amounts of its assets at the end of the reporting period to determine whether there is any indication that those assets have suffered an impairment loss. Management has exercised judgement to estimate the timing and future cash flows expected to be derived from the assets and ascertain their recoverable amounts. Where the recoverable amount of an asset is estimated to be less than its carrying amount, an impairment loss will be provided for such asset and recognised in the consolidated statement of profit or loss.

In determining the recoverable amount of such assets, management has exercised judgement in estimating the timing and future cash flows to be recovered. If the actual outcome and timing and hence the recoverability are different from expectation, an impairment loss may arise.



## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the Directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties of HK\$1,752 million at 31 December 2016 (2015: HK\$1,909 million) are held to earn rental income and they are considered to be held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on these investment properties at fair value is measured based on the tax consequences of recovering the carrying amounts of the investment properties through use.

The remaining investment properties of the Group with fair value of HK\$9 million at 31 December 2016 (2015: HK\$392 million), in the opinion of the Directors of the Company, are held under a business model whose objective is to recover through sale. These investment properties were classified as assets classified as held for disposal and the deferred tax in relation to these investment properties was measured based on the tax consequences of recovering the carrying amounts entirely through sale.

### Financial guarantee contracts

As disclosed in note 37(a), (b) and (c), at 31 December 2016, the Group has provided guarantees under financial guarantee contracts for an aggregate amount of HK\$1,405 million (2015: HK\$1,076 million). In determining whether provision should be recognised in respect of the Group's financial guarantee contracts, the Directors of the Company exercise judgement in evaluation of the probability of resources outflow that will be required and the assessment of whether a reliable estimate can be made of the amount of the obligation. The Directors of the Company are of the opinion that it is not probable that outflow of resources will result from the financial guarantee contracts. Accordingly, no provision has been recognised in the consolidated statement of financial position. Should the actual outcome be different from expected, provision for losses will be recognised in the consolidated financial statements.

## 6. TURNOVER AND SEGMENT INFORMATION

Revenue of the Group represents the contract revenue and service income arising on construction and building maintenance contracts, amounts received and receivable for goods sold by the Group (less returns and allowances), revenue from sale of properties, fees from asset management and rental and leasing income for the year.

For management reporting purposes, the Group is currently organised into three operating divisions based on business nature. These divisions are the basis on which the Group reports information to its chief operating decision makers, who are the Executive Directors of the Company, for the purposes of resource allocation and assessment of segment performance.

The Group's reportable and operating segments under HKFRS 8 "Operating Segments" are as follows:

1. Property – property development for sale and investment and provision of property asset management services
2. Construction and building maintenance – construction, interior fit-out, renovation and maintenance of building premises
3. Other businesses – venture capital investment and others

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

#### (a) Reportable segment revenue and profit or loss

An analysis of the Group's reportable segment revenue and segment results from continuing operations by reportable and operating segment is as follows:

For the year ended 31 December 2016

|  | Property<br>HK\$ million | Construction<br>and building<br>maintenance<br>HK\$ million | Other<br>businesses<br>HK\$ million | Total<br>HK\$ million |
|--|--------------------------|---|-------------------------------------|-----------------------|
| <b>REVENUE</b>   |                          |   |                                     |                       |
| Sales of goods   | 604                      | –   | –                                   | 604                   |
| Rental income  | 12                       | –   | –                                   | 12                    |
| Revenue from rendering of services   | 18                       | –   | –                                   | 18                    |
| Construction contract revenue  | –                        | 4,711   | –                                   | 4,711                 |
| Group's revenue from external customers  | 634                      | 4,711   | –                                   | 5,345                 |
| Share of joint ventures/associates' revenue                                      | 1,535                    | 1   | 36                                  | 1,572                 |
| Total segment revenue  | 2,169                    | 4,712   | 36                                  | 6,917                 |
| <b>Reportable segment results</b>  | <b>(1,176)</b>           | <b>80</b>   | <b>(45)</b>                         | <b>(1,141)</b>        |
| <b>Segment results have been arrived at after crediting (charging):</b>          |                          |   |                                     |                       |
| Depreciation   | (4)                      | (5)   | (1)                                 | (10)                  |
| Interest income  | 53                       | 5   | –                                   | 58                    |
| Fair value changes on investment properties                                      | (43)                     | –   | –                                   | (43)                  |
| Dividend income from available-for-sale investments                              | 1                        | –   | –                                   | 1                     |
| Reversal of impairment loss recognised in respect of interest in a joint venture | –                        | –   | 29                                  | 29                    |
| Loss on disposal of investment properties classified as held for disposal        | (22)                     | –   | –                                   | (22)                  |
| Share of results of joint ventures   |                          |   |                                     |                       |
| Property development   | (816)                    | –   | –                                   | (816)                 |
| Other operations in Guizhou  | –                        | –   | 7                                   | 7                     |
| Venture capital investments  | –                        | –   | (25)                                | (25)                  |
|  |                          |   |                                     | (834)                 |
| Share of results of associates   |                          |   |                                     |                       |
| Property development   | (151)                    | –   | –                                   | (151)                 |

## 6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

### (a) Reportable segment revenue and profit or loss (continued)

For the year ended 31 December 2015

|  | Property<br>HK\$ million | Construction<br>and building<br>maintenance<br>HK\$ million | Other<br>businesses<br>HK\$ million | Total<br>HK\$ million |
|--|--------------------------|---|-------------------------------------|-----------------------|
| <b>REVENUE</b>   |                          |   |                                     |                       |
| Sales of goods   | 244                      | –   | 4                                   | 248                   |
| Rental income  | 29                       | –   | –                                   | 29                    |
| Revenue from rendering of services   | 33                       | 2   | –                                   | 35                    |
| Construction contract revenue  | –                        | 5,604   | –                                   | 5,604                 |
| Group's revenue from external customers                                      | 306                      | 5,606   | 4                                   | 5,916                 |
| Share of joint ventures/associates' revenue                                  | 308                      | 4   | 51                                  | 363                   |
| <b>Total segment revenue</b>   | <b>614</b>               | <b>5,610</b>  | <b>55</b>                           | <b>6,279</b>          |
| <b>Reportable segment results</b>  | <b>(901)</b>             | <b>112</b>  | <b>(46)</b>                         | <b>(835)</b>          |
| <b>Segment results have been arrived<br/>at after crediting (charging):</b>  |                          |   |                                     |                       |
| Depreciation   | (7)                      | (5)   | (1)                                 | (13)                  |
| Interest income  | 72                       | 4   | 1                                   | 77                    |
| Fair value changes on investment properties                                  | (45)                     | –   | –                                   | (45)                  |
| Dividend income from available-for-sale<br>investments                       | 2                        | –   | –                                   | 2                     |
| Impairment loss recognised on properties<br>under development for sale       | (238)                    | –   | –                                   | (238)                 |
| Loss on disposal of investment properties<br>classified as held for disposal | (66)                     | –   | –                                   | (66)                  |
| Share of results of joint ventures   |                          |   |                                     |                       |
| Property development   | (332)                    | –   | –                                   | (332)                 |
| Other operations in Guizhou  | –                        | –   | 7                                   | 7                     |
| Venture capital investments  | –                        | –   | (20)                                | (20)                  |
|  |                          |   |                                     | (345)                 |
| Share of results of associates   |                          |   |                                     |                       |
| Property development   | (162)                    | –   | –                                   | (162)                 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

#### (b) Reportable segment assets and liabilities

An analysis of the Group's reportable segment assets and liabilities by reportable and operating segment is as follows:

At 31 December 2016

|                                | Property<br>HK\$ million | Construction<br>and building<br>maintenance<br>HK\$ million | Other<br>businesses<br>HK\$ million | Total<br>HK\$ million |
|--------------------------------|--------------------------|---|-------------------------------------|-----------------------|
| Reportable segment assets      | 6,840                    | 2,275   | 1,096                               | 10,211                |
| Reportable segment liabilities | 939                      | 1,993   | 995                                 | 3,927                 |

At 31 December 2015

|                                | Property<br>HK\$ million | Construction<br>and building<br>maintenance<br>HK\$ million | Other<br>businesses<br>HK\$ million | Total<br>HK\$ million |
|--------------------------------|--------------------------|---|-------------------------------------|-----------------------|
| Reportable segment assets      | 9,711                    | 2,159   | 1,404                               | 13,274                |
| Reportable segment liabilities | 1,268                    | 1,849   | 929                                 | 4,046                 |

#### (c) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

|  | Year ended 31 December |                      |
|--|------------------------|----------------------|
|  | 2016<br>HK\$ million   | 2015<br>HK\$ million |
| <b>Revenue</b>   |                        |                      |
| Reportable segment revenue                                   | 6,917                  | 6,279                |
| Elimination of share of revenue of joint ventures/associates | (1,572)                | (363)                |
| Consolidated turnover  | 5,345                  | 5,916                |

## 6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

### (c) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities (Continued)

|  | Year ended 31 December |                      |
|--|------------------------|----------------------|
|  | 2016<br>HK\$ million   | 2015<br>HK\$ million |
| Loss before taxation                     |                        |                      |
| Reportable segment results               | (1,141)                | (835)                |
| Unallocated other income                 | 2                      | 3                    |
| Finance costs                            | (195)                  | (286)                |
| Other unallocated corporate expenses     | (28)                   | (67)                 |
| Consolidated loss before taxation        | (1,362)                | (1,185)              |
|  |                        |                      |
|  | At 31 December         |                      |
|  | 2016<br>HK\$ million   | 2015<br>HK\$ million |
| <b>Assets</b>                            |                        |                      |
| Reportable segment assets                | 10,211                 | 13,274               |
| Elimination of inter-segment receivables | (1,005)                | (962)                |
| Other unallocated assets                 | 4                      | 27                   |
| Consolidated total assets                | 9,210                  | 12,339               |
|  |                        |                      |
|  | At 31 December         |                      |
|  | 2016<br>HK\$ million   | 2015<br>HK\$ million |
| <b>Liabilities</b>                       |                        |                      |
| Reportable segment liabilities           | 3,927                  | 4,046                |
| Elimination of inter-segment payables    | (1,005)                | (962)                |
| Unallocated liabilities                  |                        |                      |
| – Bank and other borrowings              | 2,155                  | 3,081                |
| – Taxation and others                    | 261                    | 594                  |
| Consolidated total liabilities           | 5,338                  | 6,759                |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

#### (d) Other segment information

At 31 December 2016

|  | Property<br>HK\$ million | Construction<br>and building<br>maintenance<br>HK\$ million | Other<br>businesses<br>HK\$ million | Total<br>HK\$ million |
|--|--------------------------|---|-------------------------------------|-----------------------|
| Interests in joint ventures and associates | 39                       | 2   | 77                                  | 118                   |
| Capital expenditure                        | 4                        | 2   | –                                   | 6                     |
| Tax (credits) charges                      | (28)                     | 22  | –                                   | (6)                   |

At 31 December 2015

|  | Property<br>HK\$ million | Construction<br>and building<br>maintenance<br>HK\$ million | Other<br>businesses<br>HK\$ million | Total<br>HK\$ million |
|--|--------------------------|---|-------------------------------------|-----------------------|
| Interests in joint ventures and associates | 216                      | 3   | 49                                  | 268                   |
| Capital expenditure                        | 7                        | 2   | –                                   | 9                     |
| Tax charges                                | 44                       | 23  | 1                                   | 68                    |

#### (e) Geographical information

The Group operates in two principal geographical areas – Hong Kong and the PRC (excluding Hong Kong).

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

|                           | Revenue from<br>external customers* |                      | Non-current assets** |                      |
|---------------------------|-------------------------------------|----------------------|----------------------|----------------------|
|                           | 2016<br>HK\$ million                | 2015<br>HK\$ million | 2016<br>HK\$ million | 2015<br>HK\$ million |
| Hong Kong                 | 4,312                               | 5,096                | 12                   | 16                   |
| PRC (excluding Hong Kong) | 1,033                               | 820                  | 1,764                | 1,923                |
|                           | 5,345                               | 5,916                | 1,776                | 1,939                |

\* Revenue from external customers is attributed to countries/cities on the basis of geographical locations of the properties or operations.

\*\* Non-current assets exclude available-for-sale investments, interests in associates and joint ventures, amounts due from associates and joint ventures, and trade debtors.

## 6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

### (f) Information about major customers

Included in external revenue arising from construction and building maintenance of HK\$4,711 million (2015: HK\$5,606 million) is revenue of HK\$1,792 million and HK\$1,499 million, which arose from services provided to the Group's largest and second largest customers respectively (2015: HK\$2,429 million and HK\$1,753 million from the Group's largest and second largest customers respectively) contributing over 10% of the total turnover of the Group.

## 7. OTHER INCOME AND GAINS

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| <b>Continuing operations</b>   |                      |                      |
| Included in other income and gains are:  |                      |                      |
| Interest income  | 60                   | 80                   |
| Reversal of impairment loss recognised in respect of interests in joint ventures | 29                   | –                    |
| Gain on deregistration of a joint venture  | –                    | 11                   |

## 8. FINANCE COSTS

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| <b>Continuing operations</b>                          |                      |                      |
| Interest on bank loans and overdrafts and other loans | 181                  | 240                  |
| Other borrowing costs                                 | 14                   | 46                   |
|   | <b>195</b>           | <b>286</b>           |

## 9. TAXATION

|                                    | 2016<br>HK\$ million | 2015<br>HK\$ million |
|------------------------------------|----------------------|----------------------|
| <b>Continuing operations</b>       |                      |                      |
| The tax charge (credit) comprises: |                      |                      |
| Current taxation                   |                      |                      |
| Hong Kong Profits Tax              | 22                   | 25                   |
| PRC Enterprise Income Tax          | 21                   | 76                   |
| PRC Land Appreciation Tax          | 53                   | 147                  |
|                                    | <b>96</b>            | <b>248</b>           |
| Deferred taxation (note 32)        | <b>(102)</b>         | <b>(180)</b>         |
|                                    | <b>(6)</b>           | <b>68</b>            |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 9. TAXATION (CONTINUED)

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year.

PRC Enterprise Income Tax is calculated at 25% (2015: 25%) on the estimated assessable profits for the year.

PRC Land Appreciation Tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditure including amortisation of land use rights, borrowing costs, business taxes and all property development expenditure. The tax is incurred upon transfer of property ownership.

Details of the deferred taxation are set out in note 32.

The tax charge for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss as follows:

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| <b>Loss before taxation from continuing operations</b>             | <b>(1,362)</b>       | (1,185)              |
| Tax at Hong Kong Profits Tax rate of 16.5% (2015: 16.5%)           | <b>(225)</b>         | (195)                |
| Effect of share of results of joint ventures                       | <b>137</b>           | 57                   |
| Effect of share of results of associates                           | <b>25</b>            | 27                   |
| Effect of different tax rates on operations in other jurisdictions | <b>(7)</b>           | 8                    |
| PRC Land Appreciation Tax  | <b>11</b>            | 48                   |
| Tax effect of PRC Land Appreciation Tax                            | <b>(2)</b>           | (8)                  |
| Tax effect of expenses not deductible for tax purposes             | <b>42</b>            | 162                  |
| Tax effect of income not taxable for tax purposes                  | <b>(22)</b>          | (55)                 |
| Tax effect of tax losses not recognised                            | <b>41</b>            | 33                   |
| Tax effect of utilisation of tax losses previously not recognised  | <b>(7)</b>           | (5)                  |
| Underprovision (overprovision) of current taxation in prior year   | <b>2</b>             | (4)                  |
| Others   | <b>(1)</b>           | –                    |
| Tax (credit) charge for the year                                   | <b>(6)</b>           | 68                   |

### 10. DISCONTINUED OPERATIONS

Following completion of the disposal of the Group's 45% interest in Lafarge Shui On Cement Limited ("LSOC") in August 2015, the Group did not have material investments that engaged in cement operations. Accordingly, the Group's cement operations through LSOC were classified as discontinued operations for the year ended 31 December 2015.

Profit for the year ended 31 December 2015 from discontinued operations attributable to owners of the Company was HK\$144 million, which included other income of HK\$4 million, share of loss of joint ventures of HK\$276 million and gain on disposal of LSOC of HK\$416 million.

## 11. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

### Directors and Chief Executives

The emoluments paid or payable to each of the seven (2015: eight) Directors were as follows:

| Name of Director             | Notes     | Fees<br>HK\$'000 | Salaries<br>and other<br>benefits<br>HK\$'000 | Retirement                           |  | Share-<br>based<br>payments<br>HK\$'000 | 2016<br>Total<br>HK\$'000 | 2015<br>Total<br>HK\$'000 |
|------------------------------|-----------|------------------|---|--------------------------------------|--|---|---------------------------|---------------------------|
|                              |           |                  |   | Other<br>service<br>fees<br>HK\$'000 | benefit<br>scheme<br>contributions<br>HK\$'000 |   |                           |                           |
| Mr. Lo Hong Sui, Vincent     |           | 10               | –   | –                                    | –  | –                                       | 10                        | 10                        |
| Mr. Wong Fook Lam, Raymond   | (a)       | 10               | 4,765   | –                                    | 18   | –                                       | 4,793                     | 4,753                     |
| Mr. Tsang Kwok Tai, Moses    | (b)       | 315              | –   | –                                    | –  | –                                       | 315                       | 315                       |
| Mr. Gerrit Jan de Nys        | (b) & (d) | 420              | –   | 766                                  | –  | –                                       | 1,186                     | 2,669                     |
| Ms. Li Hoi Lun, Helen        | (c)       | 485              | –   | –                                    | –  | –                                       | 485                       | 458                       |
| Mr. Chan Kay Cheung          | (c)       | 595              | –   | –                                    | –  | –                                       | 595                       | 595                       |
| Mr. William Timothy Addison  | (c) & (e) | 196              | –   | –                                    | –  | –                                       | 196                       | –                         |
| Mr. Choi Yuk Keung, Lawrence | (f)       | –                | –   | –                                    | –  | –                                       | –                         | 5,671                     |
| Mr. Wong Kun To, Philip      | (g)       | –                | –   | –                                    | –  | –                                       | –                         | 144                       |
| <b>Total</b>                 |           | <b>2,031</b>     | <b>4,765</b>                                  | <b>766</b>                           | <b>18</b>                                      | <b>–</b>                                | <b>7,580</b>              | <b>14,615</b>             |
| 2015                         |           | 1,948            | 9,801   | 2,222                                | 551  | 93                                      | 14,615                    |                           |

Notes:

- (a) Mr. Wong Fook Lam, Raymond retired as the Managing Director and Chief Financial Officer with effect from 1 January 2017.
- (b) Non-executive Directors.
- (c) Independent Non-executive Directors.
- (d) Mr. Gerrit Jan de Nys has been re-designated from the role of Independent Non-executive Director to Non-executive Director with effect from 20 November 2015 and was resigned with effect from 1 March 2017. He provided certain consultancy services to the Company during the year ended 31 December 2016 and 2015, in return for a fee.
- (e) Mr. William Timothy Addison was appointed as an Independent Non-executive Director on 25 May 2016.
- (f) Mr. Choi Yuk Keung, Lawrence retired as the Vice Chairman and Managing Director with effect from 31 December 2015.
- (g) Mr. Wong Kun To, Philip retired as a Non-executive Director at the annual general meeting of the Company held on 29 May 2015.
- (h) Neither the chief executives nor any of the directors waived any emolument in the year ended 31 December 2016 and 2015.
- (i) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group, and the non-executive directors' and independent non-executive directors' emoluments were for their services as directors of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 11. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

#### Directors and Chief Executives (Continued)

Of the five highest paid individuals in the Group, one (2015: two) is Director of the Company whose emoluments are set out above. The emoluments of the remaining four (2015: three) highest paid employees were as follows:

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Salaries, bonuses and allowances         | 16                   | 13                   |
| Retirement benefits scheme contributions | 1                    | 1                    |
| Share-based payments                     | –                    | 1                    |
|  | 17                   | 15                   |

The emoluments were within the following band:

|                                | 2016<br>No. of employees | 2015<br>No. of employees |
|--------------------------------|--------------------------|--------------------------|
| HK\$3,500,001 to HK\$4,000,000 | 2                        | –                        |
| HK\$4,000,001 to HK\$4,500,000 | 1                        | 1                        |
| HK\$5,000,001 to HK\$5,500,000 | 1                        | 1                        |
| HK\$5,500,001 to HK\$6,000,000 | –                        | 1                        |



## 12. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| Loss for the year has been arrived at after charging (crediting): |                      |                      |
| Cost of sales (note):   |                      |                      |
| Cost of construction  | 4,488                | 5,389                |
| Cost of properties sold   | 606                  | 134                  |
| Cost of goods sold  | –                    | 3                    |
| Cost of rendering services  | 27                   | 50                   |
| Direct rental outgoings arising from investment properties        | 31                   | 46                   |
|   | <b>5,152</b>         | 5,622                |
| Staff costs (including directors' emoluments) (note):             |                      |                      |
| Salaries, bonuses and allowances                                  | 642                  | 656                  |
| Retirement benefits cost  | 36                   | 38                   |
| Share-based payment expense                                       | 1                    | 3                    |
|   | <b>679</b>           | 697                  |
| Gross rental revenue from investment properties                   | (12)                 | (29)                 |
| Less: direct rental outgoings (note)                              | 31                   | 46                   |
| Net rental expenses   | <b>19</b>            | 17                   |
| Depreciation of property, plant and equipment                     | 11                   | 14                   |
| Auditors' remuneration  | 4                    | 5                    |
| Operating lease payments in respect of rented premises            | 19                   | 20                   |
| Impairment loss on trade and other receivables                    | 22                   | 4                    |
| Impairment loss on available-for-sale investments                 | 5                    | –                    |

Note:

Cost of sales includes HK\$576 million (2015: HK\$589 million) relating to staff costs and direct rental outgoings, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

## 13. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 14. LOSS PER SHARE

#### From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Loss for the year attributable to owners of the Company:                             |                      |                      |
| Loss for the purpose of basic and diluted loss per share                             | (1,382)              | (1,126)              |
| Number of shares:  | Million              | Million              |
| Weighted average number of ordinary shares for the purpose of basic loss per share   | 484                  | 484                  |
| Effect of dilutive potential ordinary shares:  |                      |                      |
| Share options  | –                    | –                    |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | 484                  | 484                  |

The computation of the diluted loss per share for the current and prior years does not assume the exercise of the Company's share options, because this would result in a decrease in the loss per share.

#### From continuing operations

The calculation of the basic and diluted loss per share from continuing operations is based on the following data and the denominators detailed above for both basic and diluted loss per share:

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| Loss for the year attributable to owners of the Company:                            |                      |                      |
| Loss for the purpose of basic and diluted loss per share                            | (1,382)              | (1,126)              |
| Adjust: Profit for the year from discontinued operations                            | –                    | (144)                |
| Loss for the purpose of basic and diluted loss per share from continuing operations | (1,382)              | (1,270)              |

#### From discontinued operations

Basic and diluted earnings per share from discontinued operations for the year ended 31 December 2015 was HK\$0.30 per share, based on the profit for that year from discontinued operations of HK\$144 million and the denominators detailed above for both basic and diluted loss per share.

## 15. INVESTMENT PROPERTIES

|                                   | <b>Completed<br/>investment<br/>properties<br/>HK\$ million</b> |
|-----------------------------------|---|
| <b>FAIR VALUE</b>                 |   |
| At 1 January 2015                 | 2,087   |
| Exchange adjustments              | (119)   |
| Additions                         | 5   |
| Decrease in fair value recognised | (64)  |
| At 31 December 2015               | 1,909   |
| Exchange adjustments              | <b>(120)</b>  |
| Decrease in fair value recognised | <b>(37)</b>   |
| At 31 December 2016               | <b>1,752</b>  |

The investment properties are situated in the PRC under medium-term leases.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31 December 2016 and 31 December 2015 has been arrived at on the basis of valuations carried out on that date by Savills Valuation and Professional Services Limited, an independent qualified professional valuer not connected to the Group, which has appropriate qualifications and recent experience in the valuation of similar properties in relevant locations.

For completed investment properties, the valuations have been arrived by reference to direct comparison method as available in the market and where appropriate, on the basis of capitalisation of net income. In the valuation, the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for the similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to the respective properties.

There has been no change to the valuation technique, except for those adopted for the remaining unit of the investment property classified as assets held for disposal, as mentioned below. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 15. INVESTMENT PROPERTIES (CONTINUED)

The major inputs used in the fair value measurement of investment properties and information about the fair value hierarchy at 31 December 2016 and 31 December 2015 are as follows:

| Investment properties  | Fair value hierarchy        | Valuation technique(s) and key input(s)  | Significant unobservable input(s)  | Relationship of unobservable inputs to fair value             | Sensitivity  |
|--|-----------------------------|--|--|---|--|
| Property 1 –<br>Shenyang Project<br>Phase I retail portion           | Level 3                     | Income Capitalisation Approach   | Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 6.5% (2015: 6.5%)  | The higher the capitalisation rate, the lower the fair value  | A slight increase in the capitalisation rate used would result in a significant increase in fair value of property 1, and vice versa |
|  |                             | The key inputs are:<br>(1) Capitalisation rate; and<br>(2) Monthly market rent | Monthly market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB78-174 (2015: RMB80-178) per sqm per month on gross floor area basis   | The higher the monthly market rent, the higher the fair value | A slight increase in the monthly market rent used would result in a significant increase in fair value of property 1, and vice versa |
| Property 2 – Chongqing<br>Creative Concepts<br>Center retail portion | Level 3                     | Income Capitalisation Approach   | Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 5.5% (2015: 5.5%)  | The higher the capitalisation rate, the lower the fair value  | A slight increase in the capitalisation rate used would result in a significant increase in fair value of property 2, and vice versa |
|  |                             | The key inputs are:<br>(1) Capitalisation rate; and<br>(2) Monthly market rent | Monthly market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB125-249 (2015: RMB127-254) per sqm per month on gross floor area basis | The higher the monthly market rent, the higher the fair value | A slight increase in the monthly market rent used would result in a significant increase in fair value of property 2, and vice versa |
| <b>Investment properties classified as assets held for disposal</b>  | <b>Fair value hierarchy</b> | <b>Valuation technique(s) and key input(s)</b>                                 | <b>Significant unobservable input(s)</b>   | <b>Relationship of unobservable inputs to fair value</b>      | <b>Sensitivity</b>   |
| Property 3 –<br>Shanghai Lakeville<br>Regency Tower 18               | Level 2                     | With reference to the transaction price in the sale and purchase agreement     | Not applicable   | Not applicable  | Not applicable   |
|  | (2015: Level 3)             | Comparison Approach<br>The key input is: Market unit rate                      | Market unit rate, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB108,000 per sqm on gross floor area basis                                 | The higher the market unit rate, the higher the fair value    | A significant increase in the market unit rate used would result in a significant increase in fair value, and vice versa             |

## 16. PROPERTY, PLANT AND EQUIPMENT

|  | Properties in<br>other regions<br>of the PRC | Plant and<br>machinery | Motor<br>vehicles | Equipment,<br>furniture and<br>other assets | Total        |
|--|--|------------------------|-------------------|---|--------------|
|  | HK\$ million                                 | HK\$ million           | HK\$ million      | HK\$ million                                | HK\$ million |
| <b>AT COST</b>                                     |  |                        |                   |   |              |
| At 1 January 2015                                  | 1  | 8                      | 37                | 96  | 142          |
| Additions  | –  | –                      | 2                 | 5   | 7            |
| Disposals  | –  | –                      | (3)               | (4)   | (7)          |
| Disposal of subsidiaries                           | –  | (1)                    | (1)               | (1)   | (3)          |
| At 31 December 2015                                | 1  | 7                      | 35                | 96  | 139          |
| Additions  | –  | –                      | 3                 | 4   | 7            |
| Disposals  | –  | –                      | (6)               | (9)   | (15)         |
| Exchange adjustments                               | –  | –                      | –                 | (2)   | (2)          |
| <b>At 31 December 2016</b>                         | <b>1</b>                                     | <b>7</b>               | <b>32</b>         | <b>89</b>                                   | <b>129</b>   |
| <b>ACCUMULATED DEPRECIATION<br/>AND IMPAIRMENT</b> |  |                        |                   |   |              |
| At 1 January 2015                                  | –  | 5                      | 22                | 75  | 102          |
| Charge for the year                                | –  | 1                      | 4                 | 9   | 14           |
| Eliminated on disposals                            | –  | –                      | (2)               | (1)   | (3)          |
| Eliminated on disposal of subsidiaries             | –  | (1)                    | (1)               | (1)   | (3)          |
| At 31 December 2015                                | –  | 5                      | 23                | 82  | 110          |
| Charge for the year                                | –  | –                      | 5                 | 6   | 11           |
| Eliminated on disposals                            | –  | –                      | (5)               | (8)   | (13)         |
| Exchange adjustments                               | –  | –                      | –                 | (2)   | (2)          |
| <b>At 31 December 2016</b>                         | <b>–</b>                                     | <b>5</b>               | <b>23</b>         | <b>78</b>                                   | <b>106</b>   |
| <b>CARRYING VALUES</b>                             |  |                        |                   |   |              |
| <b>At 31 December 2016</b>                         | <b>1</b>                                     | <b>2</b>               | <b>9</b>          | <b>11</b>                                   | <b>23</b>    |
| At 31 December 2015                                | 1  | 2                      | 12                | 14  | 29           |

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

|   |  |
|---|--|
| Properties in other regions of the PRC (all of which are buildings located on land held under medium-term leases) | 2.5% or remaining lease term, if shorter |
| Plant and machinery   | 10 – 25%                                 |
| Motor vehicles, equipment, furniture and other assets   | 20 – 50%                                 |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 17. INTERESTS IN JOINT VENTURES

### (i) Joint ventures

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| Cost of unlisted investments in joint ventures, net of impairment | 807                  | 788                  |
| Share of post-acquisition losses and other comprehensive income   | (689)                | (666)                |
|   | <b>118</b>           | 122                  |

Particulars of the principal joint ventures are set out in note 42.

Notes:

- (a) On 29 August 2016, the Group entered into a framework agreement to dispose of the Group's 35% interest in a joint venture, which operates a cement grinding mill in Nanjing. Completion will take place when the transfer of 35% equity interest has been duly registered with the relevant government authorities in the PRC. At the date of this report, the registration is yet to complete. Details of the transaction are set out in an announcement of the Company dated 29 August 2016.
- (b) Pursuant to the terms and conditions of the shareholders' agreement, the Group granted an option to the joint venture partner of one joint venture (the "Joint Venture Partner") to require the Group to acquire all of the shares in the investee owned by the Joint Venture Partner and the outstanding shareholder's loan plus accrued interest owed to it (the "Put Option") at an exercise price, the maximum amount of which could be 19% of the then fair market value of the consolidated net assets of the investee plus the then outstanding principal amount of the shareholder's loan and accrued interest. In addition, the Joint Venture Partner granted an option to the Group that gives the Group a right to require the Joint Venture Partner to sell all of the shares in the investee owned by the Joint Venture Partner to the Group (the "Call Option"), at a pre-determined price. Both the Put Option and the Call Option are exercisable at any time subject to the satisfaction of certain conditions. The Directors of the Company have assessed that the fair value of both the Put Option and Call Option are insignificant at the end of the reporting period. Pursuant to the terms stipulated under the shareholders' agreement, unanimous approvals from all shareholders are required for significant decisions relating to the relevant activities of the investee. In addition, the Call Option will become exercisable only if the shareholder's loan owed to the Joint Venture Partner is fully repaid, which is considered as a substantive condition to be met before the option can be exercised. For these reasons, the Group has concluded that it only have joint control over the relevant activities of the investee, and accordingly the investee is classified as a joint venture because the Group has rights to the net assets of the investee (rather than rights to the assets and obligations for the liabilities of the investee).
- (c) During the year ended 31 December 2015, the Group acquired an additional 10% interest in a joint venture, which owned a completed property project in Shanghai ("Shanghai C21"). The total consideration for the acquisition of approximately RMB150 million (approximately HK\$179 million) was settled by (i) cash of RMB10 million (HK\$13 million); (ii) an apartment unit and a car parking space in Lakeville Regency Tower 18 in Shanghai, amounting to approximately RMB39 million (approximately HK\$47 million); and (iii) two apartment units and three car parking spaces in Shanghai C21, amounting to approximately RMB101 million (approximately HK\$121 million). Following completion of the acquisition, the Group owned 80% share interest in this joint venture, which was continued to account for as a joint venture in the consolidated financial statements of the Group as decisions about the relevant activities of the joint venture still require unanimous consent of all shareholders.
- (d) During the year ended 31 December 2015, the Group disposed of its entire interest in LSOC.
- (e) During the year ended 31 December 2015, the Group disposed of 65% interest in a property project in Beijing through disposal of the interests in a subsidiary held by one of the Group's joint ventures for a consideration of approximately HK\$429 million attributable to the Group.
- (f) During the year ended 31 December 2015, the Group disposed of 80% interest in a property project in Shanghai through disposal of the interests in subsidiaries held by one of the Group's joint ventures for a consideration of approximately HK\$640 million attributable to the Group.

## 17. INTERESTS IN JOINT VENTURES (CONTINUED)

### (i) Joint ventures (Continued)

Gracious Spring Limited (GSL) is regarded as the material joint venture of the Group at the end of the reporting period and is accounted for using the equity method in the consolidated financial statements. The summarised financial information in respect of this joint venture is set out below and represents amounts shown in the joint venture's consolidated financial statements prepared in accordance with HKFRSs.

The summarised financial information regarding the assets and liabilities of GSL Group for the year ended 31 December 2016 was as follows:

|                         | <b>31 December 2016</b><br>HK\$ million | 31 December 2015<br>HK\$ million |
|-------------------------|---|----------------------------------|
| Current assets          | <b>2,498</b>                            | 4,774                            |
| Non-current assets      | <b>1</b>                                | 1                                |
| Current liabilities     | <b>(1,221)</b>                          | (2,763)                          |
| Non-current liabilities | <b>(2,670)</b>                          | (2,549)                          |

The above amounts of assets and liabilities include the following:

|   | <b>31 December 2016</b><br>HK\$ million | 31 December 2015<br>HK\$ million |
|---|---|----------------------------------|
| Cash and cash equivalents   | <b>25</b>                               | 81                               |
| Current financial liabilities (excluding trade and other payables and provisions)     | <b>(986)</b>                            | (1,182)                          |
| Non-current financial liabilities (excluding trade and other payables and provisions) | <b>(2,670)</b>                          | (2,549)                          |

|  | <b>Year ended</b><br><b>31 December 2016</b><br>HK\$ million | Year ended<br>31 December 2015<br>HK\$ million |
|--|--|--|
| Revenue                                  | <b>1,689</b>   | –  |
| Loss after tax                           | <b>(927)</b>   | (404)  |
| Total comprehensive expense for the year | <b>(927)</b>   | (404)  |

The above loss for the year includes the following:

|                    | <b>Year ended</b><br><b>31 December 2016</b><br>HK\$ million | Year ended<br>31 December 2015<br>HK\$ million |
|--------------------|--|--|
| Interest expense   | <b>29</b>  | 23   |
| Income tax expense | <b>2</b>   | –  |

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For the year ended 31 December 2016

### 17. INTERESTS IN JOINT VENTURES (CONTINUED)

#### (i) Joint ventures (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

|   | 31 December 2016<br>HK\$ million | 31 December 2015<br>HK\$ million |
|---|----------------------------------|----------------------------------|
| Net liabilities of the joint venture  | (1,392)                          | (537)                            |
| Proportion of the Group's ownership interest in the joint venture                                       | 81%                              | 81%                              |
| Allocation of the share of post-acquisition losses in excess of cost of investment in the joint venture | 1,127                            | 435                              |
| Carrying amount of the Group's interest in the joint venture  | –                                | –                                |

The summarised financial information in respect of the joint ventures that are not individually material to the Group at and for each of the years ended 31 December 2016 and 31 December 2015 attributable to the Group's interest is as follows:

|                             | 2016<br>HK\$ million | 2015<br>HK\$ million |
|-----------------------------|----------------------|----------------------|
| Loss after tax              | (198)                | (202)                |
| Total comprehensive expense | (211)                | (202)                |

The Group has discontinued recognition of its share of loss of a joint venture in Nanjing because the Group's share of losses of this joint venture in previous years has exceeded its investment cost. The amounts of the unrecognised share of losses of the joint venture, both for the year and cumulatively, are as follows:

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Unrecognised share of losses of the joint venture for the year | (11)                 | (14)                 |
| Accumulated unrecognised share of losses of the joint venture  | (92)                 | (81)                 |

#### (ii) Joint operations

The Group's joint operation, China State – Shui On Joint Venture, which was formed for the design and construction of the Centre of Excellence in Paediatrics in Hong Kong. The Group has a 40% interest in this joint operation, which is set up and operating in Hong Kong.

## 18. AVAILABLE-FOR-SALE INVESTMENTS

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Available-for-sale investments comprise:   |                      |                      |
| Listed equity securities in Hong Kong (classified as level 1 fair value measurement and is derived from quoted market price) | 50                   | 64                   |

Available-for-sale investments at 31 December 2016 and 31 December 2015 represent the Group's equity interest in Shui On Land Limited ("SOL"). At 31 December 2016, the Group held a 0.4% (31 December 2015: 0.4%) equity interest in SOL.

## 19. INTERESTS IN ASSOCIATES

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| Cost of unlisted investments in associates                      | 154                  | 180                  |
| Share of post-acquisition losses and other comprehensive income | (154)                | (34)                 |
|   | –                    | 146                  |

Particulars of the principal associates are set out in note 43.

### Summarised financial information of material associates

Richcoast Group Limited (Richcoast) is regarded as the material associate of the Group at the end of the reporting period and is accounted for using the equity method in the consolidated financial statements. The summarised financial information in respect of this associate is set out below and represents amounts shown in the associate's consolidated financial statements prepared in accordance with HKFRSs.

The summarised financial information regarding the assets and liabilities of Richcoast Group is as follows:

|                           | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---------------------------|----------------------|----------------------|
| Current assets            | 5,557                | 5,805                |
| Non-current assets        | 8,965                | 9,624                |
| Current liabilities       | (6,550)              | (7,857)              |
| Non-current liabilities   | (6,539)              | (5,669)              |
| Non-controlling interests | (511)                | (667)                |

|                             | 2016<br>HK\$ million | 2015<br>HK\$ million |
|-----------------------------|----------------------|----------------------|
| Revenue                     | 697                  | 379                  |
| Loss after tax              | (665)                | (744)                |
| Total comprehensive expense | (665)                | (744)                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 19. INTERESTS IN ASSOCIATES (CONTINUED)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| Net assets of the associate   | 922                  | 1,236                |
| Proportion of the Group's ownership interest in the associate                                       | 28.2%                | 28.2%                |
| Share of other reserves in respect of Richcoast, not taken up by the Group                          | (269)                | (201)                |
| Adjustments for unrealised gain and others  | (37)                 | (6)                  |
| Allocation of the share of post-acquisition losses in excess of cost of investment in the associate | 46                   | –                    |
| Carrying amount of the Group's interest in the associate  | –                    | 142                  |

### 20. AMOUNTS DUE FROM/TO JOINT VENTURES

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Amounts due from joint ventures        |                      |                      |
| Non-current (note a)                   | 1,399                | 1,986                |
| Current (note b)                       | 689                  | 617                  |
|  | 2,088                | 2,603                |
| Amounts due to joint ventures (note c) | 106                  | 108                  |

Notes:

- (a) The balances are unsecured and repayable on demand, but not expected to be recovered in the next twelve months from the end of the reporting period. Out of the total balance, a total of HK\$1,185 million (2015: HK\$1,538 million) bear interest at 13% (2015: 13%) per annum and the rest is carried at amortised cost using the effective interest rate of 7.68% (2015: 7.68%) per annum. The balances are after allocation of the share of post-acquisition losses of HK\$1,876 million (2015: HK\$861 million) that are in excess of cost of investments in joint ventures, net of impairment.
- (b) The balances are unsecured, interest-free and repayable on demand. In the opinion of the Directors of the Company, the balances will be recoverable in the next twelve months from the end of the reporting period.
- (c) The balances are unsecured, interest-free and repayable on demand.



## 21. AMOUNTS DUE FROM/TO ASSOCIATES

|                                    | 2016<br>HK\$ million | 2015<br>HK\$ million |
|------------------------------------|----------------------|----------------------|
| Amounts due from associates        |                      |                      |
| Non-current (note a)               | 1,294                | 1,296                |
| Current (note b)                   | 272                  | 292                  |
|                                    | <b>1,566</b>         | 1,588                |
| Amounts due to associates (note c) | <b>1</b>             | 2                    |

Notes:

- (a) The balances represent advances to associates for financing the development of Dalian Tiandi. The advances are unsecured and have no fixed terms of repayment, but not expected to be recovered in the next twelve months from the end of the reporting period. Out of the total balance, a total of HK\$854 million (2015: HK\$833 million) bear interest from 4.8% to 5.0% (2015: 4.8% to 5.0%) per annum and the rest is carried at amortised cost using the effective interest rate of 4.8% (2015: 4.8%) per annum. The balances are after allocation of the share of post-acquisition losses of HK\$46 million (2015: Nil) that are in excess of cost of investments in associates.
- (b) The balances are unsecured, repayable on demand and interest-free.
- (c) The balances are unsecured, interest-free and repayable on demand.

## 22. CONTRACTS IN PROGRESS

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| <b>Contracts in progress</b>                 |                      |                      |
| Costs incurred to date                       | 15,205               | 12,068               |
| Recognised profits less recognised losses    | 453                  | 431                  |
|  | <b>15,658</b>        | 12,499               |
| Less: Progress billings                      | <b>(15,507)</b>      | (12,507)             |
| Net contract work                            | <b>151</b>           | (8)                  |
| Represented by:                              |                      |                      |
| Amounts due from customers for contract work | 374                  | 342                  |
| Amounts due to customers for contract work   | <b>(223)</b>         | (350)                |
|  | <b>151</b>           | (8)                  |

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### 23. PROPERTIES HELD FOR SALE/PROPERTIES UNDER DEVELOPMENT FOR SALE

The carrying values of properties held for sale and properties under development for sale are situated in the following locations:

|                                       | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---------------------------------------|----------------------|----------------------|
| Properties held for sale              |                      |                      |
| In other regions of the PRC           | 213                  | 354                  |
| Properties under development for sale |                      |                      |
| In other regions of the PRC (notes)   | 65                   | 554                  |

Notes:

- (a) Properties under development for sale of HK\$65 million at 31 December 2016 (2015: HK\$554 million) represent the carrying value of the properties expected to be completed and available for sale after one year from the end of the reporting period.
- (b) In January 2016, the Group entered into an agreement for the disposal of two land parcels in Guizhou, classified under property under development for sale, for an aggregate consideration of RMB388 million (HK\$462 million) through disposal of a subsidiary. With reference to the consideration, which was less than the carrying amount of the property at 31 December 2015, an impairment loss of HK\$238 million was recognised in the consolidated statement of profit or loss for the year ended 31 December 2015 (see note 36).

### 24. OTHER CURRENT ASSETS

#### Debtors, deposits and prepayments

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Trade debtors  | 771                  | 598                  |
| Less: Allowance for doubtful debts                   | (7)                  | (5)                  |
|  | 764                  | 593                  |
| Retention receivable                                 | 263                  | 220                  |
| Prepayments, deposits and other receivables (note b) | 850                  | 857                  |
|  | 1,877                | 1,670                |
| Less: amounts due for settlement after 12 months     | -                    | (12)                 |
|  | 1,877                | 1,658                |

Notes:

- (a) The Group maintains a defined credit policy to assess the credit quality of each counterparty. Collections are closely monitored to minimise any credit risk associated with trade debtors. The general credit term ranges from 30 to 90 days.
- (b) Included in prepayments, deposits and other receivables are receivables of HK\$423 million (2015: HK\$417 million) due from CCP's former subsidiary group (the "Debtor"), which hold a property interest in the PRC and were disposed of in 2008. The amounts are repayable on demand and out of the total outstanding balance, an amount of HK\$134 million (2015: HK\$143 million) carries interest at prevailing market rates. A court in the PRC issued notices to attach the aforesaid property interest to cause the Debtor to settle part of the onshore outstanding receivables in the amount of RMB140 million (approximately HK\$157 million) (2015: RMB140 million (approximately HK\$167 million)) and its related interest. In addition to these receivables, the Company has provided a guarantee in relation to a loan granted to the Debtor (see note 37(d)). In the opinion of the Directors of the Company, given that there have been continued positive outcomes in the legal disputes in relation to the property interest, including the successful registration of title deed of the property under the name of the Debtor in May 2015, a court order was issued in 2016 to request the Debtor to preserve certain assets, in a value capped at RMB122 million, in the course of a legal proceeding on the recovery of an offshore loan receivable of US\$12 million against the Debtor, the Directors of the Company believe that these receivables will be fully settled and the guarantee provided by the Company will be fully released either through the public auction of the aforesaid property interest or the sale of the equity interest of the entity holding the property interest, which is expected to take place within twelve months from the end of the reporting period.

## 24. OTHER CURRENT ASSETS (CONTINUED)

### Debtors, deposits and prepayments (Continued)

The following is an aged analysis of trade debtors (based on the repayment terms set out in sale and purchase agreements or invoice date) net of allowance for doubtful debts at the end of the reporting period:

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Trade debtors aged analysis:                 |                      |                      |
| Not yet due or within 90 days                | 761                  | 584                  |
| <i>Amounts past due but not impaired:</i>    |                      |                      |
| 91 days to 180 days                          | –                    | 1                    |
| 181 days to 360 days                         | –                    | 1                    |
| Over 360 days                                | 3                    | 7                    |
|  | <b>3</b>             | 9                    |
|  | <b>764</b>           | 593                  |
| Retention receivable is analysed as follows: |                      |                      |
| Due within one year                          | 135                  | 119                  |
| Due after one year                           | 128                  | 101                  |
|  | <b>263</b>           | 220                  |

### Movement in the allowance for doubtful debts

|                                      | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--------------------------------------|----------------------|----------------------|
| Balance at the beginning of the year | 5                    | 1                    |
| Provision for the year               | 2                    | 4                    |
| Balance at the end of the year       | <b>7</b>             | 5                    |

Included in the trade debtors are receivables of HK\$16 million (2015: HK\$35 million), which are aged over 180 days, based on the date on which revenue was recognised.

No provision for impairment is considered necessary in respect of the amounts past due but not impaired as there has not been a significant change in credit quality and balances are still considered fully recoverable.

### Bank balances, deposits and cash

Bank balances, deposits and cash comprise cash held by the Group and deposits carry interest at market rates with original maturity of three months or less held with banks.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 25. AMOUNTS DUE FROM/TO RELATED COMPANIES/NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| Amounts due from related companies                          | 1                    | 2                    |
| Amounts due to related companies                            | 374                  | 337                  |
| Amounts due to non-controlling shareholders of subsidiaries | 14                   | 6                    |

The related companies are subsidiaries of SOCL.

The balances are unsecured, interest-free and repayable on demand.

### 26. RESTRICTED BANK DEPOSITS

Balances at 31 December 2016 represent custody deposits amounting to HK\$482 million (2015: HK\$732 million) placed with banks in relation to certain banking facility arrangements of the Group.

The balances carried interest at market rates, which ranged from 0.20% to 0.35% (2015: 0.35% to 1.50%) per annum.

### 27. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Interest in an associate and shareholder's loan (note a) | –                    | 364                  |
| Investment properties (note b)                           | 9                    | 392                  |
| <b>Total assets classified as held for disposal</b>      | <b>9</b>             | <b>756</b>           |

Notes:

(a) In January 2016, the Group completed the disposal of its 20% interest in the associate, which indirectly owns a property development project in Shenyang, together with the outstanding shareholder's loan.

(b) The remaining one unit of the investment property has subsequently been disposed of in January 2017.

## 28. CREDITORS AND ACCRUED CHARGES

The aged analysis of creditors (based on invoice date) of HK\$604 million (2015: HK\$531 million), which are included in the Group's creditors and accrued charges, is as follows:

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| Trade creditors aged analysis:                |                      |                      |
| Within 30 days                                | 448                  | 375                  |
| 31 days to 90 days                            | 57                   | 30                   |
| 91 days to 180 days                           | 9                    | 4                    |
| Over 180 days                                 | 90                   | 122                  |
| Retention payable (note b)                    | 348                  | 313                  |
| Provision for contract work/construction cost | 812                  | 694                  |
| Other accruals and payables                   | 228                  | 234                  |
|   | <b>1,992</b>         | <b>1,772</b>         |

Notes:

- (a) The average credit period on purchases of certain goods is 3 months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.
- (b) The balances include retention payable of HK\$76 million (2015: HK\$59 million), which is due after one year from the end of the reporting period.

## 29. BANK AND OTHER BORROWINGS

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Secured bank loans                               | 855                  | 1,738                |
| Unsecured bank and other loans                   | 1,499                | 1,597                |
|  | <b>2,354</b>         | <b>3,335</b>         |
| Less: Amounts due within 12 months               | <b>(1,685)</b>       | <b>(2,914)</b>       |
| Amounts due for settlement after 12 months       | 669                  | 421                  |
| Carrying amount repayable:                       |                      |                      |
| Within one year                                  | 1,685                | 2,914                |
| More than one year but not exceeding two years   | 398                  | 222                  |
| More than two years but not exceeding five years | 271                  | 199                  |
|  | <b>2,354</b>         | <b>3,335</b>         |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 29. BANK AND OTHER BORROWINGS (CONTINUED)

The carrying amount of the Group's bank and other loans is analysed as follows:

| Denominated in           | Interest rate (per annum)             | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--------------------------|---------------------------------------|----------------------|----------------------|
| <b>At variable rates</b> |                                       |                      |                      |
| Renminbi                 | 5.00% to 6.18% (2015: 5.94%)          | 446                  | 102                  |
| Hong Kong dollars        | 3.55% to 4.75% (2015: 1.59% to 5.39%) | 1,765                | 2,610                |
| United States dollars    | Nil (2015: 4.11%)                     | –                    | 232                  |
| <b>At fixed rates</b>    |                                       |                      |                      |
| Renminbi                 | 11% (2015: 11.00% to 15.00%)          | 143                  | 391                  |
|                          |                                       | <b>2,354</b>         | <b>3,335</b>         |

The variable interest rates are linked to Hong Kong Interbank Offered Rate, London Interbank Offered Rate and prevailing base lending rate published by the People's Bank of China.

Note:

At 31 December 2016, the Group had bank borrowings of HK\$764 million, which were in breach of certain financial covenants as stipulated in the relevant bank loan agreements. Included in these HK\$764 million bank borrowings was an amount of HK\$138 million with maturity date over one year, which has been reclassified as current liabilities in the consolidated statement of financial position at 31 December 2016 as required by applicable accounting standard, despite that waiver has been granted by the bank and the loan will be due and repayable after 2017 in accordance with the original terms of repayment. Subsequent to the end of the reporting period, the Group has obtained waivers from all the banks concerned with respect to compliance of the stipulated financial covenants.

The Group's investment properties amounting to HK\$1,433 million (2015: HK\$1,556 million) were pledged as security for certain banking facilities and other loans granted to the Group at the end of the reporting period.

Notes:

- (a) Custody deposits amounting to HK\$482 million (2015: HK\$732 million) at 31 December 2016 were placed with banks in relation to certain banking facility arrangements entered into with the Group.
- (b) In addition, certain equity interests in some subsidiaries were also charged to banks as security for certain banking facilities granted to the Group at the end of the reporting period.

### 30. SHARE CAPITAL

|  | 2016<br>Number<br>of shares | 2015<br>Number<br>of shares | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|-----------------------------|-----------------------------|----------------------|----------------------|
| Ordinary shares of HK\$1 each:           |                             |                             |                      |                      |
| <b>Authorised</b>                        |                             |                             |                      |                      |
| At the beginning and the end of the year | 1,000,000,000               | 1,000,000,000               | 1,000                | 1,000                |
| <b>Issued and fully paid</b>             |                             |                             |                      |                      |
| At the beginning and the end of the year | 484,410,164                 | 484,410,164                 | 484                  | 484                  |

All the new shares issued during the year rank pari passu in all respects with the existing shares.

## 31. RETIREMENT BENEFIT PLANS

### Hong Kong

The Group participates in both a defined benefit scheme (the "Scheme"), which is registered under the Occupational Retirement Schemes Ordinance and a Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme, established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group and are invested in securities and funds under the control of trustees. Employees who were members of the Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the Scheme or switching to the MPF Scheme. All employees joining the Group on or after 1 December 2000 have been required to join the MPF Scheme.

### Mandatory Provident Fund Scheme

For members of the MPF Scheme, contributions are made by the employee at 5% of relevant income and by the Group at rates ranging from 5% to 10% of the employee's salary, depending on the employee's length of service with the Group.

The Group's contributions to the MPF Scheme charged to the consolidated statement of profit or loss as staff cost during the year amounted to HK\$18 million (2015: HK\$20 million). The amount of employer's voluntary contributions to the MPF Scheme forfeited for the year ended 31 December 2016 and 31 December 2015 was immaterial and was used to reduce the existing level of contributions.

### Defined Benefit Scheme

Contributions to the Scheme are made by the members at 5% of their salaries and by the Group at rates, which are based on recommendations made by the actuary to the Scheme. The current employer contribution rate is 32.7% (2015: 32.7%) of the members' salaries. Under the Scheme, a member is entitled to retirement benefits, which comprise the sum of any benefits transferred from another scheme and the greater of the sum of the employer's scheduled contribution plus the member's contribution (both contributions being calculated on the scheme salary of the member) accumulated with interest at a rate of no less than 6% per annum before 1 September 2003 and 1% per annum in respect of contributions made on or after 1 September 2003 or 1.8 times the final salary times the years of service in the Scheme on the attainment of the retirement age of 60. For members who joined the Scheme before 1997, the retirement age is 60 for male members and 55 for female members.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 31. RETIREMENT BENEFIT PLANS (CONTINUED)

### Hong Kong (Continued)

#### Defined Benefit Scheme (Continued)

The Scheme typically exposes the Company to the following key risks:

##### Investment risk

Strong investment returns tend to increase the fair value of Scheme assets and therefore improve the Scheme's financial position as measured by the net defined benefit liability/asset, whilst poor or negative investment returns tend to weaken the position.

The members' balances are credited with 6% per annum and 1% per annum interest to pre and post 1 September 2003 balances respectively. Therefore, investment returns are expected to cover the interest to be credited to members' balances over the long term.

The Scheme assets are invested in a diversified portfolio of equities, hedge funds, bonds and cash, covering major geographical locations around the world. The diversification of asset classes and geographical location helps to reduce the concentration of risk associated with the Scheme investments.

##### Interest rate risk

The defined benefit obligation is calculated using a discount rate based on market bond yields. A decrease in the bond yields will increase the defined benefit obligation.

##### Salary risk

The defined benefit obligation is calculated with reference to the future salaries of members because the Scheme's benefits are salary-related. Salary increases that are higher than expected will increase the defined benefit obligation.

The most recent actuarial valuations of the Scheme assets and the present value of the defined benefit obligation were carried out at 31 December 2016 by Ms. Elaine Hwang of Willis Towers Watson, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit Method.

The principal actuarial assumptions used at the end of the reporting periods are as follows:

|                                  | 2016      | 2015      |
|----------------------------------|-----------|-----------|
| Discount rate                    | 1.7%      | 1.3%      |
| Expected rate of salary increase | 3.5% p.a. | 4.5% p.a. |

The actuarial valuation shows that the fair value of the Scheme assets attributable to the Group at 31 December 2016 was HK\$366 million (2015: HK\$364 million), representing 77% (2015: 70%) of the benefits that has accrued to members.

### 31. RETIREMENT BENEFIT PLANS (CONTINUED)

#### Hong Kong (Continued)

##### Defined Benefit Scheme (Continued)

Amounts recognised in the consolidated statement of profit or loss and other comprehensive income for the year in respect of the Scheme are as follows:

|   | Year ended 31 December |                      |
|---|------------------------|----------------------|
|   | 2016<br>HK\$ million   | 2015<br>HK\$ million |
| Current service cost  | 15                     | 16                   |
| Net interest on net defined benefit liabilities   | 1                      | 2                    |
| Administrative expenses paid from scheme assets   | 2                      | 2                    |
| <b>Defined benefit cost recognised in the consolidated statement of profit or loss</b>              | <b>18</b>              | <b>20</b>            |
| Actuarial loss due to experience adjustment   | 3                      | 7                    |
| Actuarial gain due to financial assumption changes  | (12)                   | (7)                  |
| Actuarial gain due to demographic assumption changes  | –                      | (6)                  |
| Return on Scheme assets less than discount rate   | (9)                    | 25                   |
| <b>Remeasurement effects recognised in the consolidated statement of other comprehensive income</b> | <b>(18)</b>            | <b>19</b>            |
| <b>Total</b>  | <b>–</b>               | <b>39</b>            |

The amount included in the consolidated statement of financial position arising from the Group's obligations in respect of the Scheme is as follows:

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| Present value of defined benefit obligation   | (478)                | (516)                |
| Fair value of Scheme assets   | 366                  | 364                  |
| <b>Defined benefit liabilities included in the consolidated statement of financial position</b> | <b>(112)</b>         | <b>(152)</b>         |

The Scheme assets do not include any shares in the Company (2015: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 31. RETIREMENT BENEFIT PLANS (CONTINUED)

#### Hong Kong (Continued)

##### Defined Benefit Scheme (Continued)

Movements of the present value of defined benefit obligation are as follows:

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| At the beginning of the year             | 516                  | 569                  |
| Current service cost                     | 15                   | 16                   |
| Interest cost                            | 6                    | 9                    |
| Employees' contributions                 | 6                    | 7                    |
| Actuarial loss – experience adjustment   | 3                    | 7                    |
| Actuarial gain – financial assumptions   | (12)                 | (7)                  |
| Actuarial gain – demographic assumptions | –                    | (6)                  |
| Benefits paid                            | (56)                 | (79)                 |
| At the end of the year                   | 478                  | 516                  |

Movements of the present value of Scheme assets are as follows:

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| At the beginning of the year                              | 364                  | 429                  |
| Interest income on Scheme assets                          | 5                    | 7                    |
| Return on scheme assets greater (less) than discount rate | 9                    | (25)                 |
| Employers' contributions                                  | 40                   | 27                   |
| Employees' contributions                                  | 6                    | 7                    |
| Benefits paid   | (56)                 | (79)                 |
| Administrative expenses paid from scheme assets           | (2)                  | (2)                  |
| At the end of the year                                    | 366                  | 364                  |



### 31. RETIREMENT BENEFIT PLANS (CONTINUED)

#### Hong Kong (Continued)

#### Defined Benefit Scheme (Continued)

The major categories of Scheme assets of total Scheme assets are as follows:

|                | 2016<br>HK\$ million | 2015<br>HK\$ million |
|----------------|----------------------|----------------------|
| Equities       | 249                  | 240                  |
| Hedge funds    | 46                   | 43                   |
| Bonds and cash | 71                   | 81                   |
|                | <b>366</b>           | <b>364</b>           |

The fair value of the Scheme assets are determined based on quoted market price in active market.

The below tables summarises the results of sensitivity analysis on the defined benefit obligation ("DBO"), based on reasonably possible changes in significant actuarial assumptions.

|                                  | Adopted<br>rate | Change to<br>Adopted<br>rate | Rate used in<br>sensitivity<br>analysis | Effect on<br>DBO<br>HK\$ million | Effect on<br>DBO<br>% |
|----------------------------------|-----------------|------------------------------|---|----------------------------------|-----------------------|
| <b>At 31 December 2016</b>       |                 |                              |   |                                  |                       |
| Discount rate                    | 1.7%            | +0.25%                       | 1.95%                                   | (7)                              | (1.5%)                |
|                                  |                 | -0.25%                       | 1.45%                                   | 7                                | 1.5%                  |
| Expected rate of salary increase | 3.5%            | +0.25%                       | 3.75%                                   | 7                                | 1.6%                  |
|                                  |                 | -0.25%                       | 3.25%                                   | (7)                              | (1.5%)                |
| <b>At 31 December 2015</b>       |                 |                              |   |                                  |                       |
| Discount rate                    | 1.3%            | +0.25%                       | 1.55%                                   | (8)                              | (1.6%)                |
|                                  |                 | -0.25%                       | 1.05%                                   | 8                                | 1.6%                  |
| Expected rate of salary increase | 4.5%            | +0.25%                       | 4.75%                                   | 8                                | 1.6%                  |
|                                  |                 | -0.25%                       | 4.25%                                   | (8)                              | (1.6%)                |

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 31. RETIREMENT BENEFIT PLANS (CONTINUED)

#### Hong Kong (Continued)

##### Defined Benefit Scheme (Continued)

The expected contributions to the Scheme during the next financial year are as follows:

|                                 | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---------------------------------|----------------------|----------------------|
| Expected employer contributions | 37                   | 41                   |
| Expected member contributions   | 6                    | 6                    |

The weighted average duration of the defined benefit obligation at 31 December 2016 is 5.9 years (2015: 6.3 years).

#### PRC

The employees of the Company's subsidiaries in the PRC are members of state-managed retirement plans operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement plans to fund the benefits. The only obligation of the Group with respect to the retirement plans is to make the specified contributions. The Group's contributions to state-managed retirement plans charged to the consolidated statement of profit or loss as staff cost during the year amounted to HK\$3 million (2015: HK\$3 million).

No other post-retirement benefits are provided to the employees of the Group.

### 32. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior years:

|  | Accelerated<br>tax depreciation<br>HK\$ million | Revaluation<br>of properties<br>HK\$ million | Tax losses<br>HK\$ million | Total<br>HK\$ million |
|--|---|--|----------------------------|-----------------------|
| At 1 January 2015                                  | (2)   | (444)  | 26                         | (420)                 |
| Exchange adjustments                               | –   | 16   | (1)                        | 15                    |
| Credit to consolidated statement of profit or loss | –   | 180  | –                          | 180                   |
| At 31 December 2015                                | (2)   | (248)  | 25                         | (225)                 |
| Exchange adjustments                               | –   | 11   | (2)                        | 9                     |
| Credit to consolidated statement of profit or loss | 1   | 101  | –                          | 102                   |
| <b>At 31 December 2016</b>                         | <b>(1)</b>                                      | <b>(136)</b>                                 | <b>23</b>                  | <b>(114)</b>          |

Notes:

- For the purposes of the consolidated statement of financial position presentation certain deferred tax assets and liabilities have been offset.
- At 31 December 2016, the Group had unused tax losses of HK\$1,510 million (2015: HK\$1,298 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to HK\$100 million (2015: HK\$100 million). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$1,410 million (2015: HK\$1,198 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2016 are tax losses of approximately HK\$587 million (2015: HK\$547 million) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely.
- Under the tax regulations of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the Group's PRC investees from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to profits earned by the Company's PRC subsidiaries amounting to HK\$506 million at 31 December 2016 (2015: HK\$587 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

### 33. LEASE ARRANGEMENTS

#### As lessor

Property rental income in respect of the investment properties earned during the year ended 31 December 2016 was HK\$12 million (2015: HK\$29 million).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases, which fall due as follows:

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Within one year                        | 12                   | 15                   |
| In the second to fifth years inclusive | 25                   | 40                   |
| After five years                       | 13                   | 24                   |
|  | 50                   | 79                   |

#### As lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| Within one year                        | 10                   | 19                   |
| In the second to fifth years inclusive | 2                    | 10                   |
|  | 12                   | 29                   |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease terms ranging from one to three years.

### 34. CAPITAL COMMITMENTS

At 31 December 2016, the Group had no significant capital commitments (2015: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 35. SHARE-BASED PAYMENTS

On 22 August 2012, the Company adopted a share option scheme (the "Existing Scheme"), which has a life of 10 years until 21 August 2022, to replace the share option scheme adopted on 27 August 2002 (the "Old Scheme"), which had expired on 30 August 2012. Since then, no further option can be granted under the Old Scheme, but all options granted previously remain exercisable in accordance with the terms of the Old Scheme and the relevant letters of offers to the respective grantees. The principal terms of each of the Existing Scheme and Old Scheme are summarised below:

#### (i) The Existing Scheme

##### 1. Purpose

To grant share incentives for recognising, acknowledging and promoting the contributions which eligible participants have made or may make to the Group.

##### 2. Eligible participants

Any of the following persons whose eligibility is determined by the Board from time to time on the basis of his performance and contribution to the development and growth of the Group: any employee, director, officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any invested entity.

##### 3. Total number of shares available for issue

48,402,842 shares, representing approximately 9.99% of the issued shares of the Company as of 31 December 2016.

##### 4. Maximum entitlement of each eligible participant

Not exceeding 1% of the shares of the Company in issue in any 12-month period, unless approved by shareholders of the Company in general meeting.

##### 5. Period within which the shares must be taken up under an option

As determined by the Board when offering the grant of any option, provided that such period must not be more than 10 years from the date of grant of the option.

##### 6. Minimum period for which an option must be held before it could be exercised

As determined by the Board when offering the grant of any option.

##### 7. Exercise price

Not less than the highest of: (i) the closing price of a share of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as shown in the daily quotations sheets of the Stock Exchange for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

##### 8. Payment on and period of acceptance

Payment of HK\$1.00 by each eligible participant to the Company on acceptance of an offer of option within 28 days from the date of the offer.

## 35. SHARE-BASED PAYMENTS (CONTINUED)

### (ii) The Old Scheme

#### 1. Purpose

To grant share incentives for recognizing and acknowledging the contributions which eligible participants have made or may make to the Group.

#### 2. Eligible participants

Any of the following persons whose eligibility is determined by the Board from time to time on the basis of his performance and contribution to the development and growth of the Group: any employee, director, officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any invested entity.

#### 3. Total number of shares available for issue

3,018,000 shares, representing approximately 0.62% of the issued shares of the Company as of 31 December 2016.

#### 4. Maximum entitlement of each eligible participant

Not exceeding 1% of the shares of the Company in issue in any 12-month period, unless approved by shareholders of the Company in general meeting.

#### 5. Period within which the shares must be taken up under an option

As determined by the Board when offering the grant of any option, provided that such period must not be more than 10 years from the date of grant of the option.

#### 6. Minimum period for which an option must be held before it could be exercised

As determined by the Board when offering the grant of any option.

#### 7. Exercise price

Not less than the highest of: (i) the closing price of a share of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as shown in the daily quotations sheets of the Stock Exchange for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

#### 8. Payment on and period of acceptance

Payment of HK\$1.00 by each eligible participant to the Company on acceptance of an offer of option within 28 days from the date of the offer.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 35. SHARE-BASED PAYMENTS (CONTINUED)

The following tables disclose details of the Company's share options held by employees (including the Directors of the Company) and movements in such holdings during the year.

| Date of grant  | Grant | Subscription price per share<br>HK\$ | Number of shares subject to options |                         |                           |                        |                     | Period during which share options outstanding are exercisable | Average closing reference price for exercise of options<br>HK\$<br>(Note) |
|--|-------|--------------------------------------|-------------------------------------|-------------------------|---------------------------|------------------------|---------------------|---|---|
|  |       |                                      | At 1 January 2016                   | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2016 |   |   |
| 9 April 2009   | 1     | 7.63                                 | 380,000                             | –                       | –                         | (380,000)              | –                   | 9 April 2012 to 8 April 2019                                  | –   |
| 12 April 2010  | 3     | 12.22                                | 1,400,000                           | –                       | –                         | (700,000)              | 700,000             | 12 April 2013 to 11 April 2020                                | –   |
| 13 May 2011  | 4     | 10.66                                | 3,210,000                           | –                       | –                         | (3,210,000)            | –                   | 13 November 2011 to 12 May 2016                               | –   |
| 23 June 2011   | 5     | 10.90                                | 1,230,000                           | –                       | –                         | (1,230,000)            | –                   | 23 December 2011 to 22 June 2016                              | –   |
| 28 July 2011   | 6     | 10.00                                | 2,886,000                           | –                       | –                         | (568,000)              | 2,318,000           | 1 May 2015 to 27 July 2021                                    | –   |
| 26 November 2012   | 7     | 8.18                                 | 3,396,000                           | –                       | –                         | (352,000)              | 3,044,000           | 26 May 2013 to 25 November 2017                               | –   |
| 14 June 2013   | 8     | 9.93                                 | 4,040,000                           | –                       | –                         | (430,000)              | 3,610,000           | 14 December 2013 to 13 June 2018                              | –   |
|  |       |                                      | 16,542,000                          | –                       | –                         | (6,870,000)            | 9,672,000           |   |   |
| Number of shares subject to options exercisable at the end of the year |       |                                      |                                     |                         |                           |                        | 8,370,500           |   |   |

| Date of grant  | Grant | Subscription price per share<br>HK\$ | Number of shares subject to options |                         |                           |                        |                     | Period during which share options outstanding are exercisable | Average closing reference price for exercise of options<br>HK\$<br>(Note) |
|--|-------|--------------------------------------|-------------------------------------|-------------------------|---------------------------|------------------------|---------------------|---|---|
|  |       |                                      | At 1 January 2015                   | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2015 |   |   |
| 9 April 2009   | 1     | 7.63                                 | 380,000                             | –                       | –                         | –                      | 380,000             | 9 April 2012 to 8 April 2019                                  | –   |
| 12 April 2010  | 2     | 12.22                                | 4,530,000                           | –                       | –                         | (4,530,000)            | –                   | 12 October 2010 to 11 April 2015                              | –   |
| 12 April 2010  | 3     | 12.22                                | 2,450,000                           | –                       | –                         | (1,050,000)            | 1,400,000           | 12 April 2013 to 11 April 2020                                | –   |
| 13 May 2011  | 4     | 10.66                                | 3,540,000                           | –                       | –                         | (330,000)              | 3,210,000           | 13 November 2011 to 12 May 2016                               | –   |
| 23 June 2011   | 5     | 10.90                                | 1,680,000                           | –                       | –                         | (450,000)              | 1,230,000           | 23 December 2011 to 22 June 2016                              | –   |
| 28 July 2011   | 6     | 10.00                                | 8,000,000                           | –                       | –                         | (5,114,000)            | 2,886,000           | 1 May 2015 to 27 July 2021                                    | –   |
| 26 November 2012   | 7     | 8.18                                 | 3,614,000                           | –                       | –                         | (218,000)              | 3,396,000           | 26 May 2013 to 25 November 2017                               | –   |
| 14 June 2013   | 8     | 9.93                                 | 4,420,000                           | –                       | –                         | (380,000)              | 4,040,000           | 14 December 2013 to 13 June 2018                              | –   |
|  |       |                                      | 28,614,000                          | –                       | –                         | (12,072,000)           | 16,542,000          |   |   |
| Number of shares subject to options exercisable at the end of the year |       |                                      |                                     |                         |                           |                        | 12,709,000          |   |   |

Note:

The average closing reference price represented the average of the closing prices of the Company's shares at the dates on which the share options were exercised during the year, weighted by the number of shares subject to the options exercised by such category of eligible participants. No share options were exercised during the year ended 31 December 2016 and 2015.

### 35. SHARE-BASED PAYMENTS (CONTINUED)

The vesting conditions of the respective share option grants are as follows:

For Grants 2, 4, 5, 7 and 8:

20%: 6 months after the date of grant

20%: 1st anniversary of the date of grant

20%: 2nd anniversary of the date of grant

20%: 3rd anniversary of the date of grant

20%: 4th anniversary of the date of grant

For Grant 1:

Vesting of the options was conditional upon the performance of the Company's shares over the period from close of trading in Hong Kong on 1 January 2009 to 31 December 2011 ("Performance Period"). Vesting would only occur if the change in the total shareholder return ("TSR") of the Company's shares over the relevant Performance Period was (1) positive and (2) equal to or greater than the change in the total return index ("TRI") of the Hang Seng Index ("HSI") over the relevant Performance Period.

The vesting schedule is as follows:

| Positive change in TSR of the Company compared to the change in the HSI TRI during the relevant Performance Period | Vested portion of options |
|--|---------------------------|
| Less than the change in the HSI TRI  | 0%                        |
| Equal to the change in the HSI TRI   | 30%                       |
| For each percentage point up to 35% above the change in the HSI TRI  | 2%                        |
| Higher than the change in the HSI TRI by 35% or above  | 100%                      |

If the change in HSI TRI was negative compared to the positive change in TSR of the Company, full vesting would apply.

For Grant 3:

|                     |  |
|---------------------|--|
| Service Requirement | The options might vest on 12 April 2013 subject to the satisfaction of all the performance conditions.   |
| Performance Hurdle  | The options might vest on vesting date depending on the Group's performance during the 3 years from 1 January 2010 to 31 December 2012 according to the performance measures comprising a range of specific performance criteria/targets that the grantees were required to achieve in the said 3-year performance period for creating shareholder value, which include return on equity, free cash flow and risk management, achievement of strategic goals, financial and operational performance targets. |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 35. SHARE-BASED PAYMENTS (CONTINUED)

For Grant 3: (Continued)

The vesting schedule is as follows:

| <b>Performance</b>                             | <b>Vested portion<br/>of options</b> |
|--|--------------------------------------|
| Superior                                       | 100%                                 |
| Superior minus                                 | 90%                                  |
| Good plus (more or less achieving all targets) | 75%                                  |
| Good   | 60%                                  |
| Good minus and below                           | 0 – 35%                              |

Intermediate vesting percentages might be determined at the discretion of the Board.

For Grant 6:

**Service Requirement** The options might vest on 1 May 2015 subject to the satisfaction of all the performance conditions, and the vested options will become exercisable in accordance with the following schedule:

50%: from 1 May 2015

25%: from 1 January 2016

25%: from 1 January 2017

**Performance Hurdle** Vesting of the options was based on, in the case of grants to Executive Directors, the achievement of corporate performance targets covering three major areas of financial performance, project-specific achievement and future growth potential and, in the case of grants to selected key executives, both the achievement of the said corporate performance targets as well as individual performance, over a period of the 3.5 years from 1 July 2011 to 31 December 2014.

The vesting schedule is as follows:

| <b>Performance</b>               | <b>Vested portion<br/>of options</b> |
|----------------------------------|--------------------------------------|
| Excellent (> 150% of target)     | Up to 100%                           |
| Superior (125% – 150% of target) | Up to 80%                            |
| Good (100% of target)            | Up to 40%                            |
| Fair (75% of target)             | Up to 20%                            |
| Poor (<75% of target)            | 0%                                   |

### 35. SHARE-BASED PAYMENTS (CONTINUED)

The fair values of services received in return for share options granted is measured by reference to the fair value of share options granted. Except for Grant 1, which adopts the Monte Carlo model, the estimate of the fair value of the share options granted is measured based on the Binomial model. The inputs into the models were as follows:

|  | Grant 1         | Grant 2          | Grant 3             | Grant 4         |
|--|-----------------|------------------|---------------------|-----------------|
| Date of grant  | 9 April<br>2009 | 12 April<br>2010 | 12 April<br>2010    | 13 May<br>2011  |
| Average fair value   | HK\$2.16        | HK\$4.33         | HK\$4.73            | HK\$3.66        |
| Share price on the date of grant                               | HK\$7.27        | HK\$12.22        | HK\$12.22           | HK\$10.66       |
| Exercise price   | HK\$7.63        | HK\$12.22        | HK\$12.22           | HK\$10.66       |
| Expected volatility  | 52% p.a.        | 55% p.a.         | 48% p.a.            | 53% p.a.        |
| Average expected life  | 5 years         | 5 years          | 10 years            | 5 years         |
| Average risk-free rate   | 1.91% p.a.      | 1.70% p.a.       | 2.64% p.a.          | 1.34% p.a.      |
| Expected dividend paid   | 5% p.a.         | 4% p.a.          | 4% p.a.             | 4% p.a.         |
| Rate of leaving service  | n/a             | 3% p.a.          | 0% p.a.             | 3% p.a.         |
| Expected volatility of HSI TRI                                 | 38% p.a.        | n/a              | n/a                 | n/a             |
| Expected correlation between TSR<br>of the Company and HSI TRI | 58% p.a.        | n/a              | n/a                 | n/a             |
|  | Grant 5         | Grant 6          | Grant 7             | Grant 8         |
| Date of grant  | 23 June<br>2011 | 28 July<br>2011  | 26 November<br>2012 | 14 June<br>2013 |
| Average fair value   | HK\$3.72        | HK\$3.71         | HK\$1.95            | HK\$1.65        |
| Share price on the date of grant                               | HK\$10.90       | HK\$10.00        | HK\$8.10            | HK\$9.93        |
| Exercise price   | HK\$10.90       | HK\$10.00        | HK\$8.18            | HK\$9.93        |
| Expected volatility  | 53% p.a.        | 47% p.a.         | 40% p.a.            | 30% p.a.        |
| Average expected life  | 5 years         | 8 years          | 5 years             | 5 years         |
| Average risk-free rate   | 1.04% p.a.      | 1.99% p.a.       | 0.26% p.a.          | 0.66% p.a.      |
| Expected dividend paid   | 4% p.a.         | 4% p.a.          | 4.5% p.a.           | 5% p.a.         |
| Rate of leaving service  | 3% p.a.         | 3% p.a.          | 3% p.a.             | 4% p.a.         |

No share options were granted by the Company pursuant to the Existing Scheme during the year ended 31 December 2016 and 2015. Therefore, no considerations were received by the Company for taking up any share option during both years.

The Group recognised a total expense of HK\$1 million for the year ended 31 December 2016 (2015: HK\$3 million) in relation to share options granted by the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 36. DISPOSAL OF A PROPERTY INVENTORY THROUGH DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2016, the Group disposed of a property under development for sale in Guizhou through disposal of the entire equity interest in a wholly-owned subsidiary, which owned the property. The transaction was accounted for as a sale of property inventories in the ordinary course of the Group's property business.

The net assets disposed of in the transaction were as follows:

|  | HK\$ million |
|--|--------------|
| Properties under development for sale                      | 484          |
| Deferred tax liabilities                                   | (22)         |
| Net assets disposed of                                     | 462          |
| Consideration  | 462          |
| Net assets disposed of                                     | (462)        |
| Transaction costs incurred in connection with the disposal | (12)         |
| Loss on disposal   | (12)         |
| Total consideration satisfied by:                          |              |
| Cash consideration received                                | 453          |
| Consideration outstanding at 31 December 2016              | 9            |
|  | 462          |
| Net cash inflow arising on disposal:                       |              |
| Cash consideration received                                | 453          |
| Transaction costs paid                                     | (12)         |
|  | 441          |

### 37. CONTINGENT LIABILITIES

At 31 December 2016, the Group had the following contingent liabilities, which have not been provided for in the consolidated financial statements:

- (a) Standby documentary credit arranged with a bank to secure a bank loan of RMB83 million (HK\$93 million) (2015: RMB110 million (HK\$131 million)) granted to a subsidiary of an associate.
- (b) Effective share of guarantees issued in favour of banks and other financial institution amounting to HK\$1,292 million (2015: HK\$827 million) to secure bank and other loans granted to certain joint ventures and associates.
- (c) Effective share of a guarantee issued in favour of a joint venture (the "Joint Venture", which was formed between an associate and an independent third party (the "Joint Venture Partner")) and the Joint Venture Partner for an amount not exceeding RMB18 million (HK\$20 million) (2015: RMB99 million (HK\$118 million)) in respect of certain of the Group's payment obligations to the Joint Venture and the Joint Venture Partner.
- (d) In 2007, the Company issued a guarantee (the "Guarantee") in favour of a bank for a loan granted to an entity which was a wholly-owned subsidiary of CCP at that time (the "Former Subsidiary"). Subsequently, the Former Subsidiary was sold by CCP in 2008, but the Company remained as the guarantor for the bank loan following the disposal (see note 24(b) for details of receivables due from the Former Subsidiary arising from such disposal). In October 2011, the Company received a notice from the aforesaid bank that it had entered into an agreement to sell all its rights and interests, including the Guarantee, to a new lender (the "New Lender"). At the same time, the Company entered into a restructuring deed with the New Lender, which was subsequently supplemented by supplemental restructuring deeds, whereby the New Lender agreed not to demand fulfilment of the Company's obligations under the Guarantee to October 2017, subject to extension after further discussions. The outstanding principal amount of the loan under the Guarantee amounting to RMB542 million (HK\$606 million) (2015: RMB542 million (HK\$647 million)) and the related interest amounting to RMB347 million (HK\$388 million) (2015: RMB280 million (HK\$334 million)) are secured by a property interest in the PRC held by the Former Subsidiary. Both of the parent company of the acquirer and the acquirer of the Former Subsidiary have agreed to procure the repayment of the loan and agreed unconditionally to undertake and indemnify the Group for all losses as a result of the Guarantee.

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and at the end of the reporting period after taking into consideration the possibility of the default of the parties involved. Accordingly, no value has been recognised in the consolidated statement of financial position.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 38. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the year, the Group had the following transactions with SOCL and its subsidiaries other than those of the Group ("SOCL Private Group").

| Nature of transactions                     | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| SOCL and its subsidiaries                  |                      |                      |
| Dividend income                            | 1                    | 2                    |
| Management and information system services | 1                    | 1                    |
| Interest expenses                          | 10                   | 2                    |
| Rental expenses                            | 2                    | 2                    |

The outstanding balances with SOCL Private Group at the end of the reporting period are disclosed in note 25.

- (b) During the year, the Group had the following transactions with joint ventures.

| Nature of transactions       | 2016<br>HK\$ million | 2015<br>HK\$ million |
|------------------------------|----------------------|----------------------|
| Interest income              | 318                  | 299                  |
| Imputed interest income      | 10                   | 10                   |
| Management fee income        | 18                   | 38                   |
| Interest expenses            | 24                   | 22                   |
| Subcontracting work expenses | 2                    | 8                    |

The outstanding balances with joint ventures at the end of the reporting period are disclosed in note 20.

- (c) During the year, the Group had the following transactions with associates.

| Nature of transactions  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|-------------------------|----------------------|----------------------|
| Interest income         | 36                   | 38                   |
| Imputed interest income | 22                   | 22                   |

The outstanding balances with associates at the end of the reporting period are disclosed in note 21.

### 38. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

- (d) The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of SOCL, to use the trademark, trade name of “Shui On”, “瑞安” and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.
- (e) During the year, the Group paid consultancy fee of HK\$1 million (2015: HK\$2 million) to Mr. Gerrit Jan de Nys, a Non-executive Director of the Company, for providing certain consultancy services to the Company.
- (f) During the year end 31 December 2015, the Group received dividend income amounting to HK\$237 million from a joint venture.
- (g) During the year end 31 December 2015, the Group obtained unsecured interest bearing short-term loan of HK\$300 million and unsecured non-interest bearing short-term loan of HK\$100 million from the wholly-owned subsidiaries of SOCL, which were repaid in that same year.
- (h) During the year end 31 December 2015, the Group paid consultancy fee of HK\$26 million to V I Capital Management Limited, a company wholly owned by Mr. Wong Yuet Leung, Frankie (a former Non-executive Director of the Company), for providing consultancy services with respect to the divestment of the Group’s interest in LSOC.
- (i) Disclosures of the remuneration of Directors and other members of key management during the year under HKAS 24 “Related Party Disclosures”, were as follows:

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| Fees                                    | 2                    | 2                    |
| Salaries and other benefits             | 27                   | 28                   |
| Performance bonuses                     | 5                    | 5                    |
| Retirement benefit scheme contributions | 2                    | 3                    |
| Other services fee                      | 1                    | 2                    |
| Share-based payments                    | –                    | 2                    |
|   | <b>37</b>            | 42                   |

The remuneration of Executive Directors is determined by the Remuneration Committee having regard to the performance of each individual. The Remuneration Committee also determines the guiding principles applicable to the remuneration of key executives who are not Directors. In both cases, the Remuneration Committee has made reference to market trends.

Certain of the above related party transactions also constituted non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules, details of which are disclosed under the Directors’ Report section.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 39. FINANCIAL INSTRUMENTS

### (a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. There has been no change in the Group's exposure to capital risk or the manner in which it manages and measures the risk.

The capital structure of the Group consists of debts, which include bank and other borrowings, and equity attributable to the owners of the Company, comprising issued share capital, reserves and retained profits.

The Directors of the Company review the capital structure periodically. As a part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will adjust its overall capital structure through the issue of new shares, new debt or the redemption of existing debt.

### (b) Categories of financial instruments

|   | 2016<br>HK\$ million | 2015<br>HK\$ million |
|---|----------------------|----------------------|
| <b>Financial assets</b>                                     |                      |                      |
| Available-for-sale investments                              | 50                   | 64                   |
| Loans and receivables (including cash and cash equivalents) | 6,562                | 8,001                |
| <b>Financial liabilities</b>                                |                      |                      |
| Amortised cost  | 3,941                | 4,740                |

### (c) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, debtors, amounts due from joint ventures, associates and related companies, restricted bank deposits, bank balances, creditors, amounts due to joint ventures, associates, related companies and non-controlling shareholders of subsidiaries and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

#### Market risk

The Group is exposed primarily to the financial risks of changes in interest rates, foreign currency exchange rates and equity prices. There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk. Details of each type of market risk are described as follows:

#### (i) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and variable-rate borrowings. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk but would consider doing so in respect of significant exposure should the need arise.

The Group's exposure to interest rates on bank deposits and financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate, London Interbank Offered Rate and People's Bank of China Prescribed Interest Rate arising from the Group's borrowings.

## 39. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### (i) Interest rate risk (Continued)

###### Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to cash flow interest rate risk for variable-rate borrowings. No sensitivity analysis is performed for bank deposits as the management considered the risk is immaterial. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. An increase or decrease of 100 basis points (2015: 100 basis points) is used when reporting the interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period, if interest rates had been increased/decreased by 100 basis points (2015: 100 basis points) and all other variables were held constant, the Group's loss for the year would increase/decrease by approximately HK\$22 million for the year ended 31 December 2016 (2015: HK\$29 million). In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

##### (ii) Foreign currency risk

Most of the Group's financial assets and financial liabilities are denominated in Hong Kong dollars or Renminbi, which are the same as the functional currency of the relevant group entities. The Group has certain bank balances and cash, current accounts with joint ventures and borrowings, which are denominated in foreign currencies and hence exposure to exchange rate fluctuations arises. The Group currently manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and will take out currency hedging contracts to reduce its foreign currency risk, where appropriate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities are as follows:

|                       | 2016<br>HK\$ million | 2015<br>HK\$ million |
|-----------------------|----------------------|----------------------|
| <b>Assets</b>         |                      |                      |
| United States dollars | 95                   | 94                   |
| Hong Kong dollars     | 3                    | 2                    |
| <b>Liabilities</b>    |                      |                      |
| Renminbi              | 391                  | 239                  |
| United States dollars | –                    | 233                  |
| Hong Kong dollars     | 271                  | 561                  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 39. FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Financial risk management objectives and policies (Continued)

##### Market risk (Continued)

##### (ii) Foreign currency risk (Continued)

##### Foreign currency sensitivity

The Group's foreign currency risk is mainly concentrated on the fluctuation among Renminbi, the United States dollars and Hong Kong dollars. The sensitivity analysis does not include those United States dollars denominated assets and liabilities when they are held by group entities having Hong Kong dollars as their functional currency since the exchange rates between United States dollars and Hong Kong dollars are pegged. The following table details the Group's sensitivity to a 7% (2015: 7%) change in the functional currencies of the relevant group entities against foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 7% (2015: 7%) change in foreign currency rates. The following table indicates the impact to the loss after tax where the foreign currencies strengthen against the functional currencies of the relevant group entities. For a 7% (2015: 7%) weakening of the foreign currencies against the functional currencies of the relevant group entities, there would be an equal and opposite impact on the loss. In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

| Decrease (increase) in loss | 2016         | 2015         |
|-----------------------------|--------------|--------------|
|                             | HK\$ million | HK\$ million |
| Renminbi                    | (27)         | (17)         |
| United States dollars       | 7            | 7            |
| Hong Kong dollars           | (19)         | (39)         |

##### (iii) Other price risk

The Group is exposed to equity price risk through its available-for-sale investments. If the market price of the investments had been increased/decreased by 20% (2015: 20%), the Group's reserve at 31 December 2016 would increase/decrease by approximately HK\$10 million (2015: HK\$13 million), and will be further recognised in profit or loss as impairment loss if decrease in price.

## 39. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Financial risk management objectives and policies (Continued)

#### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in note 37. In order to minimise credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the credit risk is significantly reduced.

The Group has certain concentration of credit risk in respect of amounts due from joint ventures, associates and trade debtors and other receivables. At 31 December 2016, 58% (2015: 59%) of total amounts due from joint ventures and 22% (2015: 25%) of total trade debtors and other receivables was due from one single joint venture and a counterparty respectively. The amounts due from associates represented the receivables solely due from an associate. At 31 December 2016, other receivables of HK\$423 million (2015: HK\$417 million) were due from a counterparty and a guarantee on outstanding loan principal amounting to RMB542 million (HK\$606 million) (2015: RMB542 million (HK\$647 million)) and related interest amounting to RMB347 million (HK\$388 million) (2015: RMB280 million (HK\$334 million)) was issued by the Company in respect of a loan advanced to this counterparty. In order to reduce credit risk, the Group has procedures in place to monitor the credit standing of this counterparty and to ensure that follow-up action is taken to recover these debts. The Group also reviews the recoverable amounts of the relevant debts and the probability of default by the counterparty at the end of each reporting period. The Directors of the Company considered that no provision for impairment loss is necessary at the end of the reporting period. Except for the above, the Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds should be limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies or state-owned banks in the PRC.

With respect to credit risk arising from amounts due from joint ventures and associates, the Group's exposure to credit risk arising from default of the counterparty is limited as the counterparties have sufficient net assets to repay its debts and a good history of repayment. The Group does not expect to incur a significant loss for uncollected amounts due from these joint ventures and associates.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 39. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Financial risk management objectives and policies (Continued)

#### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The following table details the Group's contractual maturity for its financial liabilities as well as certain financial assets. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. For financial assets, the table reflects the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The table includes both interest and principal cash flows.

|   | Weighted<br>average<br>effective<br>interest rate<br><br>% p.a. | On demand<br>or less than<br>3 months<br>HK\$ million | 3 months to<br>1 year<br>HK\$ million | 1-2 years<br>HK\$ million | 2-3 years<br>HK\$ million | Total<br>undiscounted<br>cash flow<br>HK\$ million | Carrying<br>amount<br>HK\$ million |
|---|---|---|---------------------------------------|---------------------------|---------------------------|--|------------------------------------|
| At 31 December 2016                     |   |   |                                       |                           |                           |  |                                    |
| Bank deposits                           | 0.32%   | –   | 449                                   | –                         | –                         | 449  | 447                                |
| Trade and other payables                | –   | (1,139)   | (372)                                 | (76)                      | –                         | (1,587)  | (1,587)                            |
| Bank and other borrowings               |   |   |                                       |                           |                           |  |                                    |
| – variable rate                         | 4.17%   | (296)   | (1,305)                               | (413)                     | (288)                     | (2,302)  | (2,211)                            |
| – fixed rate                            | 11%   | –   | (154)                                 | –                         | –                         | (154)  | (143)                              |
|   | –   | (1,435)   | (1,382)                               | (489)                     | (288)                     | (3,594)  | (3,494)                            |
| Financial guarantee contracts<br>(note) | –   | (20)  | (1,903)                               | (358)                     | (118)                     | (2,399)  | –                                  |
| At 31 December 2015                     |   |   |                                       |                           |                           |  |                                    |
| Bank deposits                           | 1.17%   | 314   | –                                     | –                         | –                         | 314  | 314                                |
| Trade and other payables                | –   | (966)   | (380)                                 | (59)                      | –                         | (1,405)  | (1,405)                            |
| Bank and other borrowings               |   |   |                                       |                           |                           |  |                                    |
| – variable rate                         | 4.26%   | (1,547)   | (1,188)                               | (78)                      | (200)                     | (3,013)  | (2,943)                            |
| – fixed rate                            | 13.44%  | –   | (270)                                 | (164)                     | –                         | (434)  | (392)                              |
|   |   | (2,199)   | (1,838)                               | (301)                     | (200)                     | (4,538)  | (4,426)                            |
| Financial guarantee contracts<br>(note) | –   | (118)   | (1,193)                               | (138)                     | (608)                     | (2,057)  | –                                  |

Note:

At the end of the reporting period, the Group has provided financial guarantees to certain parties (note 37). In the event of the failure of those parties to meet their obligations under these facilities, the Group may be required to pay up to the guaranteed amounts upon demand. Management does not consider that it is probable for these parties to claim the Group under these guarantees.

## 39. FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

At 31 December 2016 and 31 December 2015, the only financial instrument of the Group that was measured subsequent to initial recognition at fair value is available-for-sale investments, of which the fair value was classified as level 1 fair value measurement and was derived from unadjusted quoted prices available on the Hong Kong Stock Exchange (active market).

The Directors of the Company consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|  | 2016<br>HK\$ million | 2015<br>HK\$ million |
|--|----------------------|----------------------|
| <b>Non-current Assets</b>                    |                      |                      |
| Property, plant and equipment                | 3                    | 4                    |
| Interests in subsidiaries                    | 7,423                | 7,865                |
| Club memberships                             | 1                    | 1                    |
|  | <b>7,427</b>         | <b>7,870</b>         |
| <b>Current Assets</b>                        |                      |                      |
| Debtors, deposits and prepayments            | 196                  | 182                  |
| Amounts due from subsidiaries                | 148                  | 684                  |
| Amounts due from joint ventures/associates   | 8                    | 6                    |
| Amounts due from related companies           | 1                    | 39                   |
| Restricted bank deposits                     | 110                  | 154                  |
| Bank balances, deposits and cash             | 100                  | 298                  |
|  | <b>563</b>           | <b>1,363</b>         |
| <b>Current Liabilities</b>                   |                      |                      |
| Creditors and accrued charges                | 22                   | 24                   |
| Amounts due to subsidiaries                  | –                    | 560                  |
| Amounts due to joint ventures/associates     | 419                  | 419                  |
| Amounts due to related companies             | 602                  | 487                  |
| Bank and other borrowings                    | 1,225                | 1,960                |
|  | <b>2,268</b>         | <b>3,450</b>         |
| <b>Net Current Liabilities</b>               | <b>(1,705)</b>       | <b>(2,087)</b>       |
| <b>Total Assets Less Current Liabilities</b> | <b>5,722</b>         | <b>5,783</b>         |
| <b>Capital and Reserves</b>                  |                      |                      |
| Share capital (note 30)                      | 484                  | 484                  |
| Reserves (note)                              | 3,033                | 3,792                |
|  | <b>3,517</b>         | <b>4,276</b>         |
| <b>Non-current Liabilities</b>               |                      |                      |
| Amounts due to subsidiaries                  | 2,093                | 1,355                |
| Defined benefit liabilities                  | 112                  | 152                  |
|  | <b>2,205</b>         | <b>1,507</b>         |
|  | <b>5,722</b>         | <b>5,783</b>         |

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors of the Company on 24 March 2017 and are signed on its behalf by:

**Lo Hong Sui, Vincent**  
Chairman

**Wong Yuet Leung, Frankie**  
Executive Director, Chief Executive Officer and Chief Financial Officer

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note: Movement of the Company's reserves are set out below:

|  | Share<br>premium<br>HK\$ million | Contributed<br>surplus<br>HK\$ million | Retained<br>Profits/<br>accumulated<br>losses<br>HK\$ million | Share<br>option<br>reserve<br>HK\$ million | Actuarial<br>gain and<br>loss<br>HK\$ million | Other<br>reserve<br>HK\$ million | Total<br>HK\$ million |
|--|----------------------------------|--|---|--|---|----------------------------------|-----------------------|
| At 1 January 2015                                    | 3,172                            | 89                                     | 167   | 74   | (72)  | 231                              | 3,661                 |
| Profit for the year                                  | –                                | –                                      | 147   | –  | –   | –                                | 147                   |
| Recognition of actuarial loss                        | –                                | –                                      | –   | –  | (19)  | –                                | (19)                  |
| Total comprehensive expense<br>for the year          | –                                | –                                      | 147   | –  | (19)  | –                                | 128                   |
| Recognition of share-based<br>payments               | –                                | –                                      | –   | 3  | –   | –                                | 3                     |
| Transfer upon lapse of share<br>options              | –                                | –                                      | 30  | (30)                                       | –   | –                                | –                     |
| At 31 December 2015                                  | 3,172                            | 89                                     | 344   | 47   | (91)  | 231                              | 3,792                 |
| Loss for the year                                    | –                                | –                                      | <b>(778)</b>  | –  | –   | –                                | <b>(778)</b>          |
| Recognition of actuarial gain                        | –                                | –                                      | –   | –  | <b>18</b>                                     | –                                | <b>18</b>             |
| Total comprehensive income<br>(expense) for the year | –                                | –                                      | <b>(778)</b>  | –  | <b>18</b>                                     | –                                | <b>(760)</b>          |
| Recognition of share-based<br>payments               | –                                | –                                      | –   | <b>1</b>                                   | –   | –                                | <b>1</b>              |
| Transfer upon lapse of share<br>options              | –                                | –                                      | <b>24</b>   | <b>(24)</b>                                | –   | –                                | –                     |
| At 31 December 2016                                  | <b>3,172</b>                     | <b>89</b>                              | <b>(410)</b>  | <b>24</b>                                  | <b>(73)</b>                                   | <b>231</b>                       | <b>3,033</b>          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The Directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the following list contains only the particulars of subsidiaries at 31 December 2016 and 31 December 2015, which principally affect the results or assets of the Group. All the companies listed below were incorporated and are operating in Hong Kong except as otherwise indicated.

| Subsidiaries  | Issued and fully paid share capital/<br>registered and paid up capital   | Interest held by the<br>Company |            | Principal activities  |
|---|--|---------------------------------|------------|---|
|   |  | Directly                        | Indirectly |   |
| <b>Construction and building<br/>maintenance business</b> |  |                                 |            |   |
| P.D. (Contractors) Limited                                | 1,000,000 ordinary shares (HK\$1,000,000)  | –                               | 82%        | Renovation work   |
| Pacific Extend Limited                                    | 10,000 ordinary shares (HK\$10,000)<br>6,000 special shares (HK\$6,000)  | –                               | 67%        | Maintenance contractor  |
| Pat Davie Limited   | 2,600,100 ordinary shares<br>(HK\$2,600,100)<br>100,000 non-voting deferred shares<br>(HK\$1,000,000)<br>6,800,000 non-voting deferred shares<br>(HK\$6,800,000)       | –                               | 82%        | Interior decoration,<br>fitting out, design<br>and contracting                            |
| Pat Davie (Macau) Limited <sup>##</sup>                   | Two quotas of total face value of<br>MOP1,000,000  | –                               | 82%        | Interior decoration,<br>fitting out, design and<br>contracting                            |
| Shui On Building Contractors Limited                      | 117,000,100 ordinary shares<br>(HK\$117,000,100)<br>33,000,100 non-voting deferred shares<br>(HK\$33,000,100)<br>50,000 non-voting deferred shares<br>(HK\$50,000,000) | –                               | 100%       | Building construction and<br>maintenance  |
| Shui On Construction Company Limited                      | 100 ordinary shares (HK\$100)<br>69,000,000 non-voting deferred shares<br>(HK\$69,000,000)<br>1,030,000 non-voting deferred shares<br>(HK\$103,000,000)                | –                               | 100%       | Building construction   |
| Shui On Contractors Limited*                              | 1 share of US\$1   | 100%                            | –          | Investment holding  |
| Shui On Plant and Equipment<br>Services Limited           | 16,611,000 ordinary shares<br>(HK\$16,611,000)<br>45,389,000 non-voting deferred shares<br>(HK\$45,389,000)  | –                               | 100%       | Owning and leasing of<br>plant and machinery<br>and structural steel<br>construction work |

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

| Subsidiaries  | Issued and fully paid share capital/<br>registered and paid up capital | Interest held by the<br>Company |            | Principal activities              |
|---|--|---------------------------------|------------|-----------------------------------|
|   |  | Directly                        | Indirectly |                                   |
| <b>Property business</b>  |  |                                 |            |                                   |
| New Rainbow Investments Limited*  | 1 share of US\$1   | 100%                            | –          | Investment holding                |
| Brilliance Investments Limited*   | 1 share of US\$1   | 100%                            | –          | Investment holding                |
| Main Zone Group Limited*  | 1 share of US\$1   | 100%                            | –          | Investment holding                |
| China Central Properties Limited <sup>^</sup>                           | 281,193,011 shares of GBP0.01 each                                     | 57.12%                          | 42.88%     | Investment holding                |
| Shui On China Central Properties Limited*                               | 1 share of US\$1   | –                               | 100%       | Investment holding                |
| Dalian Shengyuan Real Estate Consulting Co., Ltd.***                    | Registered and paid up capital of RMB50,000,000                        | –                               | 100%       | Investment holding                |
| 北京億達房地產開發有限公司****<br>(Beijing Yida Real Estate Development Co., Ltd.)   | Registered and paid up capital of RMB30,000,000                        | –                               | 100%       | Property Investment               |
| Chengdu Shui On Huiyuan Property Co., Ltd.***                           | Registered and paid up capital of US\$21,000,000                       | –                               | 100%       | Property development              |
| Chongqing Hui Zheng Properties Co., Ltd.***                             | Registered and paid up capital of US\$75,000,000                       | –                               | 100%       | Property development              |
| Honest Joy Investments Limited*   | 100 shares of US\$1 each   | –                               | 100%       | Investment holding                |
| Pacific Hill Limited  | 1 ordinary share (HK\$1)   | –                               | 100%       | Investment holding                |
| Shenyang Hua Hui Properties Co. Ltd.***                                 | Registered and paid up capital of US\$70,000,000                       | –                               | 100%       | Property development              |
| 廣州英發房地產開發有限公司***<br>(Guangzhou Infotach Property Development Co., Ltd.) | Registered and paid up capital of US\$64,700,000                       | –                               | 100%       | Property development              |
| SOCAM Asset Management Limited*   | 1 share of US\$1   | 100%                            | –          | Investment holding                |
| SOCAM Asset Management (HK) Limited                                     | 1 ordinary share (HK\$1)   | –                               | 100%       | Provision of management services  |
| Beijing SOCAM Real Estate Consulting Co., Ltd.***                       | Registered and paid up capital of RMB800,000                           | –                               | 100%       | Provision of consultancy services |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

| Subsidiaries   | Issued and fully paid share capital/<br>registered and paid up capital | Interest held by the<br>Company |                | Principal activities                    |
|--|--|---------------------------------|----------------|---|
|  |  | Directly                        | Indirectly     |   |
| <b>Property business (Continued)</b>                                   |  |                                 |                |   |
| Shui On Project Management (China) Limited*                            | 1 share of US\$1   | –                               | 100%           | Investment holding                      |
| Trillion Earn Limited  | 1 ordinary share (HK\$1)   | –                               | 100%           | Investment holding                      |
| High Spirit Project Management Consultancy Limited                     | 1 ordinary share (HK\$1)   | –                               | 100%           | Project management consultancy services |
| Poly Edge Enterprises Limited*   | 1 share of US\$1   | 100%                            | –              | Investment holding                      |
| Max Clear Holdings Limited*  | 1 share of US\$1   | 100%                            | –              | Provision of management services        |
| Dalian Zhong Hui Construction Materials Co., Ltd.**                    | Registered and paid up capital of US\$32,000,000                       | –                               | 100%           | Wholesale of construction materials     |
| Broad Wise Limited*  | 100 shares of US\$1 each   | –                               | 100%           | Investment holding                      |
| 遵義天時利房地產開發有限公司***<br>(Zunyi Tinsley Real Estate Development Co., Ltd.) | Registered and paid up capital of HK\$388,000,000                      | –                               | 100%<br>(Note) | Property development                    |

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

| Subsidiaries   | Issued and fully paid share capital/<br>registered and paid up capital                      | Interest held by the<br>Company |            | Principal activities                 |
|--|---|---------------------------------|------------|--------------------------------------|
|  |   | Directly                        | Indirectly |                                      |
| <b>Other businesses</b>  |   |                                 |            |                                      |
| Lamma Rock Products Limited  | 100 ordinary shares (HK\$1,000)<br>3,500,000 non-voting deferred shares<br>(HK\$35,000,000) | –                               | 100%       | Investment holding                   |
| T H Industrial Management Limited <sup>#</sup>   | 2,740 ordinary shares of US\$1 each   | –                               | 100%       | Investment holding                   |
| Glorycrest Holdings Limited <sup>*</sup>   | 1 share of US\$1  | –                               | 100%       | Investment holding                   |
| Shui On Building Materials Limited   | 100 ordinary shares (HK\$100)<br>1,000,000 non-voting deferred shares<br>(HK\$1,000,000)    | –                               | 100%       | Investment holding                   |
| Shui On Cement (Guizhou) Limited <sup>*</sup>  | 100,000 shares of US\$1 each  | –                               | 100%       | Investment holding                   |
| Shui On Materials Limited <sup>*</sup>   | 1 share of US\$1  | 100%                            | –          | Investment holding                   |
| Tinsley Holdings Limited <sup>***</sup>  | 2 ordinary shares of US\$1 each   | –                               | 100%       | Investment holding                   |
| Top Bright Investments Limited <sup>***</sup>  | 2 ordinary shares of US\$1 each   | –                               | 100%       | Investment holding                   |
| Winway Holdings Limited <sup>***</sup>   | 2 ordinary shares of US\$1 each   | –                               | 100%       | Investment holding                   |
| 貴州瑞安水泥發展管理有限公司 <sup>***</sup><br>(Guizhou Shui On Cement Development<br>Management Co. Ltd.) | Registered and paid up capital of<br>US\$670,000  | –                               | 100%       | Provision of consultancy<br>services |
| 貴州凱里建安混凝土有限公司 <sup>**</sup><br>(Guizhou Kaili Ken On Concrete Co., Ltd.)                     | Registered and paid up capital of<br>RMB10,000,000  | –                               | 100%       | Supply of ready mixed<br>concrete    |
| 貴州凱里瑞安水泥有限公司 <sup>**</sup><br>(Guizhou Kaili Shui On Cement Co. Ltd.)                        | Registered and paid up capital of<br>RMB60,000,000  | –                               | 100%       | Inactive                             |

\* Incorporated in the British Virgin Islands

\*\* Established and operated in other regions of the PRC

\*\*\* Incorporated in Mauritius

# Incorporated in the Bahamas

## Incorporated in Macau Special Administrative Region of the PRC

^ Incorporated in Isle of Man

+ Wholly-foreign owned enterprise

++ Limited liability company

None of the subsidiaries had any debt securities subsisting at 31 December 2016 or at any time during the year.

Note: 遵義天時利房地產開發有限公司 (Zunyi Tinsley Real Estate Development Co., Ltd.), indirectly held subsidiary of the Company, was disposed of during the year ended 31 December 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 42. PARTICULARS OF PRINCIPAL JOINT VENTURES

The Directors are of the opinion that a complete list of the particulars of all joint ventures will be of excessive length and therefore the following list contains only the particulars of principal joint ventures of the Group at 31 December 2016 and 31 December 2015. All the companies listed below were incorporated and are operating in Hong Kong except otherwise indicated.

| Indirect joint ventures   | Issued and paid up share capital/<br>registered and paid up capital | Interest held<br>by the Group | Principal activities                             | Note |
|---|---|-------------------------------|--|------|
| <b>Construction and building<br/>maintenance business</b>             |   |                               |  |      |
| Super Race Limited  | 420,000 ordinary shares<br>(HK\$420,000)                            | 50%                           | Supply of sink units and<br>cooking benches      |      |
| 鶴山超合預制件有限公司** <sup>①</sup><br>(Heshan Chaohe Yizhi Jian Co. Ltd.)     | Registered and paid up capital of<br>US\$1,284,600                  | 50%                           | Manufacture of sink units<br>and cooking benches | 1    |
| <b>Property business</b>  |   |                               |  |      |
| Twenty-One Century Holdings Limited                                   | 10,000 ordinary shares (HK\$10,000)                                 | 80%                           | Investment holding                               | 1    |
| Eagle Fit Limited*  | 200 shares of US\$1 each  | 65%                           | Investment holding                               | 1    |
| Cosy Rich Limited*  | 2 shares of US\$1 each  | 50.04%                        | Investment holding                               | 1    |
| Chengdu Xianglong Real Estate<br>Co., Ltd.** <sup>③</sup>             | Registered and paid up capital of<br>RMB450,000,000                 | 81%                           | Property development                             | 1    |
| Win Lead Holdings Limited*  | 100 shares of US\$1 each  | 50.04%                        | Investment holding                               | 1    |
| 江蘇九西建設發展有限公司** <sup>③</sup><br>(Jiangsu Jiu Xi Development Co., Ltd.) | Registered and paid up capital of<br>RMB382,000,000                 | 50.04%                        | Property development                             | 1    |

## 42. PARTICULARS OF PRINCIPAL JOINT VENTURES (CONTINUED)

| Indirect joint ventures   | Issued and paid up share capital/<br>registered and paid up capital | Interest held<br>by the Group | Principal activities              | Note |
|---|---|-------------------------------|-----------------------------------|------|
| <b>Other businesses</b>   |   |                               |                                   |      |
| The Yangtze Ventures Limited <sup>#</sup>                             | 1,000 ordinary shares of HK\$0.1 each                               | 65.5%                         | Venture capital investments       | 1    |
| The Yangtze Ventures II Limited <sup>#</sup>                          | 1,000 ordinary shares of HK\$0.1 each                               | 75.4%                         | Venture capital investments       | 1    |
| On Capital China Fund Series <sup>A #</sup>                           | 13,923 participating shares of US\$0.01 each                        | 66.81%                        | Venture capital investments       | 1    |
| On Capital China Fund Series <sup>B #</sup>                           | 8,418 participating shares of US\$0.01 each                         | 61.54%                        | Venture capital investments       | 1    |
| 貴州遵義瑞安水泥有限公司 <sup>**⊗</sup><br>(Guizhou Zunyi Shui On Cement Co. Ltd) | Registered and paid up capital of RMB92,000,000                     | 80%                           | Inactive                          | 1    |
| Nanjing Jiangnan Cement Co., Ltd. <sup>**⊗</sup>                      | Registered and paid up capital of RMB120,000,000                    | 60%                           | Manufacture and trading of cement | 1    |

\* Incorporated in the British Virgin Islands

\*\* Established and operated in other regions of the PRC

# Incorporated in the Cayman Islands

+ Wholly-foreign owned enterprise

⊗ Equity joint venture

Note:

- The Group and the other joint venturers are contractually agreed sharing of control and have rights to the net assets of these entities. The decisions about the relevant activities of these entities require unanimous consent of the Group and the other joint venturers. Accordingly, the Directors consider they are joint ventures.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 43. PARTICULARS OF PRINCIPAL ASSOCIATES

The Directors are of the opinion that a complete list of the particulars of all associates will be of excessive length and therefore the following list contains only the particulars of principal associates of the Group at 31 December 2016 and 31 December 2015.

| Indirect associates  | Issued and paid up share capital/<br>registered and paid up capital | Interest held<br>by the Group | Principal activities      |
|--|---|-------------------------------|---------------------------|
| Richcoast Group Limited*   | 780 shares of US\$1 each  | 28.2%                         | Investment holding        |
| Dalian Qiantong Science & Technology Development Co., Ltd.**@      | Registered and paid up capital of RMB800,000,000                    | 22%                           | Software park development |
| Dalian Ruisheng Software Development Co., Ltd.**@                  | Registered and paid up capital of RMB800,000,000                    | 22%                           | Software park development |
| Dalian Delan Software Development Co., Ltd.**@                     | Registered and paid up capital of RMB300,000,000                    | 22%                           | Software park development |
| Dalian Jiadao Science & Technology Development Co., Ltd.**@        | Registered and paid up capital of RMB300,000,000                    | 22%                           | Software park development |
| 大連軟件園瑞安發展有限公司**<br>(Dalian Software Park Shui On Fazhan Co., Ltd.) | Registered and paid up capital of RMB600,000,000                    | 22%                           | Software park development |
| 大連軟件園瑞安開發有限公司** (Dalian Software Park Shui On Kaifa Co., Ltd.)     | Registered and paid up capital of RMB600,000,000                    | 22%                           | Software park development |
| 大連軟件園中興開發有限公司** (Dalian Software Park Zhong Xing Kaifa Co., Ltd.)  | Registered and paid up capital of RMB1,900,000,000                  | 22%                           | Software park development |
| 大連軟件園榮達開發有限公司** (Dalian Software Park Rong Da Kaifa Co., Ltd.)     | Registered and paid up capital of RMB660,000,000                    | 22%                           | Software park development |
| 大連軟件園榮泰開發有限公司** (Dalian Software Park Rong Tai Kaifa Co., Ltd.)    | Registered and paid up capital of RMB100,000,000                    | 22%                           | Software park development |
| 大連軟件園榮源開發有限公司** (Dalian Software Park Rong Yuan Kaifa Co., Ltd.)   | Registered and paid up capital of RMB350,000,000                    | 22%                           | Software park development |

\* Incorporated in the British Virgin Islands

\*\* Established and operated in other regions of the PRC

@ Equity joint venture

The end of the consolidated financial statements.

The statement below from the Company does not form part of the consolidated financial statements:

Readers of these consolidated financial statements are strongly encouraged to read the Management Discussion and Analysis section set out in this annual report, which does not form part of the consolidated financial statements, to gain a fuller appreciation of the Group's financial results and situation in the context of its activities.

# GROUP FINANCIAL SUMMARY

## 1. RESULTS

|                               | Year ended 31 December |                      |                      |                      |                      |
|-------------------------------|------------------------|----------------------|----------------------|----------------------|----------------------|
|                               | 2012<br>HK\$ million   | 2013<br>HK\$ million | 2014<br>HK\$ million | 2015<br>HK\$ million | 2016<br>HK\$ million |
| Turnover                      | 6,443                  | 7,952                | 6,102                | 5,916                | <b>5,345</b>         |
| Profit (loss) before taxation | 627                    | (330)                | (1,345)              | (1,041)              | <b>(1,362)</b>       |
| Taxation                      | (142)                  | (542)                | (14)                 | (68)                 | <b>6</b>             |
| Profit (loss) for the year    | 485                    | (872)                | (1,359)              | (1,109)              | <b>(1,356)</b>       |
| Attributable to:              |                        |                      |                      |                      |                      |
| Owners of the Company         | 459                    | (889)                | (1,374)              | (1,126)              | <b>(1,382)</b>       |
| Non-controlling interests     | 26                     | 17                   | 15                   | 17                   | <b>26</b>            |
|                               | 485                    | (872)                | (1,359)              | (1,109)              | <b>(1,356)</b>       |

## 2. ASSETS AND LIABILITIES

|                           | At 31 December       |                      |                      |                      |                      |
|---------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                           | 2012<br>HK\$ million | 2013<br>HK\$ million | 2014<br>HK\$ million | 2015<br>HK\$ million | 2016<br>HK\$ million |
| Total assets              | 23,320               | 23,120               | 18,520               | 12,339               | <b>9,210</b>         |
| Total liabilities         | (13,032)             | (13,729)             | (10,650)             | (6,759)              | <b>(5,338)</b>       |
|                           | 10,288               | 9,391                | 7,870                | 5,580                | <b>3,872</b>         |
| Equity attributable to:   |                      |                      |                      |                      |                      |
| Owners of the Company     | 10,218               | 9,324                | 7,833                | 5,542                | <b>3,835</b>         |
| Non-controlling interests | 70                   | 67                   | 37                   | 38                   | <b>37</b>            |
|                           | 10,288               | 9,391                | 7,870                | 5,580                | <b>3,872</b>         |



# CORPORATE INFORMATION

## BOARD

### Executive Directors

Mr. Lo Hong Sui, Vincent (Chairman)  
Mr. Wong Yuet Leung, Frankie  
(Chief Executive Officer and Chief Financial Officer)

### Non-executive Director

Mr. Tsang Kwok Tai, Moses

### Independent Non-executive Directors

Ms. Li Hoi Lun, Helen  
Mr. Chan Kay Cheung  
Mr. William Timothy Addison

## AUDIT COMMITTEE

Mr. Chan Kay Cheung (Chairman)  
Ms. Li Hoi Lun, Helen  
Mr. William Timothy Addison

## REMUNERATION COMMITTEE

Ms. Li Hoi Lun, Helen (Chairman)  
Mr. Lo Hong Sui, Vincent  
Mr. Chan Kay Cheung

## NOMINATION COMMITTEE

Mr. Lo Hong Sui, Vincent (Chairman)  
Ms. Li Hoi Lun, Helen  
Mr. Chan Kay Cheung

## FINANCE COMMITTEE

Mr. Wong Yuet Leung, Frankie (Chairman)  
Mr. Tsang Kwok Tai, Moses  
Mr. Chan Kay Cheung  
Mr. William Timothy Addison

## INVESTMENT COMMITTEE

Mr. Wong Yuet Leung, Frankie (Chairman)  
Ms. Li Hoi Lun, Helen  
Mr. Chan Kay Cheung  
Mr. William Timothy Addison

## EXECUTIVE COMMITTEE

Mr. Wong Yuet Leung, Frankie (Chairman)  
Mr. Lo Hong Sui, Vincent  
Other key executives

## COMPANY SECRETARY

Ms. Chan Yeuk Ho, Karen

## AUDITOR

Deloitte Touche Tohmatsu

## REGISTERED OFFICE

Clarendon House, 2 Church Street  
Hamilton HM 11, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

34th Floor, Shui On Centre  
6-8 Harbour Road, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited  
(Formerly known as Codan Services Limited)  
Clarendon House, 2 Church Street  
Hamilton HM 11, Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited  
Level 22, Hopewell Centre  
183 Queen's Road East, Hong Kong

## PRINCIPAL BANKERS

Hang Seng Bank, Limited  
Standard Chartered Bank (Hong Kong) Limited  
Industrial and Commercial Bank of China Limited  
Shanghai Commercial Bank Limited  
BNP Paribas

## STOCK CODE

983

## WEBSITE

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