瑞安建業
SOCAM DEVELOPMENT

REVITALISE FOR PROFITABILITY

Annual Report 2017

Stock Code: 983

About SOCAM

Listed on the Hong Kong Stock Exchange in 1997, SOCAM Development Limited is principally engaged in property and construction businesses, with operations spanning the Chinese Mainland, Hong Kong and Macau.

Corporate Values

SOCAM's corporate culture is based on the Shui On Group's adherence to a comprehensive set of corporate governance principles, and our commitment to integrity, quality, innovation and excellence.

integrity quality innovation excellence

Shui On – We Care

SOCAM adheres to its corporate social responsibility commitment as we play our part in giving back to society and serving the community. We provide employees with an environment where they can grow and excel, as well as enhance personal wellbeing. On-site, we regard safety as paramount. The Group is also committed to taking every measure to protect the environment.

A member of the Shui On Group

On a prudent path ......

Contents

Shenyang Tiandi

has the architectural quality and distinctive elements to become a renowned centre for eclectic entertainment and food and beverage options.

Project Completion
2015

Asset Enhancement
2017 to present

Gross Floor Area#
87,600 sq.m.
Retail: 62,200 sq.m.

Creating **Attractive** Experiential Shopping Environments

Project Completion
2019

Asset Enhancement Completion (Phase 1)
2018

Gross Floor Area#
123,300 sq.m.
Retail: 107,400 sq.m.

Tianjin Veneto

comprises a retail mall featuring attractive Italian style pedestrian street for a uniquely European vibe.

At 31 December 2017

Project Completion
2017

Shopping Mall
Soft Opening
2017

Gross Floor Area#
222,600 sq.m.
Retail: 43,000 sq.m.

Chengdu Centropolitan Shopping Mall

mainly targets families in the neighbourhood and provides them with a wide range of fresh experiences.

Fresh and Innovative Ideas

Chongqing Creative Concepts Center

comprises boutique residences, grade-A designer office space and a shopping mall, a quality cultural hub situated close to Jiefangbei Square.

Project Completion
2010

Asset Enhancement Completion
2018

Gross Floor Area#
30,900 sq.m.
Retail: 21,000 sq.m.

At 31 December 2017

Client
Architectural Services Department, HKSAR

Contract Period
Aug 2013 – Sep 2017

Contract Value
HK$9 billion

Hong Kong Children's Hospital

is located on a site that was the apron of the old Kai Tak airport, giving the HKSAR its first dedicated hospital for children, enhancing the quality and raising the professional standard of paediatric services.

Building
For the future

Client
Hong Kong Housing Authority

Contract Period
Oct 2012 – Apr 2018

Contract Value
HK$4.5 billion

So Uk Estate (Phases 1&2)

is one of the most historical public housing estates in Hong Kong and has been undergoing redevelopment works since 2012. Upon completion, it will offer 14 blocks to provide more housing units while preserving the original unique architectural structures.

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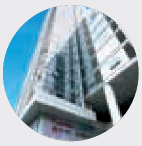
SOCAM DEVELOPMENT

PROPERTY

In the Chinese Mainland, we have turned around a number of high quality properties in special situations over the years. SOCAM currently owns a select property portfolio, which includes retail properties, high-grade residential and office space and carparks. Our focus is refurbishing and upgrading our four shopping malls with the aim to unlock the value of our assets.

Chengdu Centropolitan

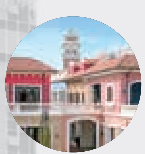


Chongqing Creative Concepts Center

Guangzhou Parc Oasis

Nanjing Scenic Villa

Shenyang Project Phase I



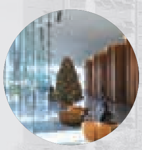
Tianjin Veneto

CONSTRUCTION

Our accredited and award-winning construction business marked the origin of SOCAM. In Hong Kong, our construction business is a major player in the building of public housing and design-and-build of institutional buildings and community structures, mainly for government and institutional clients. The division has a strong track record of quality, site safety and environmental performance. Our interior fit-out arm works mainly in the private sector in Hong Kong and Macau, covering prestigious commercial, hotel and office premises.

Public Housing

Commercial, Residential and Institutional Buildings



Interior Fitting Out and Building Renovation

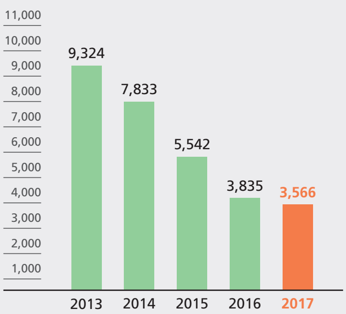
Maintenance

FINANCIAL HIGHLIGHTS

HK$ million	2013	2014 (Re-presented)	2015	2016	**2017**
	Year ended 31 December				
Turnover					
SOCAM and subsidiaries	7,952	6,102	5,916	5,345	**6,472**
Share of joint ventures and associates	4,460	640	363	1,572	**481**
Total	12,412	6,742	6,279	6,917	**6,953**
Loss attributable to shareholders	(889)	(1,374)	(1,126)	(1,382)	**(613)**
Basic loss per share	(1.81)	(2.84)	(2.33)	(2.86)	**(1.27)**
At 31 December					
Total assets (HK$ billion)	23.1	18.5	12.3	9.2	**12.0**
Net assets (HK$ billion)	9.3	7.8	5.5	3.8	**3.6**
Net asset value per share (HK$)	19.26	16.17	11.44	7.92	**7.36**
Net gearing	48.3%	53.7%	21.0%	33.5%	**53.6%**

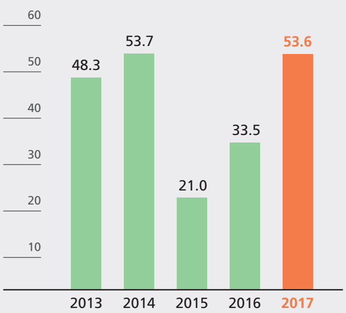
Equity Attributable to Shareholders of the Company

HK$ million



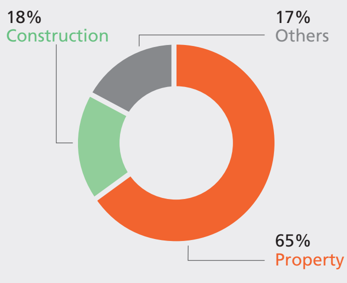
Net Gearing

At 31 December 2017
Percentage



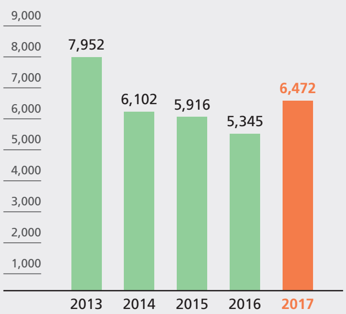
Assets Employed

At 31 December 2017



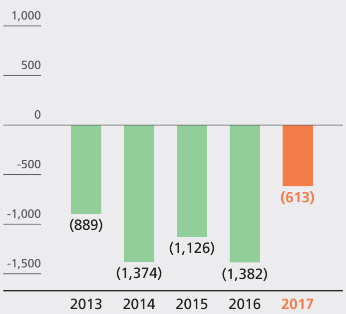
Turnover

HK$ million



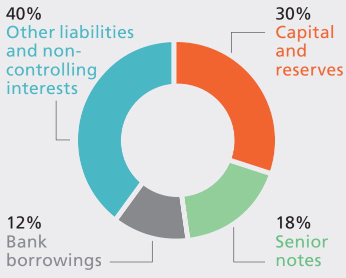
Loss Attributable to Shareholders of the Company

HK$ million



Capital and Liabilities

At 31 December 2017



MAJOR EVENTS IN 2017

MAR

Caring Company

SOCAM was awarded the 10 Years Plus Caring Company Logo from The Hong Kong Council of Social Services.

MAY&JUN

Successful issuance of Senior Notes

Issued 3-year US$ denominated notes in an aggregate amount of US$280 million.

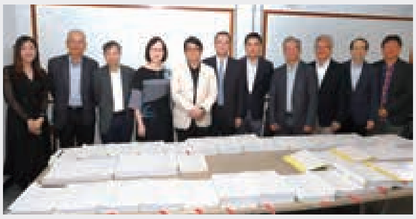
APR

Completed the Green Form Subsidised Home Ownership Pilot Scheme Development in San Po Kong (King Tai Court).

JUN

Construction: new contracts

Awarded the contract for design and construction of Junior Police Officers Married Quarters at Fan Garden, Fanling. Contract signing ceremony was held in October.



JUL

Construction: new contracts

Awarded the contract for construction of public housing development at Fung Shing Street, Wong Tai Sin.

Chengdu Centropolitan

- Leasing activity on the office tower began with 56% leased as of end of 2017.
- Bought back 19% interest in Chengdu Centropolitan from a financial investor, making it now a wholly-owned project.

Major Revamp of Shenyang Tiandi mall completed

The newly introduced 'Bar Street', focusing on lifestyle entertainment and food and beverage services, opened.

SEP

Completion of Children's Hospital

Completed on time the design-and-construction contract for the Hong Kong Children's Hospital.

Construction division rolled out equity participation scheme for top management

The Group sold 15% of the issued share capital of Shui On Contractors to seven senior executives of the Construction Division to boost company performance.

NOV

Further Sales launch of Nanjing Scenic Villa

Sales launch of the second batch of 39 villas in Phase II commenced; favourable market feedback received.

Acquisition of interests in Tianjin Veneto and Nanjing Scenic Villa

SOCAM acquired an additional 45% and 50% interest in the two projects respectively to enhance the Group's flexibility to unlock asset value.

DEC

Opening of Chengdu Centropolitan mall

Fresh market 'village' opened in December; an enriched offering specifically designed to enhance the mall's niche positioning.

Environmental Award achieved

Long Ching Public Housing Estate, a project of Shui On Building Contractors, achieved Final Platinum rating under BEAM Plus NB V1.2.

Completed the disposal of Dalian Tiandi interests

SOCAM sold its entire 22% interest in this joint venture project and realised HK$1.5 billion cash for the Company.

Safety Award clinched

Pacific Extend, our building maintenance arm, clinched the COO Safety Award 2017 from CLP Holdings on excellent safety record over the year.

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

Vincent H. S. LO
Chairman

"SOCAM has accelerated its asset enhancement strategy, and is in the process of revitalising its businesses, enhancing revenue and achieving our medium-term objective to create value."

Dear Shareholders,

2017 has been a positive year for the global economy, with rare synchronised growth continuing at a moderate pace in most major economies, benefiting businesses, markets and investors alike. China's GDP growth of 6.9% slightly exceeded Central Government forecasts of 6.5%. Expectations for a better year in 2018 have been boosted by the growth momentum that set in, in particular the Congressional approval for the U.S. tax reform, opening up opportunities for increased corporate investment and innovation. Optimism is only tempered by the prospect of further interest rate rises by the Federal Reserve, and concern over currency movements, increasing trade protectionism, the capital market turbulence which started in the United States and spread globally in February 2018 and rising geo-political risks in the Middle East and Asia.

The past year was one in which your Company made satisfactory progress in our two overarching ambitions. Firstly, we took significant strides in improving our balance sheet and, secondly, we were able to embark upon our rebuilding programme. SOCAM has accelerated its asset enhancement strategy, which encompasses not only improvements in the facilities, footfall and ambience of SOCAM's retail malls in the Chinese Mainland but also in trade-mix and promotional activities. By progressively enlivening our malls, we are in the process of generating higher shopper patronage, improving leasing, enhancing revenue and achieving our medium-term objective to create value.

As a result of the successful issuance of 3-year US$ denominated notes in an aggregate amount of US$280 million in May and June, the net proceeds have enabled the Group to repay its short-term bank borrowings and strengthen its financial position. In addition, SOCAM monetised its 22% shareholding in Dalian Tiandi for a cash consideration of HK$1.5 billion. This disposal has greatly decreased our ongoing portfolio commitments, enabling SOCAM to put greater focus on managing a smaller property portfolio.

Hong Kong's economic performance was the strongest in a decade with GDP growth of 3.8% yielding an unprecedented budget surplus of HK$138 billion. Barring external economic turbulence, this growth is forecast to be sustained in the medium-term. During the year, SOCAM's construction, maintenance and interior fit-out arms made good progress and secured contracts worth HK$6.8 billion (2016: HK$4.7 billion), and reported an operating profit of HK$135 million, compared to HK$75 million last year.

In the Chinese Mainland, national and regional governments were successful in steadying residential property prices by employing highly restrictive policy measures to calm the market. The commercial and retail market was mostly stagnant. In Chengdu, where almost 40% of SOCAM's property assets now reside, the weak retail leasing market and a hangover of oversupply in recent years put pressure on rental yields. SOCAM's four shopping malls were all at some stage of refurbishment and tenant mix adjustment over the year, temporarily disrupting occupancy rates. This shortfall in rental income, together with the book loss on the disposal of Dalian Tiandi, adversely affected SOCAM's property business performance, leading to a sectoral attributable loss of HK$291 million for 2017, which was a significant reduction of loss compared to 2016 (HK$1,182 million).

Improved Financial Position

SOCAM's overall performance for 2017 was an attributable loss of HK$613 million (2016: HK$1,382 million). Turnover was HK$6.5 billion (2016: HK$5.3 billion) and loss per share was HK$1.27 (2016: HK$2.86). Although the Group is yet to achieve a profit or dividend distribution, SOCAM's losses are contracting significantly.

In December, the Group sold its 22% stake in Dalian Tiandi, generating HK$1.5 billion cash proceeds for the Company over a 12-month period. Favourable sales and leasing results of this software park project over the past year gave rise to a divestment opportunity that, in line with our monetisation strategy since 2013, we were eager to seize. By raising our working capital, the Group can now redirect part of the proceeds to more vigorous projects with a shorter investment cycle. While the Group will continue to adopt a prudent financial management strategy to support our rebuilding programme, SOCAM is now in a stronger financial position to act on opportunities in our core business areas as they arise.

Revitalising Our Businesses

Over the year, your Company acquired a further 45% interest in Tianjin Veneto and 50% interest in Nanjing Scenic Villa. This brought the two projects into SOCAM's consolidated ownership and full control. These two acquisitions were made for a total consideration of HK$336 million. SOCAM is looking to capture the full market potential of these projects, well-located in two major cities in the Chinese Mainland.

We have since put into effect operational initiatives to rebuild our balance sheet and enhance asset value, and have seen welcome advances in achieving these identified goals.

Generally, the shopping mall operating environment in the Chinese Mainland is still very challenging due to oversupply in the retail sector, but the retail market has seen signs of recovery with the Central Government's continued stimulation of private consumption. During the year we have substantially completed the revamping of three of our four malls, in Chengdu, Shenyang and Tianjin. An enhancement plan for the Chongqing mall has been endorsed by the Board. SOCAM is currently seeing modest success in increasing footfall and tenant occupancy rates, which we expect will eventually lead to improved income. Yet there remain considerable challenges ahead to put the Company in a position to consider en-bloc divestment when retail supply and demand dynamics become more favourable.

On the construction front, we worked closely with the Architectural Services Department and the Hospital Authority in delivering the state-of-the-art Hong Kong Children's Hospital, completed on time in September 2017. This joint venture project between SOCAM and China State Construction has demonstrated SOCAM's construction credentials and ability to work in cohesive co-operation with joint venture partners. We see both of these competencies as vital in similar public facility tendering opportunities that lie ahead.

In the recent past, the HKSAR Government has been hindered by an inability to identify available sites for affordable housing development. A Land Supply Task Force, set up in August 2017, has yet to report on the viable sites or development strategies for public consultation.

Such is the urgency for high-volume expansion of public housing development. The Group remains confident that pragmatic land supply solutions can be found and that SOCAM's tendering opportunities in this area are poised to increase in the immediate years ahead.

In September 2017, the Group sold 15% of the issued share capital of Shui On Contractors, the holding company of our construction business, to seven senior executives of the Construction Division for a total consideration of HK$75 million. In a competitive marketplace for top managerial talent in the industry, we believe this will incentivise key executives to achieve better results.

Our Commitment to Shareholders

Over the last few years, your Company has made a number of mis-steps in the implementation of our divestment and business strategies, contributing to unsatisfactory financial results. As Chairman of the Board, I must bear responsibility, and the duty for their rectification.

With this in mind, in early 2017 the Board appointed Mr. Frankie Wong, a long-time veteran of the Shui On Group, as the Chief Executive Officer and Chief Financial Officer to execute the recovery plan. We have since put into effect operational initiatives to rebuild our balance sheet and enhance asset value. In 2017, we have seen welcome advances in achieving these identified goals and I would like to extend my thanks to management and staff during this period of great challenges.

Yet none of this can disguise my regret that, for the past few years, SOCAM has failed in its principal obligation to deliver shareholder value. The Board and I have listened closely to the comments we have received from our shareholders over the year, many of them expressing understandable concerns over our share price performance. We pledge to redouble our efforts to achieve a full recovery in our operating results, and in pursuing a prudent path to stability and profitability.

Vincent H. S. LO
Chairman

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Photography: Chongqing Creative Concepts Center

"The disposal of our 22% shareholding in Dalian Tiandi project has greatly decreased SOCAM's ongoing portfolio commitments and further streamlined the Group's property portfolio."

China's economic growth picked up to 6.9% year-on-year in 2017, and foreign exchange reserves rose to US$3.2 trillion in January 2018, marking the 12th consecutive month of increase. The Renminbi strengthened throughout 2017 and appreciated 6.7% against the US dollar by year end, reversing the trend of the preceding two years.

However, in the retail property market, challenges continued, due to oversupply and the increasing popularity of online shopping. Correction to over-expansion in previous years continued, resulting in delayed mall openings and high vacancy rates in newly opened shopping malls. Slow rental increase and capital value growth are set to continue. Retail sales in China rose 10.2% in 2017, to RMB36.6 trillion, similar to growth of the previous year. The trend is expected to continue as urban populations increase and acquire more spending power and sophisticated consumption habits. This consistent increase in retail activity would be encouraging to malls. However, competition from on-line platforms remains keen.

Hong Kong's economy showed robust performance over the fiscal year, recording GDP growth of 3.8% and posting a record budget surplus of HK$138 billion. The HKSAR Government is expected to be amenable to releasing funds for the delivery of public housing and ancillary community support facilities such as hospitals and schools. The urgent supply for more public housing becomes less a matter of funding, but the release of developable land. Amidst this background, SOCAM secured two new construction contracts for public rental housing estates during the year. This, together with other public housing projects under construction, will enable the Group to provide nearly 8,000 public housing flats and subsidised sale units upon completion. We will seek to secure more tendering opportunities to bring our proven construction expertise to provide competitive service offerings in addressing the community's complex housing needs.

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

PROPERTY

Our focus now is on revamping our remaining retail properties to enhance values, with emphasis on an all-family experience, dining and entertainment choices.

Photography: Chengdu Centropolitan

PROPERTY

GFA	TOTAL ASSETS	LOSS
557,600 sq.m. at 31 December 2017	HK $7,854 million at 31 December 2017	HK $291 million Year ended 31 December 2017
421,300 sq.m. at 31 December 2016	HK $6,479 million at 31 December 2016	HK $1,182 million Year ended 31 December 2016

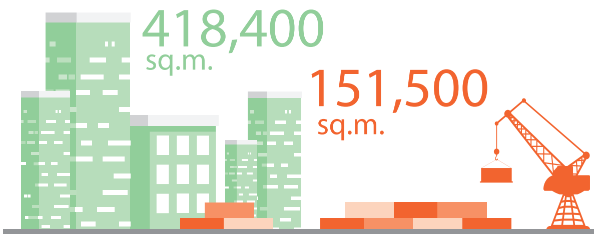
Market Review

Average new home prices in China's 70 major cities rose 5% year-on-year in January 2018, continuing a trend of slow but stable increases in residential property value in 2017. To maintain this subdued price growth and to stablise the market, the Central Government has been imposing tighter new home purchasing policies and restrictions on homebuyers and developers since March 2017.

In Nanjing, home prices fell 2% in 2017. However, sales of Nanjing Scenic Villa continued to meet with strong market interest. A further sales launch of the second batch of 39 villas in Phase II was conducted in November during the year and 20 units have been sold. At year-end, 211 out of 239 of the units launched for sale so far were pre-sold or subscribed for, yielding total sales proceeds of approximately RMB924 million. SOCAM now has a 100% shareholding in the project, with expected completion in 2019. Construction of the basement of Phase III of the project is underway and is set to complete by end of 2018.

Since 2013, the Group has been conducting a monetisation and streamlining strategy to improve our balance sheet and rationalise our operations. Amidst difficult market conditions, SOCAM has managed to reduce its generally under-performing property portfolio in the Chinese Mainland from an attributable gross floor area (GFA) of 2.1 million square metres at the end of 2012 to 0.56 million square metres today. Our focus now is on revamping our remaining retail properties to enhance values. For a mall to thrive in today's consumer climate it must be an all-family experience, with emphasis on dining and entertainment choices.

A rise in residential prices at the Dalian Tiandi knowledge community and much improved project performance provided an opportunity for SOCAM to divest its 22% stake in this long-term development project, realising cash proceeds of HK$1.5 billion in stages. This transaction enabled SOCAM to exit a long-term under-performing project and made a positive contribution to the cash flow and financial position of the Group, albeit a HK$127 million book loss was incurred.



418,400 sq.m. are completed properties,
151,500 sq.m. currently under development

Operating Performance

Over the year we have consolidated our shareholdings in three current projects in China for a consideration of HK$336 million. SOCAM acquired a further 45% interest in Tianjin Veneto and 50% interest in Nanjing Scenic Villa, giving the Company an aggregate of 90% and 100% stake respectively in these projects. Also, we bought back a 19% interest in Chengdu Centropolitan from a financial investor, making it a wholly-owned project of the Group. Consequently, SOCAM has enhanced flexibility in managing these projects to enable the Group to capture their full market potential, including that of the yet-to-be-developed land parcels of these projects.

SOCAM's property portfolio in the Chinese Mainland comprises a total developable GFA of 569,900 square metres, of which 557,600 square metres is attributable to the Group. About 418,400 square metres are completed properties, with the remaining 151,500 square metres currently under development. Total attributable gross rental income from our investment properties was approximately HK$38 million in 2017 (2016: HK$33 million), representing an improving trend.

As of 31 December 2017, SOCAM owned six projects in the Chinese Mainland, as summarised below:

		100% basis							
Location	**Project**	**Residential/ Villa (Sq.m.)**	**SOHO/ Office (Sq.m.)**	**Retail (Sq.m.)**	**Carparks & Others (Sq.m.)**	**Total (Sq.m.)**	**Attributable GFA (Sq.m.)**	**Estimated Completion**	**SOCAM's Interest**
Chengdu	Centropolitan	1,000	64,900	43,000	113,700	222,600*	222,600*	Completed	100%
Chongqing	Creative Concepts Center	–	–	21,000	9,900	30,900*	30,900*	Completed	100%
Guangzhou	Parc Oasis	–	–	300	4,800	5,100*	5,100*	Completed	100%
Nanjing	Scenic Villa	82,600	–	–	17,800	100,400*	100,400*	2019	100%
Shenyang	Shenyang Project Phase I	–	2,900	62,200	22,500	87,600*	87,600*	Completed	100%
Tianjin	Veneto	–	–	107,400	15,900	123,300	111,000	2019	90%
Total		**83,600**	**67,800**	**233,900**	**184,600**	**569,900**	**557,600**		

* The GFA shown above has excluded sold and delivered areas

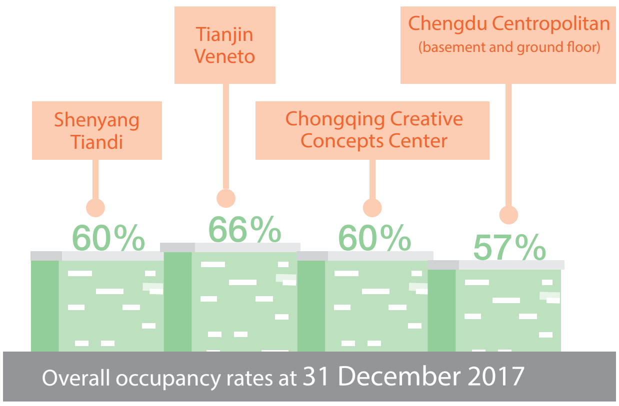
Tianjin Veneto

Chengdu Centropolitan Office Tower

Project Development and Marketing Progress

Nanjing Scenic Villa

Scenic Villa is a residential development located in Nanjing with a developable GFA of approximately 100,400 square metres at 31 December 2017, comprising completed properties of approximately 6,200 square metres and those under development of approximately 94,200 square metres. The development offers distinctive low-rise apartments with balconies in a garden and lakeside setting. Following the acquisition of 50% share of this project in November, SOCAM now has a 100% stake in this project.



Over 90% of the villas in Phase I has now been sold, most of which have been handed over to buyers during 2017. Marketing of Phase II properties is now at an advanced stage and a further sales launch in Phase II was commenced in November with 20 units sold or subscribed for. The main contractor for Phase III of the project has been appointed.

Chengdu Centropolitan

Chengdu Centropolitan is a mixed-use development that comprises residential, SOHO and office, retail and carparks, with a developable GFA of approximately 222,600 square metres at 31 December 2017. The project was fully completed in 2017.

The 504 SOHO units were taken back from Great Wall Engineering and re-launched at favourable market prices in January 2018 and 83 of the 96 units offered for sale were sold. The units will be ready for occupation in 2018. Leasing activity of the 21-floor office tower is progressing satisfactorily. Demand for high quality office space is strong in the district; as of 31 December 2017, 56% of the office tower was leased. Major tenants include Ping An Insurance, China Life Insurance and high technology firms.

Integral to the development is a shopping mall which occupies approximately 43,000 square metres. The fresh

Shenyang Tiandi

market 'village' at the basement of the mall, offering unique features to satisfy the daily needs of the local community, and the ground floor were opened in December 2017. As of December occupancy rates of these two newly opened floors were 89% and 25% respectively. Since its opening, favourable footfall and turnover were achieved. Official opening of the entire mall is expected in mid 2018, when we are aiming to achieve an 80% occupancy rate.

In July, the Group bought back a 19% share in the project from a financial investor giving SOCAM full ownership of Chengdu Centropolitan.

Chongqing Creative Concepts Center

Total retail sales of consumer goods in Chongqing rose over the year, but competition for mall visitor spending remained keen.

Adjacent to the Central Business District, the mall has been undergoing re-design during the year to meet the heightened expectations of local and provincial visitors. Revamping and enhancement works are underway. During the year tenant occupancy rate remained soft at around 60%. In a competitive retail environment, we aim to offer a refreshed and varied consumer experience to boost occupancy rates.

Guangzhou Parc Oasis

This residential development was fully completed in 2012 and has been sold. During the year, 12 car parking spaces were sold, realising around RMB300,000 per purchased space.

Shenyang Project Phase I

Officially opened in 2013, Shenyang Tiandi, a 62,000 square metre mall, has been revamped to take advantage of its distinctive design. SOCAM is re-positioning the mall to be a 'destination point' with an attractive tenant mix to leverage the spending power of a growing consumer class in Shenyang and to attract visitors from surrounding districts of the city.

During the year, we continued our focus on tenant realignment, upgrading the mall's facilities and launching creative and effective promotion campaigns. Shenyang Tiandi's 'Bar Street' opened in July, offering a wide selection of alfresco dining and meticulously selected cuisines. Overall tenant occupancy rates remained steady at 60% as at 31 December 2017, with bookshops, theatres and personal entertainment offerings.

Tianjin Veneto

The Veneto is a chic European-style mall with a total GFA of 123,300 square metres in Tianjin Wuqing. Phase 1, with around 64,000 square metres GFA, has undergone a substantial revamping plan that began in 2016. Refreshment of the tenant mix and upgrading of the visitor experience over the past two years has been reinforced by the launch of creative and effective promotion campaigns. Tenant occupancy rates stood at 66% as at 31 December 2017, as consumer traffic increased 30% over the year following the revamp. International brands including Starbucks, Uniqlo, H&M, Mango and New Look are among our major tenants.

Chongqing
Creative Concepts Center
following the revamp

Tianjin Veneto: a live music performance during the year

Expansion to Phase 2 offering a further 44,000 square metres GFA in total retail and commercial space is currently awaiting local government's approval for the submitted development plans.

Knowledge Community - Dalian Tiandi

Dalian Tiandi is a large-scale knowledge community project jointly developed by Shui On Land, SOCAM and the Yida Group since 2006, with a total of 3.2 million square metres GFA upon completion. In December 2017, the Group disposed of its entire 22% interest in the project, generating HK$1.5 billion in cash over a 12 months period.

Sales performance improved and the average selling price of residential stock picked up in 2017. Recognised property sales for Dalian Tiandi stood at approximately RMB550 million, and the related profit or loss was reflected in the share of results of associates, to the extent of the Group's interest in the project. The financial results of this project showed a significant improvement over 2016.

Completion, marketing and sales of new development clusters continued apace throughout the year. At Hekou Bay, Lot C03 with a total GFA of 26,000 square metres of residential apartments and 13,000 square metres of serviced apartments was completed in the first half of the year. Lot B10b at Hekou Bay with a total GFA of 50,000 square metres for residential use was launched since May, and Lot E02b at Huangnichuan with a total GFA of 47,000 square metres for residential use was launched for pre-sale in September and October 2017.

Construction work on the office building in Hekou Bay resumed after work stopped for a couple of years. The occupancy levels of the office property portfolio reached around 90%, with tenants progressively moving in since 2012.

For many years this long-term project has been tying up a significant portion of the Group's resources, and posing substantial financial burden to the Group. On 14 November 2017, SOCAM entered into an agreement in relation to the disposal of its entire 22% interest in the Dalian project, for a total consideration of HK$1.5 billion. The transaction was subsequently completed on 28 December 2017, and the Group no longer has any interest in the project. While the disposal reduced bank borrowings and boosted operating capital, it created a book loss on our property sector results for the year.

Dalian Tiandi

CONSTRUCTION

We will seek to secure more tendering opportunities to bring our proven construction expertise to address the community's complex housing needs.

Photography: Hong Kong Children's Hospital

CONSTRUCTION

OPERATING PROFIT	NEW CONTRACTS SECURED	TURNOVER
HK $135 million 2017	HK $6.8 billion 2017	HK $6.4 billion 2017
HK $75 million 2016	HK $4.7 billion 2016	HK $4.7 billion 2016

SOCAM was awarded HK$6.8 billion of new contracts during the year, a 44% rise on the HK$4.7 billion secured in 2016. Contracts signed included those for public housing, government buildings, maintenance works and interior fit-out and building renovation projects.

Construction costs continued to rise due to a tightening manpower market, increasingly stringent regulatory controls and rising construction material and operating costs. Control of costs is a major challenge across the industry as construction costs in Hong Kong are the second highest in the world after New York.

In September, the Group sold 15% of the issued share capital of Shui On Contractors, the holding company of our construction business, to seven senior executives for a consideration of HK$75 million. This equity participation arrangement – creating a sense of 'ownership' – has the aim of incentivising our construction team to further improve the Company's performance.

As progress is made in identifying sites on which terrain preparation and construction of public housing expansion can begin, the Group's construction arm will be in a strong position to further expand its order book. Beyond

Hong Kong Children's Hospital

this, SOCAM is looking at more opportunities to expand its public sector construction, maintenance contracts and interior fit-out projects.

Project Progress

Challenges remain in ensuring timely delivery at reasonable profit and, particularly, in hiring skilled labour. While Singapore and Macau are importing some 25% of their construction workforce, there is no consensus for implementing such measures in Hong Kong. Against this backdrop, we continued to provide intensive training to help develop more skilled labour for the industry needs.

In a joint venture with China State Construction, SOCAM completed the Hong Kong Children's Hospital in September 2017. This HK$9 billion project will open by end of 2018, which comprises two connected 11-storey towers and rehabilitation park surroundings to provide a green outdoor space for patients. Working hand in hand with China State Construction, our joint-venture partner, we managed to deliver the project on track and on budget.

Over the year, SOCAM's construction projects continued on schedule, including Shek Kip Mei Estate, So Uk Estate Phase 2, San Po Kong public housing development, and work began on the Junior Police Officers Married Quarters at Fan Garden, Fanling.

The So Uk Estate Phase 1 project, which suffered delays in progress and considerable cost overruns that led to significant loss incurred on the year's results, is now substantially completed.

The HK$9 billion Hong Kong Children's Hospital project was completed on time in September 2017

Operating Performance

The Group's construction business recorded a profit of HK$135 million (2016: HK$75 million). Turnover increased to HK$6.4 billion (2016: HK$4.7 billion). As of 31 December 2017, the gross value of contracts on-hand was approximately HK$18.5 billion and contracts to be completed was HK$9.8 billion (2016: HK$18.6 billion and HK$9.7 billion respectively).

Projects completed during the year included

- Design-and-construction contract for the Hong Kong Children's Hospital;
- The Green Form Subsidised Home Ownership Pilot Scheme Development in San Po Kong (King Tai Court);
- Maintenance, Improvement and Vacant Flat Refurbishment for Tai Po, North, Shatin and Sai Kung;
- Maintenance, Improvement and Vacant Flat Refurbishment for Properties managed by Property Service Administration Unit/Wong Tai Sin, Tsing Yi, Tsuen Wan and Islands;
- Maintenance, Improvement and Vacant Flat Refurbishment for Properties managed by District Maintenance Offices/Wong Tai Sin, Tsing Yi, Tsuen Wan and Islands; and
- Term Contract for the Alterations, Additions, Maintenance and Repair of Buildings and Lands and other properties for the Architectural Services Department.

Shui On Building Contractors (SOBC)

New contracts secured by SOBC amounted to HK$2.78 billion. The renovation and maintenance businesses kept growing at a steady pace and new contracts volume further expanded compared to the previous year.

Construction of Home Ownership Scheme at Kai Tak site

New contracts comprised

- Public Rental Housing Development in Wong Tai Sin (HK$583 million) and at Wing Tai Road, Chai Wan (HK$568 million);
- Maintenance, Improvement and Vacant Flat Refurbishment for Properties managed by District Maintenance Offices/Wong Tai Sin, Tsing Yi and Tsuen Wan (HK$504 million);
- Maintenance, Improvement and Vacant Flat Refurbishment for Properties managed by District Maintenance Offices/Kowloon East (HK$394 million); and
- Maintenance, Improvement and Vacant Flat Refurbishment for Properties in Tai Po, North and Shatin (HK$734 million).

Exploring every Environmental Possibility

SOBC introduced innovative solutions to energy conservation in the construction works for the Kai Tak home ownership scheme project.

Re-purposing of Waste

On the face of it, there seems no connection between a few old fuel barrels and on-site lunchtime food waste. Except, inevitably, they would all end up as landfill. However, some members of our workforce saw a chance to re-purpose the barrels as compost tumblers into which uneaten food was deposited. Over time, the organically developed compost was used as a potent plant fertilizer in the surrounding gardens as planting began.

Old construction helmets and mosquitoes seem similarly disconnected. That is, until the upturned helmets are used as seed pots for plants that become mosquito repellant foliage. From small acorns (ideas), large oaks (environmental advances) can grow.

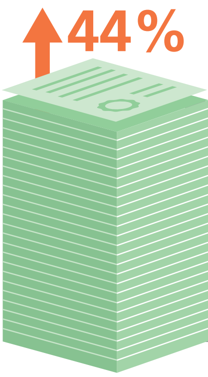
Mini Hydroelectric Generators

At the Kai Tak site, our employees recognised the potential for harnessing the pressure generated at water supply outlets via mini hydroelectric generators. A trial investigation showed that a single generator gives rise to 176Wh of electricity per day which is sufficient to power a LED bulb for an entire day.

Given close to 100 water supply outlets are present on-site, the potential amount of "free power" is considerable. We are planning to push for widespread coverage once pilot schemes confirm the feasibility of the universal application of the concept.

Among the major contracts completed during the year were the construction of a Public Rental Housing Development at San Po Kong; a term contract for the HKSAR Government for the Alterations, Additions, Maintenance and Repair of Buildings and Lands and other Properties in Western and Southern Districts of Hong Kong Island and on Lantau Island.

Community Green Station



SOCAM was awarded **HK$6.8 billion** of new construction contracts during the year, a **44%** rise on the **HK$4.7 billion** secured in 2016

Shui On Construction (SOC)

SOC secured a contract worth HK$2.72 billion from the Architectural Services Department for the design and construction of Junior Police Officers Married Quarters at Fan Garden, Fanling providing 1,184 units on completion in 2020. As the project takes shape, SOC is seeking Building Environmental Assessment Method (BEAM) Plus certification that acknowledges the adoption of a range of best practices aiming to reduce any environmental impact of a new building while maximising end-user satisfaction. In its construction we look for innovative ways to save energy and water consumption.

Pat Davie (PDL)

The Group's interior fit-out and building renovation arm performed well in 2017, and secured 33 new contracts totalling HK$1.29 billion, targeting both Hong Kong and Macau markets. More fit-out projects were obtained mainly from large institutional clients such as Link REIT, MTRC and Airport Authority which formed a solid base for further business expansion. Besides, PDL also secured several new commercial projects, including the Taikoo Place Phase 2A and Wan Tsui Commercial Complex.

Over the year, contract works completed in Hong Kong amounted to HK$1.04 billion, and covered a wide variety of sectors including retail space, airport passenger facilities, bank refurbishment and more. Clients included Link REIT, Cathay Pacific, Swire Properties, Hang Seng Bank, MTRC, Hong Kong Football Club and the Murray Building Hotel Development. Other notable completions included projects at Tseung Kwan O Gateway for Link REIT, Centrium Office and the Airport Authority.

TKO Gateway: a Link REIT project

Macau's economy saw a good year in 2017 with GDP growth of 9.1% and an increasing number of visitor arrivals. The gradual completion of large-scale tourism and entertainment facilities has slowed construction opportunities, but the need for refurbishment of interiors has provided a steady stream of tendering prospects. In Macau, PDL completed eight projects, principally for top-notch international hotel brands including MGM, Wynn and City of Dreams amounting to HK$102 million.

The Murray – dialogue between old and new

Championing sustainability involves a dialogue between the old and the new, which is not only a link between the present and the future but also cherishing of the past. As part of the "Conserving Central" Government initiative, the historic Murray Building has been given a new lease of life - revitalised into a luxury hotel but preserving the cultural heritage embodied in its iconic architecture.

As part of the team for implementation of the momentous project, Pat Davie was commissioned to carry out fitting-out works in parts of the hotel. Taking advantage of the building's geometry, the team designed unique rooms with distinctive orientation aligned with The Murray's luxury identity. Care was taken to ensure that sustainability credentials of the hotel are up to modern day environmental and technical standards, without altering the architectural heritage.

FINANCIAL REVIEW

Photography: Nanjing Scenic Villa

Financial Results

The Group's loss attributable to shareholders for the year ended 31 December 2017 was HK$613 million on a turnover of HK$6,472 million, compared with the loss of HK$1,382 million and turnover of HK$5,345 million for the previous year.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

Certain of the Group's property businesses are conducted through joint ventures and associates, hence the HK$6,472 million turnover for the year has not included the Group's share of the turnover of these joint ventures and associates. An analysis of the total turnover is as follows:

	Year ended 31 December 2017 HK$ million	Year ended 31 December 2016 HK$ million
Turnover		
SOCAM and subsidiaries		
Construction and building maintenance	**6,403**	4,711
Property	**69**	634
Total	**6,472**	5,345
Joint ventures and associates		
Property	**448**	1,535
Others	**33**	37
Total	**481**	1,572
Total	**6,953**	6,917

Turnover from the construction business recorded a 36% increase this year, compared to that of last year. The increase in turnover was mainly attributable to the joint venture contract with China State Construction for the construction of the Hong Kong Children's Hospital, which was completed in late 2017, and the major new contracts secured in previous years, including the construction of Public Rental Housing Development at So Uk Estate Phase 2 and Shek Kip Mei Estate.

Revenue from the property business decreased to a relatively small amount of HK$69 million, from HK$634 million in the prior year. The turnover in 2016 was mainly derived from the disposal of the Zunyi project for a consideration of HK$463 million. 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 Group's share of property sales revenue from jointly developed projects amounted to HK$448 million in 2017, which mainly came from (a) the then 50%-owned Nanjing Scenic Villa that handed over the pre-sold villas in its first phase to buyers; and (b) the then 22%-owned Dalian Tiandi that saw higher sales volumes and improved pricing of its residential units sold. In comparison, the jointly developed projects recorded higher sales revenue of HK$1,535 million in the prior year, as the then 81%-owned Chengdu Centropolitan delivered a considerable number of pre-sold residential units to buyers immediately after completion of construction works.

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

	Year ended 31 December 2017 HK$ million	Year ended 31 December 2016 HK$ million
Property		
Profit (loss) on property sales	**6**	(19)
Net rental expenses	**(9)**	(19)
Fair value changes on investment properties, net of deferred tax provision	**3**	(29)
Share of results of joint ventures	**(142)**	(799)
Net gain on acquisitions of interests in joint ventures	**141**	–
Share of results of associates – Dalian Tiandi	**(27)**	(161)
Loss on disposal of interest in Dalian Tiandi	**(127)**	–
Operating expenses, net of project fee income	**(136)**	(155)
	(291)	(1,182)
Construction	**135**	75
Venture capital investments	**(8)**	(25)
Net finance costs	**(184)**	(142)
Marked-to-market loss of currency hedging contracts	**(174)**	–
Corporate overheads and others	**(16)**	(52)
Taxation	**(32)**	(30)
Non-controlling interests	**(43)**	(26)
Total	**(613)**	(1,382)

Property

Property business reported a significant reduction of loss in 2017 as compared to 2016. The Group's wholly-owned projects contributed a small profit from sales of their already-low inventory for the current year. The net loss on property sales in 2016 was largely due to the transaction costs and taxes in relation to the disposal of the Zunyi project.

The investment properties of the Group, consisting mainly of the shopping malls of Chengdu Centropolitan, Tianjin Veneto, Chongqing Creative Concepts Center and Shenyang Project Phase I, incurred lesser negative rentals after expenses for the year, as a result of the Group's continued efforts to reduce operating costs and increase occupancies.

The significant decrease in the share of losses of the Group's jointly developed projects for this year was mainly due to the very substantial impairment losses on the property assets of the then 81%-owned Chengdu Centropolitan project of HK$462 million and the valuation loss on the investment properties in the then 45%-owned Tianjin Veneto project of HK$103 million provided in 2016. Besides, the then 50%-owned Nanjing Scenic Villa started to contribute profit to the Group as most of the pre-sold villas in Phase I was handed over to buyers in 2017.

The Group acquired the remaining 19% interest in the Chengdu Centropolitan project in July 2017 and the 45% and 50% respective interests in Tianjin Veneto and Nanjing Scenic Villa in November 2017. As a result, these projects became controlled subsidiaries of the Company, with their assets and liabilities consolidated onto the balance sheet of the Group at the then fair value and a net gain on acquisitions of HK$141 million was recognised in the consolidated income statement for the year.

During the year, the Renminbi registered a 6.6% appreciation against the Hong Kong dollar, and this brought about foreign exchange gains to the Group's property projects, including jointly developed ones, totalling HK$148 million, as contrasted with the foreign exchange losses of HK$120 million on the 6.8% depreciation for the previous year. Such exchange gains were partly reflected in the share of the results of the Group's joint ventures and associates.

The 22%-owned Dalian Tiandi reported considerable improvement in its financial results due to marked increase in the sales of its residential stock at higher prices and less impairment loss provision on its property assets as a result of improving property market conditions. In December 2017, the Group completed the disposal of its 22% interest in Dalian Tiandi for a consideration of RMB1.3 billion, and a net disposal loss of HK$127 million was recognised.

The Group achieved further saving in total operating expenses of some HK$30 million in the current year as the organisation was streamlined further in line with the progress of the assets monetisation.

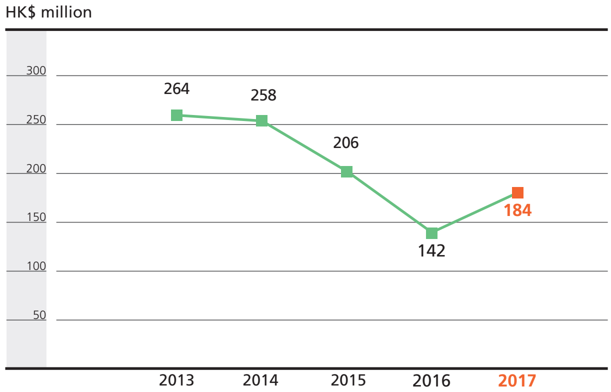
Construction

Construction business posted higher profit on increased turnover for the current year. Average net profit margin increased to 2.1% of turnover, from 1.6% margin in the previous year, largely due to considerable overrun incurred in 2016 as a result of under-performance of certain subcontractors in one of the construction projects.

In September 2017, 15% of the construction business was sold to seven senior executives of the Construction Division for a total consideration of HK$75 million, under an employee participation arrangement of the Group. This, coupled with the increased profit in the current year, resulted in the increase in profit shared by non-controlling interests to HK$43 million, from HK$26 million in the previous year.

Net finance costs

Net Finance Costs



In May and June 2017, the Company issued 6.25% senior notes due 2020 in a total amount of US$280 million, which were primarily used to repay the Group's bank borrowings upon maturity. Net finance costs increased in 2017, as compared with 2016, largely due to the interest and amortised issue costs of the senior notes, totaled HK$93 million. Excluding the finance costs of the senior notes, net finance costs on the Group's bank borrowings was substantially reduced to HK$91 million for the year, from HK$142 million in 2016, in line with the considerable reduction in bank borrowings during the current year.

Foreign exchange gain/loss

In the first six months of 2017, SOCAM took out several short-term foreign currency contracts in an aggregate notional amount of US$369 million to hedge against, partly, the risk of possible further depreciation of Renminbi after 2015 and 2016 with a view to reducing the potential foreign exchange loss on the Group's Renminbi-denominated assets of approximately RMB6 billion as of the end of 2016. Two of these currency hedging contracts were matured in late December 2017, coupled with the marked-to-market valuation of the remaining outstanding currency hedging contracts at 31 December 2017, gave rise to losses of HK$174 million as a result of the significant appreciation of the Renminbi against the United States dollar during the period.

On the other hand, the appreciation of the Renminbi against the Hong Kong dollar brought about foreign exchange gains to the Group's property projects, including jointly developed ones, and other Renminbi-denominated assets for the current year, totalling HK$439 million, of which HK$148 million and HK$291 million were recognised in the consolidated statement of profit or loss and the consolidated statement of financial position respectively, as contrasted with the foreign exchange losses of HK$120 million and HK$319 million respectively for the last year.

Assets Base

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

	31 December 2017 HK$ million	31 December 2016 HK$ million
Total assets	**12,024**	9,210
Net assets	**3,566**	3,835
	HK$	HK$
Net assets per share	**7.4**	7.9

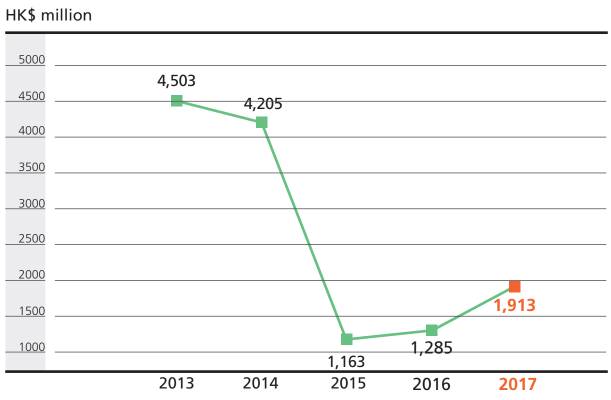
Total assets of the Group increased to HK$12.0 billion at 31 December 2017, from HK$9.2 billion at 31 December 2016, and this will be explained in the segment analysis below. The decrease in both net assets of the Group and net assets per share was principally attributable to the net effect of (i) HK$613 million loss for the year, and (ii) net increase in the translation reserve of HK$291 million as a result of the appreciation of the Renminbi against the Hong Kong dollar.

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

	31 December 2017 HK$ million	**%**	31 December 2016 HK$ million	%
Property	**7,854**	**65**	6,479	70
Construction	**2,189**	**18**	1,934	21
Corporate and others	**1,981**	**17**	797	9
Total	**12,024**	**100**	9,210	100

As mentioned above, the Group acquired the minority interests in Chengdu Centropolitan, Tianjin Veneto and Nanjing Scenic Villa, in July and November 2017. The assets and liabilities of these projects were consolidated onto the financial statements of the Group, and caused an increase in the value of property assets at 31 December 2017. Such increase in property assets in 2017 was partly reduced by the disposal of the Group's 22% interest in Dalian Tiandi in December 2017 and the corresponding outstanding consideration of approximately HK$1.1 billion at 31 December 2017 was included under "Corporate and others" in the above analysis of total assets.

Net bank and other borrowings



Equity, Financing and Gearing

The shareholders' equity of the Company decreased to HK$3,566 million on 31 December 2017, from HK$3,835 million on 31 December 2016, for the reasons mentioned above.

Net bank and other borrowings of the Group, which represented the total of bank borrowings and senior notes, net of bank balances, deposits and cash, amounted to HK$1,913 million on 31 December 2017, as compared with HK$1,285 million on 31 December 2016.

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

	31 December 2017 HK$ million	31 December 2016 HK$ million
Bank borrowings repayable:		
Within one year	**500**	1,685
After one year but within two years	**443**	398
After two years but within five years	**422**	271
After five years	**80**	–
Total bank borrowings	**1,445**	2,354
US$ senior notes due 2020	**2,157**	–
Total bank and other borrowings	**3,602**	2,354
Bank balances, deposits and cash	**(1,689)**	(1,069)
Net bank and other borrowings	**1,913**	1,285

In May and June 2017, the Company issued 6.25% senior notes due 2020 in a total amount of US$280 million, which were primarily used to repay the Group's short-term bank borrowings upon maturity. The net gearing ratio of the Group, calculated as net bank and other borrowings over shareholders' equity, increased to 53.6% at 31 December 2017, from 33.5% at 31 December 2016, mainly attributable to the combined effect of an increase in net borrowings and the 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 Hong Kong dollars 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 Hong Kong dollars. Renminbi financing is primarily at project level where the sources of repayment are also Renminbi denominated. Given that income from operations in 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. In early 2017, the Company took out currency hedging contracts in a total notional amount of approximately US$369 million, of which notional amount of approximately US$225 million was outstanding as at 31 December 2017, to reduce potential foreign exchange risk that might arise from possible depreciation of the Renminbi in the short-term.

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

Employees

At 31 December 2017, the number of employees in the Group was approximately 1,100 (31 December 2016: 1,220) in Hong Kong and Macau, and 470 (31 December 2016: 480) 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. The social performance data in the report covers the entire Group while the environmental performance data focuses on selected projects including Hong Kong headquarters, seven construction projects in Hong Kong and two shopping malls in the Chinese Mainland. Further details about our corporate governance practices are set out in full in the Corporate Governance Report.

SHUI ON CULTURE

SOCAM's corporate culture is based on the Shui On Group's adherence to a comprehensive set of corporate governance principles, and our commitment to integrity, quality, innovation and excellence in everything we do. Shui On Corporate Mission Statement, introduced in 1984, sets the foundation for building our corporate culture and it embodies our emphasis on corporate social responsibilities. It defines our core objectives regarding a sustainable business model, our relationships with clients, responsibilities to our people and our management philosophy and corporate culture.

We believe in:

- cultivating a set of shared values on which all our policies and actions are based;
- integrity, objectivity and fair play in business and staff relationships to foster mutual trust and respect;
- providing our clients with quality services and products;
- an environment in which our people can excel, develop and grow with the Company.

Shui On We Care

SOCAM has a deep and long-standing commitment to corporate social responsibility (CSR).

Prominent in this regard is our concern for the environment and our commitment to seeking every opportunity to conserve energy and natural resources and reduce waste and emissions. Equally, we implement innovative and life-affirming initiatives to embrace the under-privileged in the community, particularly the young and elderly. Neither ambition would be possible without the concern and dedication of our invaluable employees, for whom we offer continuous career training and care for their holistic well-being.

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.

HIGHLIGHTS IN 2017

In 2017, we have made good progress in implementing some new, albeit small, measures on the Shui On We Care initiatives, as we continue to assess every corporate decision against any likely ESG impact.

Caring for the Environment

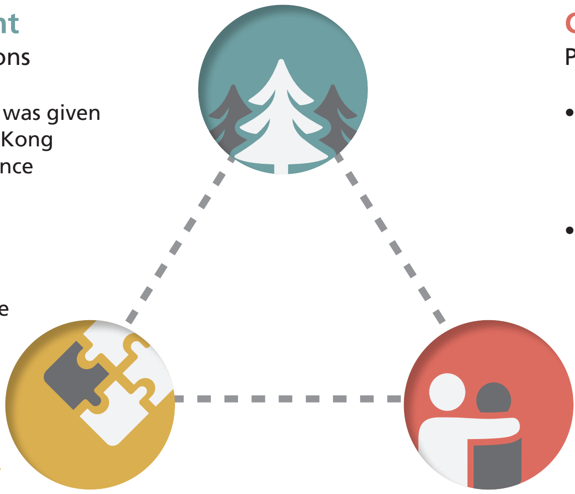
Driving Environmental Innovations

- Our Kai Tak Development project was given the Merit Award under the Hong Kong Awards for Environmental Excellence
- Our contribution to the Tai Koo Place 2A Redevelopment project has been granted the BEAM Plus Platinum Project Certification, showcasing our efforts to promote green buildings.

Caring for our People

Putting Safety First

- We view people as our greatest asset and make tenacious efforts to provide them with safe and rewarding workplaces.
- We have kept the accident rate well below the industry average, and we continue to raise safety awareness among our employees.



Caring for the Community

Creating Shared Value

- This year marked our 12th consecutive year as a recipient of the Caring Company Awards organised by the Hong Kong Council of Social Service
- We have been in partnership with the Hong Kong Young Women's Christian Association (YWCA) for 9 years since 2009, aiming to impact lives of the underprivileged elderly.

No. of safety training participants
78,873
(2016: 121,967)

Training and development hours
13,003
(2016: 13,594)

No. of full-time staff
1,572
(2016: 1,442)

Corporate donation and sponsorship
HKD 1.2 million
(2016: HKD2 million)

Greenhouse gas emissions
171,072
(2016: 47,820)

No. of volunteering hours
3,526
(2016: 3,800)

No. of volunteers
590
(2016: 611)

Accident rate per 1,000 workers
7.85
(2016: 9.0)

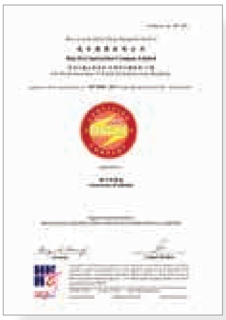
STAKEHOLDER ENGAGEMENT

SOCAM believes in open and regular communication with our stakeholder groups including shareholders, employees, customers, suppliers, sub-contractors, government and the media. Over the years, we have continued to fine-tune our sustainability focus, addressing pressing issues. The table below shows how we communicate with key stakeholder groups and their respective concerns.

Stakeholder	Interests and concerns	Engagement channels
Shareholders and investors	• Return on investment; • Corporate strategy and governance; • Risk mitigation and management	• Annual General Meeting • Interim and annual reports, corporate websites • Announcements, notices of meetings, circulars
Clients	• Robust project management; • Full compliance with regulations; • Sustainability performance of operations	• Interim and annual reports, corporate websites • Regular meetings and communication
Property tenants and buyers	• Quality product offerings; • Sustainable designs; • After-sales services; • Ethical marketing	• Customer service hotline • Meetings and visits
Employees	• Compensation and benefits; • Occupational health and safety; • Career development opportunities; • Corporate culture and wellbeing	• Staff newsletters and intranet • Employee engagement activities • In-house training programmes • Performance reviews and appraisals
Sub-contractors	• Effective project management; • Occupational health and safety; • Ethical business practices; • Sub-contractors assessment criteria	• Annual Health, Safety and Environment seminars • Training sessions • Regular progress meetings • Audits and assessments
Suppliers	• Long-term partnership; • Ethical business practices; • Supplier assessment criteria	• Procurement processes • Audits and assessments
Media	• Latest corporate developments; • Customer and community issues	• Corporate announcements • Press releases
Community and general public	• Environmental, social and economic impacts of projects (e.g. noise and air pollution, traffic conditions); Community engagement initiatives	• Corporate news • Volunteerism via Shui On Seagull Club • Company sponsorships and donations

CARING FOR THE ENVIRONMENT

Resources efficiency and emission controls are material topics for our business. We explore and implement effective measures in mitigating any environmental impacts.



SOCAM's key areas of environmental awareness are improving energy efficiency and minimising overall consumption by adhering to the ISO 50001 certified Energy Management System. Year-on-year comparisons of resource consumption clearly depend on annual construction activities. This year, our boundary has been increased from four to seven construction projects in Hong Kong and included two shopping malls in the Chinese Mainland. Together with our Hong Kong headquarters, the following data represents the performance of our 10 locations of operation.

Resources Consumption	2017	2016
Electricity	7,365,933 kWh	3,944,341 kWh
Diesel	1,026,846 liter	590,383 liter
Petrol	38,320 liter	53,496 liter
Acetylene	2,222 m^3	446 m^3
Water	156,097 m^3	86,450 m^3

Resources Conservation

Striving to reap energy savings, we installed light sensors and time controllers to reduce unnecessary lighting and air-conditioning. We also make site arrangements for the use of temporary power to reduce the use of generators, as well as advocate the use of electric or eco-friendly vehicles for our fleet operation. In our Kai Tak development project, we received the Merit Award from the Hong Kong Awards for Environmental Excellence by implementing simple yet innovative measures.

On conserving water usage, we have been a proponent of recycling grey water on-site for a variety of site and vehicle cleaning purposes, thereby reducing the consumption of fresh water. As much as resource reduction is important on-site, we work with the Architectural Services Department to ensure the completed building is eco-friendly in operation through designed-in attributes such as solar paneling, foliage-friendly roof-tops and water-saving flushing devices.

Carbon Emissions

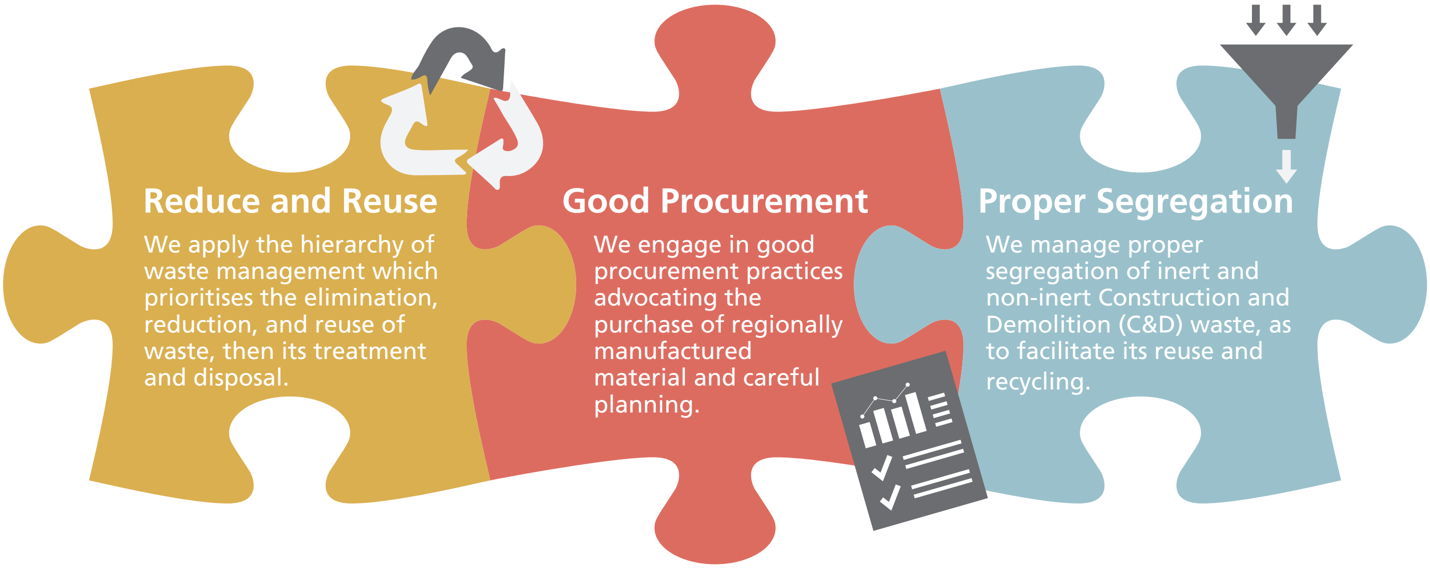
As one of the pioneers in reporting Scope 3 emissions, we are committed to optimising our disclosure on carbon emissions by gradually broadening our scope over the years. SOCAM's carbon emissions were larger this year due to the expanded boundary and affected by construction activity. In particular, the spike in Scope 3 emissions is attributable to the increased logistics involved in procuring construction materials during peak periods.

Carbon Emissions (tCO_2e)[1]	2017	2016
Direct (Scope 1)	2,800.2	1,688.5
Indirect (Scope 2)	5,844.5	4,238.0
Indirect (Scope 3)	162,426.9	41,893.9
Total emissions	171,071.6	47,820.4

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

Waste and Effluent Management

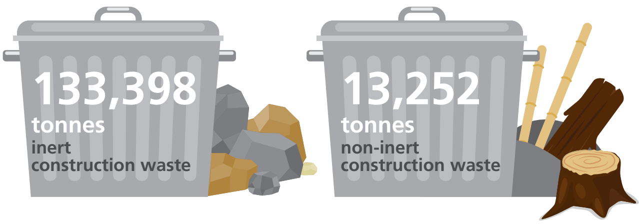
Generation of building rubble and waste material in site preparation and construction is an inevitable part of the construction business. This does not preclude responsible waste management. SOCAM strictly adheres to our Waste Management Principles by commissioning qualified waste disposal contractors for secure handling of all commercial and construction waste in accordance with relevant laws and regulations. Re-use of materials such as formwork also plays an important factor. We facilitate materials exchange between our construction sites through an online platform, striving to optimise resource consumption and reap recycling benefits.



This year, we generated and properly disposed of non-hazardous waste, constituting 133,398 tonnes of inert construction waste, 13,252 tonnes of non-inert construction waste and 31 tonnes of paper waste.

Statutory procedures for effluent control were rigorously followed. We obtain licenses for discharge in accordance with statutory legislation pertinent to any soil works or large-scale plastering works. Wastewater generated in building construction is only discharged directly into municipal drains after any necessary pH adjustments have been completed.

SOCAM strictly complies with the Noise Control Ordinance and we only operate in permitted hours. Sound barriers are employed at site perimeters together with noise level monitoring devices to ensure noise is minimised.



This year we made our transition to adhere to the latest ISO 14001:2015 Environmental Management Systems standards. Our environmental management system ensures we comply with all relevant environmental laws and regulations as we also strictly adhere to environmental performance monitoring. Continuous improvement of our environmental policies is made possible by our Health, Safety and Environment (HSE) Steering Committee which oversees legal compliance evaluations and annual reviews of policies. During the reporting year, we were not aware of any non-compliance relating to environmental aspects.

CARING FOR THE ENVIRONMENT

Contributing to a Green Economy

SOCAM institutes robust sustainability considerations for every construction project at the inception stage. We partner with our clients on certain construction projects to achieve BEAM Plus Platinum Rating which evaluates each project's environmental performance, covering stages of planning, design, construction, commissioning, management, operation and maintenance through the entire construction lifecycle.

This year, SOCAM's Long Ching Estate project was granted certification for the project's excellent management of air, noise, energy and procurement concerns, while our plans for Tai Koo Place 2A Redevelopment project also fulfils these standards. In the Chinese Mainland, our projects involve the designing of green areas such as community gardens, landscape strips and walkways wherever applicable.

Taikoo Place 2A Redevelopment – revitalisation via green means

Our interior fit-out and building renovation arm Pat Davie carried out fitting-out works at the highly-anticipated redevelopment project of Tai Koo Place. As one of Hong Kong's best-planned business hubs, it is set to rebuild three techno-centres – Somerset House, Cornwall House and Warwick House - into two Grade-A office buildings.

Our environmental management and waste management plans have been evaluated and found satisfactory for BEAM Plus Platinum Rating, which demonstrates comprehensive consideration of all environmental aspects. Besides strict controls on air and water quality impacts as well as noise levels, the project plans to fulfil a waste recycling rate of 75% for generated construction waste. Green procurement is also advocated such as via the use of timber originating from a well-managed source.

By integrating sound environmental standards into the project operations, the redevelopment of Taikoo Place 2A embodies the best of sustainable development protocols.

Developed
solar-powered CCTV surveillance system
for use throughout our worksites

Install
solar-powered hot water boiler systems
atop our on-site bathroom facilities

Install
solar-powered lighting and mosquito lamps
throughout the site layout

Use
solar-powered hand-held construction tools

Practicing Sustainable Living

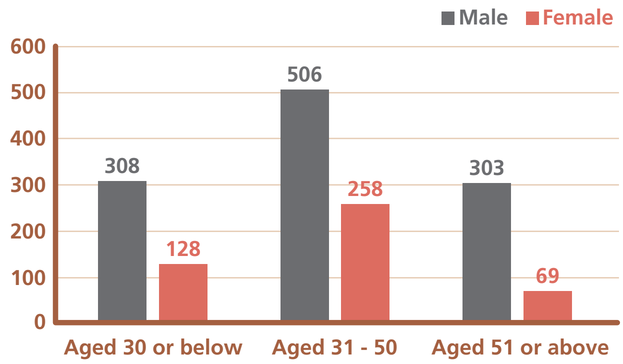
It is of vital importance that our sustainability philosophy filters down to all levels of our workforce and pervades all departments. The Group strengthens its corporate culture of environmental care through ongoing initiatives such as green office campaigns, eco-tours and green workshops. This year, in addition to encouraging our employees to continue to participate in used clothes and computer recycling programmes, some of our construction sites have recycled old safety helmets as planters and donated them to the neighborhood community.

CARING FOR OUR PEOPLE

SOCAM puts the highest priority on ensuring the well-being and fulfilment of our employees.

Our employees are based at our main offices in Hong Kong and Macau, amounting to 1,102 full-time staff. We also have project offices in Beijing, Guangzhou, Shanghai, Nanjing, Tianjin, Chongqing, Shenyang and Chengdu in China, where 470 of our staff were based at as of 31 December 2017. Construction and property divisions employ approximately 1,051 people (2016: approximately 1,148) and 349 people (2016: approx. 332) respectively, while 172 people are categorised in other functions. Unlike the previous year, the above figures include our construction contract workers in Hong Kong and staff in the Nanjing Cement plant. In 2017, our employee attrition rate averaged 16% compared to 16.8% in the previous year.

Our employment policy clearly stipulates intolerance of all forms of discrimination and harassment. All recruitment decisions are based on competency of candidates, irrespective of gender, race, physical disability or marital status. During the year, the Group was not aware of any case concerning child or forced labour.



Our staff demographics

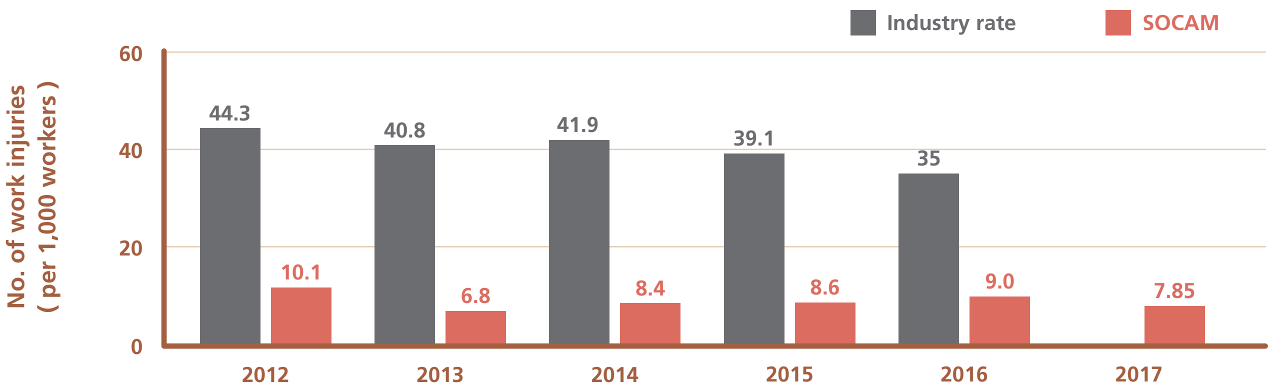
An Employee Code of Conduct, Whistle-blowing Policy and Business Ethics Policy are in place to encourage staff to uphold the best practices in ethical conduct. We conduct regular workshops and training sessions to remind and update our employees on the latest anti-corruption guidelines, and allow no tolerance of fraud, bribery, extortion, money laundering and other forms of illegal activities.

Health and Safety

Spearheaded by the Health, Safety & Environment Management Committee responsible for policy implementation and coordination, the Group upholds best-in-industry work safety standards and practices. During the year, our two subsidiaries Shui On Building Contractors and Shui On Construction conducted two audits regarding the Occupational Health and Safety Assessment Series (OHSAS) 18001 certification, indicating no significant non-compliance with the requirements.

With a track record over two decades of cultivating dialogue concerning construction health and safety, our annual HSE target seminar has become one of the major industry events to share the latest developments in construction safety practices with not only our employees, but also our clients, sub-contractors and government representatives. This year, over 230 participants attended.

We continued to maintain our accident rate well below that of the industry average. In 2017, SOCAM recorded 8,965 lost days due to work injuries, compared to 11,897 (updated with the inclusion of a joint venture job) days last year.



Accident rate

Health and Safety (continued)

As part of its efforts for continuous improvement, the Group has established a Research & Development Task Force this year. Fully employing our expertise and experience, the Task Force has successfully developed and adopted a mobile crane customised for transportation of manhole covers. Moreover, the Group has newly launched bi-annual HSE sharing sessions at all construction sites. Serving as an information dissemination platform, these sessions provide updates on the latest regulations and internal rules.

Other noteworthy safety initiatives adopted at sites during the year include:

- Ahead of any regulatory requirements, the Group has made it mandatory for safety helmets to be attached with chin straps at all our construction sites.
- Our maintenance arm adopted a new device ensuring safe loading weight by alerting users of threshold exceedance.

Over 119 participants joined our Behaviour Base Safety Family Day

Over 230 participants attended Annual HSE Target Seminar

Exchange with Korean Occupational Safety & Health Council

Based on our many years of site safety experience, SOCAM was nominated by the Hong Kong Occupational Safety & Health Council to share best practices with representatives of the Korean Occupational Safety & Health Council in May.

The Group showcased the safety practices at our Kai Tak construction site, which recorded zero injury rates in 2017. Granted a Merit Award from the Occupational Safety & Health Council in the Good Housekeeping campaign, the project maintained superior safety performance due to detailed planning and collaboration. In particular, the introduction of internal safety inspectors supervising high-risk tasks, such as lifting operations, was noteworthy and is now functional at all our work sites.

HSE Innovation Awards Competition 2017

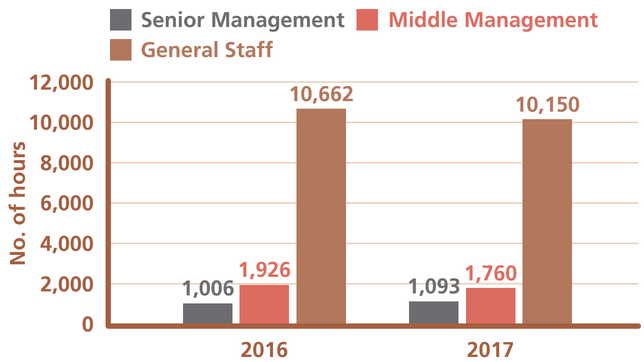
The HSE Innovation Awards Competition was held during the year to encourage innovative ideas on improving safety performance. The Grand Prize went to a proposal for mobile ground hole cover installation, aiming to mitigate the danger of workers falling into ground holes during work processes. Being practical and cost-effective, it has already been adopted throughout our construction sites.

Learning and Development

One of the main pillars of the Shui On Spirit is the belief in life learning. The Group aims to cultivate a talented and motivated workforce through training and development and by offering prospects for career progression.

SOCAM offers a range of in-house training sessions to employees, from new staff orientation to programmes which enhance professional knowledge and skills. Among them, the Career Development Programme is a major annual programme that provides intensive training for our construction staff to obtain specialised qualifications from professional institutions. Besides our internal training programmes, we fully support our staff in pursuing external programmes by offering study leave and tuition fee subsidies.

During the year, SOCAM organised 94 in-house training classes, which along with external programmes amounts to a total of 13,003 hours – a drop of around 4% compared to the previous year's figure of 13,594 hours. The average training hour per employee amounted to 8.3 hours.



2017 Training Hours

New Employee Programme **1,063 hours** (2016: 800)	E-learning and IT courses **2,417 hours** (2016: 1,198)
Professional Knowledge Programme **5,972 hours** (2016: 7,638)	Personal effectiveness programme **599 hours** (2016: 862)
Staff Development Programme **2,952 hours** (2016: 3,096)	No. of In-house training classes **94 programmes** (2016: 91)

Nurturing Talents

To ensure freshly recruited graduate engineers mature into highly competent talents, our Graduate Engineer Training Programme is of four-year duration. It equips the young engineers with all-rounded skill sets. Full exposure to SOCAM's multi-faceted operations is gained through on-the-job training, secondment to external offices and job rotations. In 2017, we had eight intakes for the Programme.

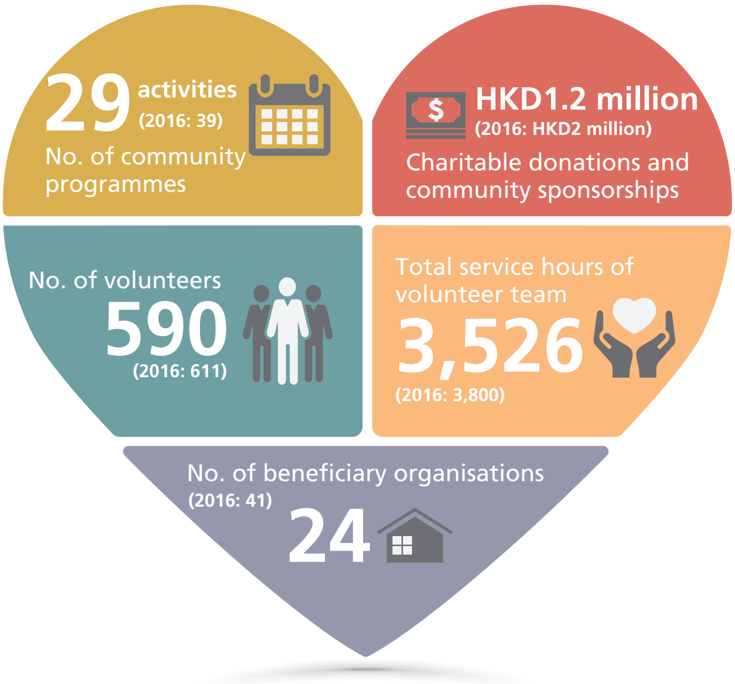
The Apprenticeship Training Programme is a three- to four-year course to extensively train talented individuals in various construction and site operations, while the Environmental and HSE Trainees inductees received specialised training for effective management of the Group's HSE matters. During the year, there were 13 intakes for the Apprenticeship Training Programme and four for the Environmental and HSE Training Programme.

Employee Well-being and Engagement

Employee work-life balance is encouraged through organisation of various leisure and recreational activities. Throughout 2017, we offered various outdoor excursions, health seminars as well as sport activities. The Group believes informal dialogue and social interaction among employees is crucial for overall well-being and work collaboration, particularly across departments.

CARING FOR THE COMMUNITY

This year marked our 12th consecutive year as a recipient of the Caring Company Awards held annually by the Hong Kong Council of Social Service. Since the beginning of our Shui On Seagull Club in 1982, the Group has fully embraced the spirit of volunteering. We are passionate about making differences to the physically handicapped, the elderly and underprivileged children as we reach out to the wider community. The Group supports its employees by offering service leave to provide flexibility in our commitment to helping others.



Marking our 9th Year with YWCA

Hong Kong has a growing number of elderly who appreciate all concern and help society can offer. SOCAM has been in partnership with the Hong Kong Young Women's Christian Association (YWCA) since 2009. During the year, our volunteers organised and led three major events, including Elderly Fun Sport Game, for the solitary elderly as well as those of low means and recreational opportunity.

In line with the core values of YWCA, we brightened up their lives through our Sports Day and Hong Kong tour trip to Tai O. Throughout the year, we also organised several gatherings during festive seasons to alleviate some part of the loneliness participants may otherwise feel. Looking forward, we hope to collaborate further with the YWCA and respond to the needs of patients with chronic diseases.

Engaging the Youth

Having a caring heart is an important value. Held by the Christian Family Service Center, 2017 Fun Festivals were events where SOCAM staff and youth volunteers became united in heart to serve. All-round development of young generation is of paramount importance. Through our volunteering activities, youth has an opportunity to serve and learn, enhancing their interpersonal relationship by getting along with people from all walks of life.

Youth Empowerment Through Support and Sponsorship

Spicing up our usual portfolio of community contributions, this year we have sponsored the ONE TEN social enterprise. Targeting students aged 14-22 years old, ONE TEN offers dynamic and meticulously crafted fitness classes to the youth of Hong Kong. Seeking to give back to the community, ONE TEN has partnered with Time Auction to allow student volunteers to exchange service hours for a selection of classes which have amounted to 605 hours over a period of four months. SOCAM is delighted to have provided sponsorship for these classes which not only build mental and physical strength in the young, but also benefit society as a whole.

Major CSR Activities Undertaken in 2017

"Peace for Every Child" Charity Walk

"From Darkness to Sunrise" City Orienteering Competition

We raised funds to the Samaritan Befrienders Hong Kong for the Life Education programs for people in emotional distress, and as participants we faced obstacles together in an inclusive positive spirit.

We raised funding for World Vision's Syrian Refugee Response, an international humanitarian aid programme that addresses the needs of refugee families.


Charity Walk 2017

We held an annual Charity Walk to raise funds to the Little Life Warrior Society for buying new medical equipment and facilitating the rehabilitation of children with cancer.


Stargaze Camp for All and the Blind

Through the camp outing, we shared the wonders of astronomical phenomena with the young, old and differently-abled, and appreciated the natural beauty of the city together.


Barrier-free City Orienteering

We realise the importance of having barrier-free facilities in the city through the orienteering activity organised by Hong Kong Physically Handicapped and Able-Bodied Association.


Charity Football Game Cum Community Event

We supported a charity football game which invited veteran football players and elderly from various community districts for a fun day to encourage them to be more active and develop a healthy lifestyle.

DELIVERING BUILDINGS RESPONSIBLY

We deliver high standards and quality to our clients through effective management of our network of suppliers and sub-contractors, while upholding product responsibility.

Supply Chain Management

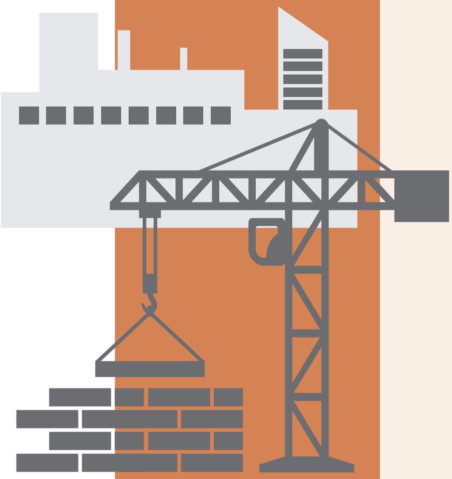
The Group's core activities encompass property development, construction, building refurbishment and maintenance as well as interior fit-out services. In all projects, the Monthly Management Committee is responsible for monitoring, assessing and reviewing sub-contractors, suppliers and any other contributing professional agencies.

We have in place policies concerning dispute resolution, sub-contractor training as well as green procurement guidelines. To ensure systematic and effective supply chain management, we maintain open dialogue with our sub-contractors via weekly site meetings; tender interview meetings; annual target seminars regarding safety and environment. Further, all our suppliers and contractors are also subject to monthly safety performance assessment and quarterly evaluation for quality and delivery performance, besides factory visits whenever necessary. If deemed to have not met our criteria or shown unsatisfactory performance, invitations for tenders may not be offered in the future.

Specific to our shopping malls, SOCAM attaches the highest importance to ensuring our property management agencies operate to the highest standards in terms of all round caretaking responsibilities and emergency prevention and control. Our selection criteria of the agency concerned focus on market reputation, competitive advantage, feasibility of operational plan as well as resources and commitment of the central team.

Emergency Prevention and Control

In addition to routine inspection of critical systems, project management personnel also ensure that practiced procedures are in place to handle emergencies. According to the conditions of the project site, an Emergency Procedures Notice is prepared to provide site-specific training to the concerned employees. In the event of any unfortunate incident, all cases are subject to detailed investigation and scrutiny with focus on preventing recurrence of similar accidents.



Product Responsibility

SOCAM's 'deliverable product' is a quality construction completed to specification. In pursuit of this, our Health Safety & Environment policy and Quality policy are strictly implemented, while the quality management system of our construction arm has adopted the requirements of the latest ISO 9001:2015 Quality Management standards in 2017. During the year, the Group was not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group concerning health and safety, advertising, signage or any other related matters. Given the substantial initial investments property development projects incur, it is of paramount importance to effectively manage the principal risks and liabilities inherent throughout the project lifecycle. SOCAM insures itself against many different types of risks.

Management of Critical Equipment

Management and maintenance of critical equipment, such as project electrical and fire service installations, is entrusted to specialised contractors as any breakdowns not only interrupt operations but also constitute a potential threat to life and property.

To ensure proper operations of fire service installations, we conduct annual inspection of fire-fighting equipment, regular fire drills and routine maintenance as required. Other critical equipment installed at the Group's properties, such as power generation units, electricity supply system, lift services and central air-conditioning systems are subject to routine inspection and maintenance by qualified contractors. In order to minimise the risks of breakdown or accidents, SOCAM has established protocols that often go beyond legal stipulations.

ESG CONTENT INDEX

KPIs	HKEx ESG Reporting Guide Requirements	Section/Remarks
	A. Environmental	
Aspect A1	**Emissions**	
General disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Caring for the Environment
KPI A1.1	The types of emissions and respective emissions data.	During the reporting year, a total of 2.6kg of sulphur oxide from vehicles was emitted
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Carbon Emissions
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity (e.g. per unit of production volume, per facility).	No significant generation of hazardous waste
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Waste and Effluent Management
KPI A1.5	Description of measures to mitigate emissions and results achieved	Waste and Effluent Management
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Waste and Effluent Management
Aspect A2	**Use of resources**	
General disclosure	Policies on efficient use of resources including energy, water and raw materials.	Caring for the Environment
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity	Caring for the Environment
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Caring for the Environment
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Resources Conservation
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Resources Conservation
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Our operation does not involve significant use of packaging material
Aspect A3	**The environment and natural resources**	
General disclosure	Policies on minimising the issuers’ significant impact on the environment and natural resources.	Contributing a Green Economy
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Contributing a Green Economy Practicing Sustainable Living
	B. Social	
Aspect B1	**Working conditions**	
General disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Caring for Our People
KPI B1.1	Total workforce by employment type, age group and geographical region.	Caring for Our People
KPI B1.2	Employee turnover rate by age group and geographical region.	Caring for Our People
Aspect B2	**Health and safety**	
General disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	No. and rate of work related fatalities	During the reporting year, no work-related fatalities were recorded
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted and how they are implemented and monitored.	Health and Safety

KPIs	HKEx ESG Reporting Guide Requirements	Section/Remarks
Aspect B3	**Development and training**	
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Learning and Development; Nurturing Talents
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	Not available
KPI B3.2	The average training hours completed per employee by gender and employee category.	Learning and Development
Aspect B4	**Labour standards**	
General disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Caring for Our People
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	We implement appropriate protocols in our recruitment process to ensure child and forced labour is absent in our operations
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	
Aspect B5	**Supply chain management**	
General disclosure	Policies on managing environmental and social risks of the supply chain	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management
Aspect B6	**Product responsibility**	
General disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable
KPI B6.2	Number of product and service related complaints received and how they are dealt with.	All complaints received are handled in a proper manner
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not applicable
KPI B6.4	Description of quality assurance process and recall procedures	Product Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	We are committed to protecting privacy
Aspect B7	**Anti-corruption**	
General disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Caring for Our People
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	During the reporting year, no cases of corruption were proven
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Caring for Our People
Aspect B8	**Community investment**	
General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Caring for the Community
KPI B8.1	Focus areas of contribution to the community	Caring for the Community
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Caring for the Community

DIRECTORS AND SENIOR MANAGEMENT

Photography: Tianjin Veneto

Executive Directors

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

aged 70, has been the Chairman of the Company since 1997. He is the Chairman of the Shui On Group, which he founded 47 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 the Chairman of the Hong Kong Trade Development Council, the President of the Council for the Promotion & Development of Yangtze, 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 Grand Bauhinia Medal in 2017, 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 69, has been appointed as an Executive Director, the Chief Executive Officer and Chief Financial Officer of the Company with effect from 1 January 2017. He is also a director of certain subsidiaries of the Company. 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.

Independent Non-executive Directors

Ms. Li Hoi Lun, Helen

aged 62, 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.

Mr. Chan Kay Cheung

aged 71, has been an Independent Non-executive Director of the Company since January 2010. Mr. Chan possesses extensive knowledge and experience in the banking industry. He joined The Bank of East Asia, Limited ("BEA") in 1965 and was appointed as an Executive Director and Deputy Chief Executive of BEA in 1996 and 1997 respectively. He retired from BEA in May 2007 after serving it for over 41 years and is currently the Vice Chairman of The Bank of East Asia (China) Limited. 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 Huada Technology 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 65, has been an Independent Non-executive Director of the Company since 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. Choi Yuk Keung, Lawrence

aged 64, re-joined the Company in August 2017 as the Vice Chairman of the Construction Division. He is an Executive Director of Shui On Building Contractors Limited ("SOBC"), Shui On Construction Company Limited ("SOC") and Pat Davie Limited ("Pat Davie"), and a director of certain other subsidiaries of the Company. Mr. Choi joined the Shui On Group in 1973 and has over 40 years of experience in construction. He was appointed as Managing Director of the Shui On Group's Construction Division in 1991 and the Construction Materials Division in 1995. He was the Vice Chairman and a Managing Director of the Company before he retired in December 2015. Mr. Choi was a member of the Standing Committee of the Nineth, Tenth and Eleventh Guizhou Provincial Committee of the Chinese People's Political Consultative Conference. He holds a Bachelor of Science degree in Engineering from the University of California, Berkeley.

Mr. Wong Shing Chuen, Leonard

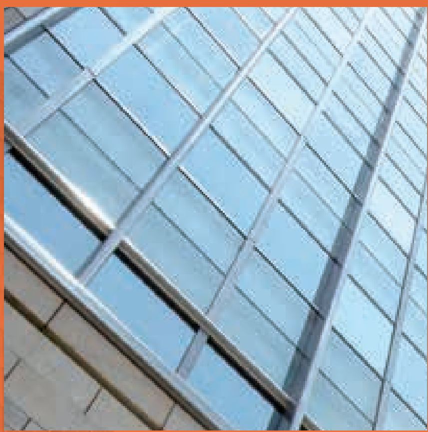
aged 57, is an Executive Director of SOCAM Asset Management (HK) Limited and a director of certain other subsidiaries of the Company. Mr. Wong joined the Company in 2007 and has over 34 years of experience in the property development and construction industry. He is on the panel of arbitrators of the 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 57, is an Executive Director of Pat Davie, 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 35 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 63, is an Executive Director of SOBC and SOC. He also holds directorships in certain other subsidiaries of the Company. Mr. Chan joined the Shui On Group in 1989 and has over 35 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

Photography: Chengdu Centropolitan

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 2017, 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 in the sections headed "Board Committees" and "Directors' commitment" below.

The Board

The overall management of the Group's businesses is vested in the Board, which monitors the Group's operational and financial performance. Members of the Board are collectively responsible for promoting the success of the Group by directing and supervising its affairs and overseeing the achievement of strategic plans to enhance shareholders' value.

The Board is responsible for all major aspects of the Group'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 of the Company, 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 Group 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 Group 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 since 2008. The Board Charter is reviewed by the Board annually to ensure that it remains appropriate to meet the Company's needs.

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 management, to evaluate the performance of the Board and management. Informal meetings would also be held between the Executive Directors and the Non-executive Directors to promote effective working relationship.

Composition

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

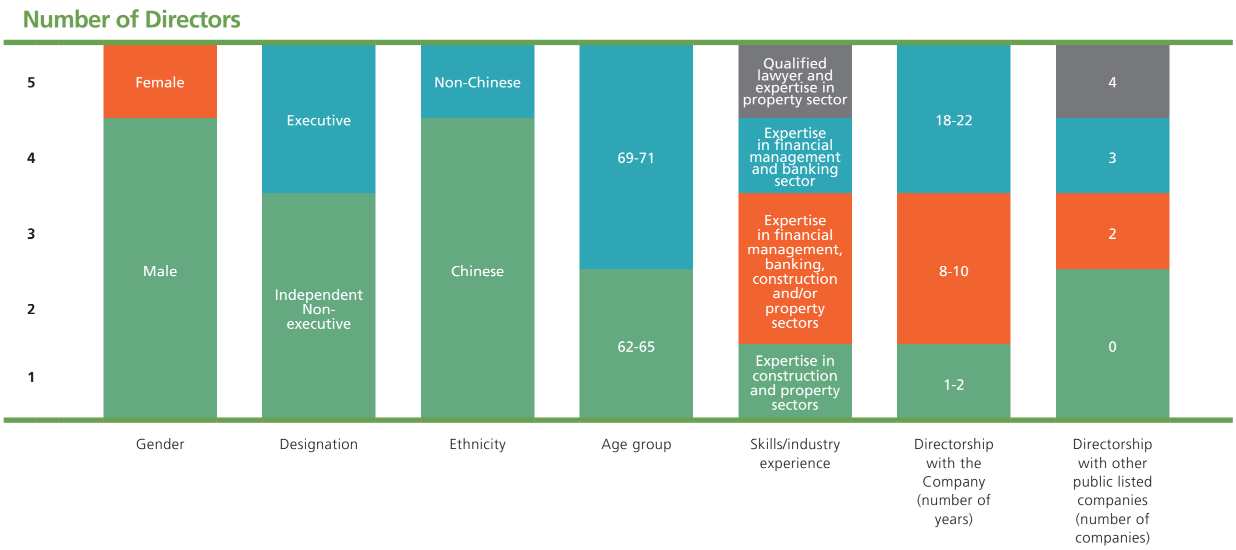
Executive Directors:
Mr. Lo Hong Sui, Vincent *(Chairman)*
Mr. Wong Yuet Leung, Frankie *(Chief Executive Officer and Chief Financial Officer)*
Independent Non-executive Directors:
Ms. Li Hoi Lun, Helen
Mr. Chan Kay Cheung
Mr. William Timothy Addison

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 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 six 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. With effect from 1 March 2017, Mr. Gerrit Jan de Nys resigned as a Non-executive Director of the Company after serving the Board for more than nine years and having reached the age of 73, so as to devote more time to pursuing personal interests. In addition, Mr. Tsang Kwok Tai, Moses did not stand for re-appointment as the Non-executive Director of the Company upon expiration of the term of his service contract, and stepped down from the Board with effect from 8 September 2017.

The Company has met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board, with two of them possessing appropriate professional qualifications or accounting or related financial management expertise. 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.

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. 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 Independent Non-executive Directors of the Company is appointed for a specific term of two 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, Ms. Li Hoi Lun, Helen and Mr. Chan Kay Cheung shall retire by rotation at the forthcoming annual general meeting of the Company to be held on 31 May 2018. Both 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 Group'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, among others, 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 also 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
• To review the consolidated financial statements of the Group • To review the accounting policies adopted by the Group and their implementation • To review the effectiveness of the risk management and internal control systems • To oversee the engagement of, services provided by and remuneration of the external auditor and its independence • To review and monitor the effectiveness of the internal audit function	**Independent Non-executive Directors** Mr. Chan Kay Cheung *(Chairman)* Ms. Li Hoi Lun, Helen Mr. William Timothy Addison (Notes 1 and 2)	At least four times a year

Remuneration Committee

Major roles and functions	Current composition	Frequency of meetings
• To make recommendations to the Board on the policy and structure for remuneration of Directors and senior management • To determine the remuneration package of individual Executive Director • To review and approve performance-based remuneration of Executive Directors with reference to the corporate goals and objectives	**Independent Non-executive Directors** Ms. Li Hoi Lun, Helen *(Chairman)* Mr. Chan Kay Cheung **Executive Director** Mr. Lo Hong Sui, Vincent	At least twice a year

Nomination Committee

Major roles and functions	Current composition	Frequency of meetings
• To review the structure, size and composition of the Board at least annually • To identify, select and make recommendations to the Board on individuals nominated for appointment as Directors • To assess the independence of Independent Non-executive Directors • To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors • To review annually the time commitment required of Directors • To review the Board Diversity Policy and monitor its implementation	**Executive Director** Mr. Lo Hong Sui, Vincent *(Chairman)* **Independent Non-executive Directors** Ms. Li Hoi Lun, Helen Mr. Chan Kay Cheung	At least once a year

Finance Committee

Major roles and functions	Current composition	Frequency of meetings
• To set overall financial objectives and strategies for the Group • To adopt a set of financial policies for the Group and oversee its consistent application throughout the Group • 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 • To monitor cash flow and review financing requirements of the Group and compliance of bank loan and bond covenants	**Executive Director** Mr. Wong Yuet Leung, Frankie *(Chairman)* **Independent Non-executive Directors** Mr. Chan Kay Cheung Mr. William Timothy Addison (Notes 1, 3 to 5)	At least four times a year

Investment Committee

Major roles and functions	Current composition	Frequency of meetings
• To review preliminary and detailed investment and disposal recommendations on target property projects and projects currently owned by the Group respectively • 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 • 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	**Executive Director** Mr. Wong Yuet Leung, Frankie *(Chairman)* **Independent Non-executive Directors** Ms. Li Hoi Lun, Helen Mr. Chan Kay Cheung Mr. William Timothy Addison (Notes 3 and 4)	On an as needed basis

Executive Committee

Major roles and functions	Current composition	Frequency of meetings
• To monitor the macro business environment and market trends with respect to the current and potential business areas of the Group • To evaluate and set business strategies for ensuring the long-term growth and competitiveness of the core businesses of the Group • To formulate corporate goals and plans and allocate human and financial resources for their execution • To monitor the execution of approved strategies and business plans • 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 • To review the operating performance and financial position of the Company and its strategic business units on a monthly basis	**Executive Directors** Mr. Wong Yuet Leung, Frankie *(Chairman)* Mr. Lo Hong Sui, Vincent **Other key executives** including heads of various business units and the Finance & Accounts Department of Corporate Office (Notes 3 and 4)	Monthly

Notes:

1. 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.
2. Mr. William Timothy Addison was appointed as a member of the Audit Committee in place of Mr. de Nys effective 1 March 2017.
3. 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.
4. 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.
5. Mr. Tsang Kwok Tai, Moses ceased to be a member of the Finance Committee following his stepping down from the Board effective 8 September 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. 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 Group. The Board, through the Nomination Committee, reviews annually the time commitment required of Directors to perform their responsibilities. 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.

The attendance records of each Director at the Board and Board Committee meetings as well as the general meetings of the Company held in 2017 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	Executive Committee meetings	Annual general meeting	Special general meetings
Mr. Lo Hong Sui, Vincent	4/5	N/A	2/2	1/1	N/A	11/12	0/1 (Note 1)	0/2
Mr. Wong Yuet Leung, Frankie (appointed on 1 January 2017)	5/5	N/A (Note 2)	N/A	N/A	4/4	12/12	1/1	2/2
Ms. Li Hoi Lun, Helen	5/5	4/4	2/2	1/1	N/A	N/A	1/1	0/2
Mr. Chan Kay Cheung	5/5	4/4	2/2	1/1	4/4	N/A	1/1	2/2
Mr. William Timothy Addison	5/5	4/4	N/A	N/A	4/4	N/A	0/1	0/2
Mr. Gerrit Jan de Nys (resigned on 1 March 2017) (Note 3)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Tsang Kwok Tai, Moses (stepped down on 8 September 2017)	3/3	N/A	N/A	N/A	3/3	N/A	0/1	N/A

Notes:

1. 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 family reasons, Mr. Lo Hong Sui, Vincent, the Chairman of the Board, did not attend the annual general meeting of the Company held on 26 May 2017. In his absence, Mr. Wong Yuet Leung, Frankie, an Executive Director and the Chief Executive Officer and Chief Financial Officer of the Company, chaired the meeting and responded to shareholders' questions about the Group's affairs.
2. By invitation, Mr. Wong Yuet Leung, Frankie, being the Chief Financial Officer of the Company, attended all meetings of the Audit Committee held in 2017.
3. Mr. Gerrit Jan de Nys resigned from the Board and ceased to be a member of the Audit Committee as well as a member and the Chairman of the Finance Committee effective 1 March 2017. The Board, the Audit Committee and the Finance Committee did not hold any meetings in 2017 prior to his resignation.
4. No meeting was held by the Investment Committee in 2017 and all matters were dealt with by the Committee by written resolutions.

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. This induction covers a comprehensive introduction to the strategies and activities of the Group, its history and its principal policies and procedures, supplemented by visits to selected operational sites to provide a better understanding of the operations of the Group to the new Directors.

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. In March 2017, the Company invited an external solicitor to provide a training session under the topic "Work safety on construction sites – case studies on recent and landmark prosecutions" to the Directors, with Mr. Wong Yuet Leung, Frankie, Ms. Li Hoi Lun, Helen, Mr. Chan Kay Cheung, Mr. William Timothy Addison and Mr. Tsang Kwok Tai, Moses participated in this training session. In addition, discussion sessions were held during the year among the Chairman of the Board and all the Non-executive Directors to review the business and corporate strategies of the Group.

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 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 Group. 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.

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 2017.

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.

External 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 2017, the remuneration paid/payable to the external auditor of the Company in respect of audit services and non-audit services amounted to approximately HK$3.85 million and HK$3.27 million respectively. The fees paid/payable to the external auditor for the non-audit service assignments performed during the year are set out as follows:

Non-audit service assignments	**Fees paid/payable** (HK$'000)
Agreed-upon procedures in relation to preliminary results announcement for the year ended 31 December 2016	35
Review of interim report for the six months ended 30 June 2017	1,250
Issue of comfort letters in respect of the US$280 million senior notes of the Company	745
Acting as reporting accountant in respect of the major acquisition of interests in the Tianjin Veneto and Nanjing Scenic Villa projects	790
Acting as reporting accountant in respect of the very substantial disposal of interest in the Dalian Tiandi project	410
Agreed-upon procedures in relation to financial information of certain subsidiaries of the Company	40

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, assessment 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 2017, 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 ("CE"), 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 Chief Executive Officer on the results of all internal audit assignments. The Chief Executive Officer, with the approval of the Audit Committee, may instruct the senior executive in charge of CE to undertake internal audit activities of an urgent or sensitive nature. All other Directors are informed of the findings of these assignments. 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 CE 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 2017 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 risk-based audit plan and progress as well as key performance indicators relating to the work of CE and considers its view on the latest specific risk assessments of the Group.

Risk management and internal controls

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, rules and regulations. 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, assessment and management of the risks faced by the Group. The Chief Executive Officer, as Chief Risk Officer, takes the lead in the effective implementation of the Risk Management Policy by all business and functional units. Risk assessment and prioritisation are an integral part of the annual planning process. Each business/functional 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. An analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group is performed annually by CE and a report of the results would be submitted to the Audit Committee. Adequate in-house and external trainings are arranged for management staff to ensure proper appreciation and implementation of risk management system. During the year ended 31 December 2017, CE carried 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 a discussion session of the Management Committee and examination of risk-related documentation as well as internal control self-assessment questionnaires developed with reference to the latest framework of The Committee of Sponsoring Organisations of the Treadway Commission. Further details about the Group's risk management framework and process are set out in the Risk Management Report contained in this Annual Report.

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.

Whistle-blowing mechanism

A whistle-blowing policy has been put in place for the Group's employees to follow when they believes reasonably and in good faith that fraud, malpractices or violations of the Group's Code of Conduct on Business Ethics exist in the work place. In 2017, the policy was modified to encourage vendors, customers and business partners of the Group to use this channel to voice concerns directly about improprieties they come across. A designated officer, usually the senior executive in charge of the internal audit function, will be appointed by the Chairman of the Audit Committee to manage the reports. Effort will be made as far as practicable to protect the confidentiality of all information sources and identities of parties making reports. Further details about the policy are available on the website of the Company.

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 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 Chief Executive Officer are closely involved in promoting investor relations. Meetings and briefings with financial analysts and investors are conducted by the 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 specify the purposes of the meeting and must be signed by the requisitionists (with their names and shareholding in the Company clearly stated for verification purpose) 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 themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date and the meeting shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors as provided in the Bermuda Companies Act and the Bye-laws of the Company. All reasonable expenses incurred by the requisitionists for convening the meeting shall be reimbursed to the requisitionists by the Company.

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 (with their names and shareholding in the Company clearly stated for verification purpose) 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 can be found 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. 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 in 2017. 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. During the year, policies in relation to whistle-blowing and risk management were modified to meet the latest market standards and the Company's needs. 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, 28 March 2018

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

All the Committee members are Independent Non-executive Directors of the Company, with both the Chairman and Mr. William Timothy 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 and passed one written resolution in 2017. The attendance of individual member at the meetings is set out as follows:

Name of Committee member	Number of meetings attended/ entitled to attend
Mr. Chan Kay Cheung	4/4
Ms. Li Hoi Lun, Helen	4/4
Mr. William Timothy Addison	4/4

Other attendees at meetings of the Committee include the senior executive in charge of the Company's Corporate Evaluation Department ("CE") responsible for the internal audit function and, by invitation, the Chief Executive Officer and Chief Financial Officer and the senior executive 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 2017, 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 2016 (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 Environmental, Social and Governance Report included in the 2016 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 2017 (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 2016 and its review of the Group's condensed consolidated financial statements for the six months ended 30 June 2017;
- reviewed and considered the reports of CE on the business risks, operational and financial controls of selected property projects and on the internal approval procedure for the acquisition/disposal of certain property assets of the Group in the Chinese Mainland;
- reviewed and considered the reports of CE on the overall business risks of selected construction projects in the Hong Kong public sector and on the operational and/or financial controls of the Group's corporate office, construction, maintenance and fitting-out businesses in Hong Kong;
- reviewed and considered the report of CE on the cyber security risks pertaining to the Company;
- reviewed and considered the reports of CE 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 policy, with a recommendation to the Board for approval;
- considered and approved the proposed amendments to the whistle-blowing policy of the Company and conducted an annual review of the Company's policy on engaging non-audit services from the external auditor;
- reviewed the quarterly reports of CE on connected transactions, including the compliance of the Company's policy on connected transactions;
- 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 2017 and for the audit of the Group's consolidated financial statements for the year ended 31 December 2017;
- reviewed the key performance indicators and annual work programme of CE as well as its work progress, staffing and resources planning; 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. In 2017, several complaints regarding the quality standards of a property project and the business conduct of the leasing function of the Property Division were received through this reporting channel, and these complaints were investigated by independent personnel with appropriate actions taken by management.

The Committee reviews the Group's risk management and internal control systems annually based on the work of CE, the identification and assessment of risks by business and functional unit 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 CE 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 2017, 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 2018 for shareholders' approval at the forthcoming annual general meeting of the Company.

Chan Kay Cheung
Chairman, Audit Committee

Hong Kong, 28 March 2018

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 in 2017. The attendance of individual member 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 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 office or appointment), taking into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Director, 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, among others, 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 also 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 Company for rewarding 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 (where applicable) 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 concerned, 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 was 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 Mr. Frankie Wong for 2017 were set to be normally related to his aggregate total cash remuneration as follows:

Cash remuneration components	Proportion
Salary and other benefits	Half
Bonus for achievement of targets (100% based on corporate performance), provided that the Group did not incur a loss, under the Company's executive target bonus scheme (the "TB Scheme")	Half

Where appropriate, in accordance with the TB Scheme, to recognise the contribution of Mr. Frankie Wong, the bonus element could be increased, relative to performance delivered, to up to twice the amount that would be given normally. Subsequent to the year-end, the Remuneration Committee further reviewed the remuneration package of Mr. Frankie Wong and decided that it was more appropriate to grant a gratuity to him upon his retirement as incentive, instead of considering any bonus award to him according to the TB Scheme. The amount of the gratuity will be determined by the Remuneration Committee subject to the achievement of the performance targets of the Group as well as some individual performance targets as set for the years up to his retirement. In addition to the gratuity, the Committee would also consider paying a special bonus to Mr. Frankie Wong at the end of his employment, by reference to the award guideline of the TB Scheme, if he achieves exceptional performance over the targets set.

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 has in place a share option scheme for employees (including directors) of the Group, which was adopted on 22 August 2012 to replace the previous share option scheme that had expired on 30 August 2012.

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. In view of the financial losses of the Group, no annual grants of share options were made since 2014. Details of the outstanding share options granted by the Company under the previous annual grants are set out in the Directors' Report contained in this Annual Report.

In 2010 and 2011, share options were granted to certain Executive Directors and selected key executives under the long-term incentive plans adopted by the Board upon the recommendation of the Remuneration Committee. Details of the outstanding share options granted by the Company under these grants are also 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 2017 was as follows:

	Director's fees (Note 1) HK$'000	**Salary and other benefits** HK$'000	**For the year ended 31 December 2017 Total** HK$'000
Executive Directors			
Mr. Lo Hong Sui, Vincent	10	–	10
Mr. Wong Yuet Leung, Frankie (appointed on 1 January 2017)	10	6,792 (Note 2)	6,802
Non-executive Directors			
Mr. Gerrit Jan de Nys (resigned on 1 March 2017)	70	–	70
Mr. Tsang Kwok Tai, Moses (stepped down on 8 September 2017)	216	–	216
Independent Non-executive Directors			
Ms. Li Hoi Lun, Helen	485	–	485
Mr. Chan Kay Cheung	595	–	595
Mr. William Timothy Addison	443	–	443
TOTAL	1,829	6,792	8,621

Notes:

1. According to the fee schedule as approved by the Board for the year ended 31 December 2017, 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** 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. With effect from 1 January 2018, the annual salary and allowances of Mr. Wong Yuet Leung, Frankie, an Executive Director, the Chief Executive Officer and Chief Financial Officer of the Company, has been adjusted to HK$6,960,000 upon annual review of the Remuneration Committee.

Remuneration of Senior Management

The remuneration paid to the members of the senior management for the year ended 31 December 2017 was within the following bands:

	Number of individuals
HK$1,000,000 – HK$2,000,000	1
HK$3,000,000 – HK$4,000,000	2
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 2017, the Remuneration Committee:

- considered and endorsed that no annual grant of share options be made to management staff in view of the financial loss of the Group for the year ended 31 December 2016, with a recommendation to the Board for approval;
- reviewed and endorsed the Remuneration Committee Report included in the 2016 Annual Report of the Company, with a recommendation to the Board for approval; and
- considered and approved the 2018 salary review recommendation for the Executive Director, Chief Executive Officer and Chief Financial Officer, taking into account the report of an external consultant on the analysis of executive remuneration in comparable Hong Kong listed companies, and reviewed the 2018 salary review guidelines for the Group as a whole.

Li Hoi Lun, Helen
Chairman, Remuneration Committee

Hong Kong, 28 March 2018

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 four written resolutions in 2017. The attendance of individual member 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, ethnicity, 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.

Summary of Work Done

During 2017, 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;
- reviewed the time commitment required of Directors to perform their responsibilities;
- reviewed and endorsed the Nomination Committee Report included in the 2016 Annual Report, with a recommendation to the Board for approval;
- considered the nomination of four retiring Directors for the Board's recommendation to stand for re-election by shareholders at the 2017 annual general meeting of the Company;
- considered the proposed changes of composition of the Audit Committee and the Finance Committee to fill the vacancies arising from the resignation of a Non-executive Director, with a recommendation to the Board for approval; and
- considered the renewal of service contracts with two Independent Non-executive Directors, with a recommendation to the Board for approval.

Subsequent to the year-end, the Nomination Committee reviewed the Board composition 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 considered 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, but appointment of an additional Director was recommended to enhance diversity of perspectives of the Board. For the proposed appointment to the Board, the Committee assessed the key elements of educational background, professional experience, skills and knowledge of the candidate in view of the prevailing business strategy of the Group, and due consideration was also given to such criteria as gender and age for the benefits of diversity.

Lo Hong Sui, Vincent
Chairman, Nomination Committee

Hong Kong, 28 March 2018

RISK MANAGEMENT REPORT

The Board is fully committed to risk management as an integral part of good corporate governance practices which are essential for the sustainable development of the Group.

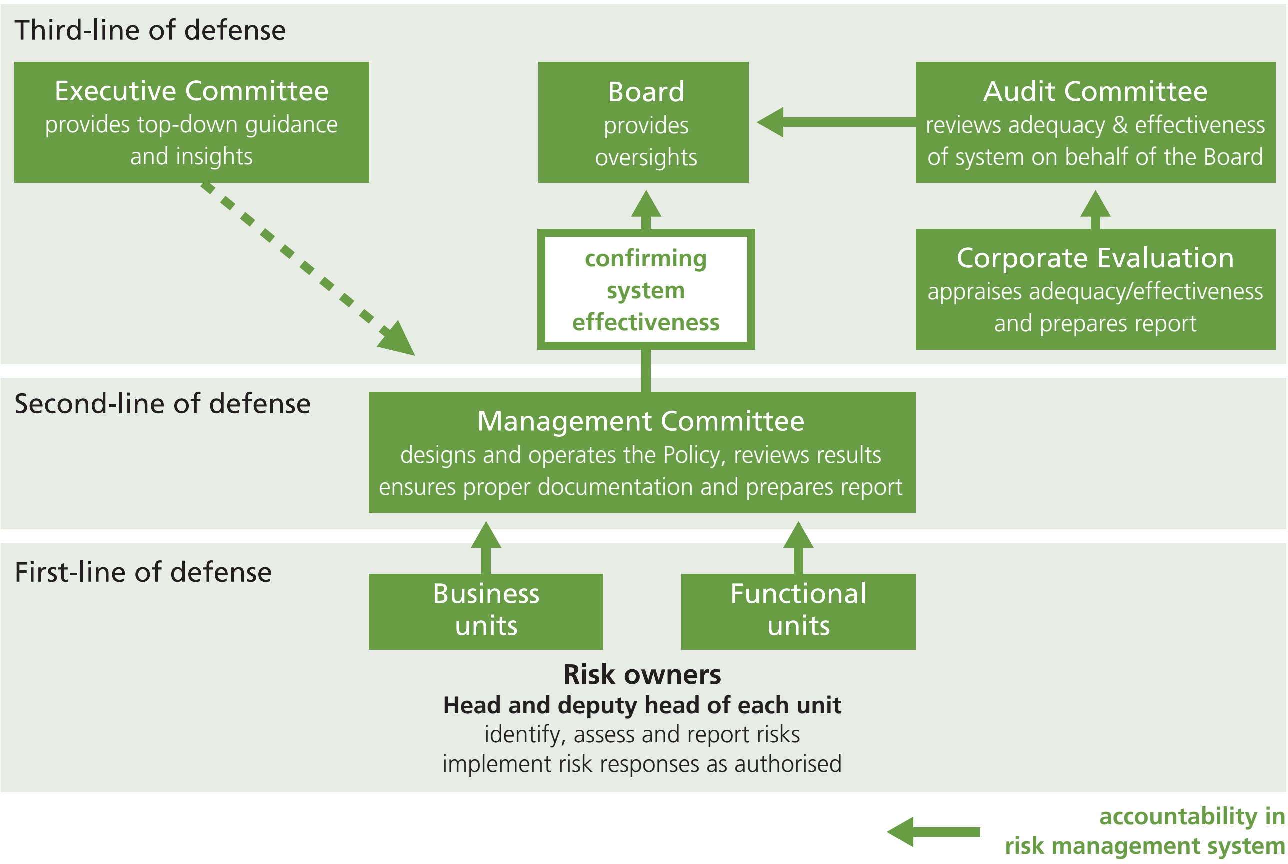
The Company implemented a Risk Management Policy (the "Policy") since 2007 after the revision of the Code on Corporate Governance (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which required the Directors to review internal controls including risk management function. Since inception, the Policy has been revised several times in light of the changes in the Company's management structure, development of market practices and new releases of ISO Standards as well as framework of the Committee of Sponsoring Organisations of the Treadway Commission ("COSO").

Effective 1 January 2016, amendments to the CG Code set out in the Listing Rules relating to risk management and internal control systems triggered further improvements of the Group's practices. As stipulated in the revised CG Code, an internal audit function generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems. In 2017, the Company's Corporate Evaluation Department ("CE"), which undertakes internal audit activities, analysed the practices of some reputable listed groups and the concepts of new COSO release of Enterprise Risk Management – Integrating with Strategy and Performance, and provided advice to the Company on initiating further modification of the Policy.

Coupled the above with considerations on the Group's latest circumstances, management proposed a number of important amendments to the Policy, which took effect from 14 December 2017 after the review of the Audit Committee and approval of the Board.

Risk Governance Structure

The responsibilities of the Board's attention to principal risks and ongoing oversight on risk management system, Audit Committee's role to review system, and Management Committee's accountability in implementation of the Policy as well as in ensuring the accuracy and completeness of risk assessments are depicted in the operating structure as below:



The Management Committee has a responsibility for designing and operating effective system of risk management, and managing risks in order to achieve business objectives and match the risk appetite. It should be aware of the risks the Group should take, and the risks which should be avoided or reported upwards for further consideration and feedback. As one of its members, the Chief Executive Officer takes the lead in the implementation of the Policy by all the business and functional units, having due regard for the relevant regulations, rules and trends of Hong Kong, Chinese Mainland and other areas in which the Group operates. Meanwhile, guidance and insights from the Executive Committee are sought.

With the assistance of CE, the Audit Committee annually conducts a review of the effectiveness of the system of risk management with reference to approaches suggested by the Institute of Internal Auditors and report to shareholders in the Annual Report of the Company. The senior executive in charge of CE has full access to all risk documentation for the purpose of independent appraisal of the adequacy and effectiveness of risk management system, and he quarterly gives updates on risk situation of the Group to the Audit Committee for monitoring.

Features of Risk Management Policy

The Policy sets out the requirements to be met by all business and functional units in the development and implementation of the risk management system for the purpose of managing the risks as part of daily operations and decision-making.

Risk is defined as the possibility that events will occur and affect the Group's achievement of strategy and business objectives, which may:

- cause financial disadvantages to the Group, i.e. increase of costs or decrease of income; or
- lead to damages in the Group's reputation; or
- otherwise hinder the Group from achieving its strategy and objectives.

Risk management is the culture, capabilities, and practices, integrated with strategy and execution, that the Group relies on to manage risk in creating, preserving, and realising value. Risks may be simply accepted, moderately controlled, intensively mitigated, or completely transferred to third parties.

Business units represent classification of the Group's operations, currently being the property and construction divisions. They may be changed over time with the development of the Group's business activities. Functional units represent legal, company secretarial & compliance, finance & accounting, human resources, and corporate communications.

Risk Management Process

The Management Committee is responsible for steering the risk management process in an integrated approach in accordance with the Policy. The process involves the following steps:

- Risk identification – risk owners identify nature of specific risks using both top-down and bottom-up approach.
- Risk assessment – risk owners anticipate and analyse all potential events, even with a remote chance, and rank the combined effect of impact and the likelihood into five levels (very-low, low, medium, high, very-high).
- Risk tolerance setting – Management Committee determines the maximum acceptable impact, likelihood thus risk level.
- Risk response – risk owners propose and execute the most appropriate responses to tackle specific risks identified in four ways (simply accept, moderately control, intensively mitigate, completely transfer). Risk responses are subject to challenge and test by CE and the Audit Committee.
- Risk monitoring – substantial change in risk assessment and its effect on the strategy and business objectives must be immediately referred to the Board.
- Risk reporting – risk owners submit annually the Policy Compliance Checklist, while Management Committee and CE annually prepare a report to illustrate the Group's risk management initiatives, latest risk portfolio, and the result of independent appraisal.

Approaches of Risk Identification and Monitoring

The Group adopts both bottom-up and top-down approaches to facilitate risk identification and monitoring.

Bottom-up approach:

Information relevant to existing and emerging risks is submitted monthly to the Management Committee through discussions at regular meeting, and the Risk Registers and the Risk Management Summary of respective business or functional units shall be updated as appropriate for timely review by the Chief Executive Officer.

Through a diligent process of consolidation and prioritisation, Management Committee and CE compile a Risk Management Report for annual review by the Audit Committee and the Board.

Quarterly update of risk assessments is given by CE in Audit Committee meetings with representative of the Management Committee present.

Top-down approach:

The Audit Committee has various channels for risk identification, for example, the material risks faced by market participants of the same industries, potential control weaknesses indicated through internal and external audit work and concerns of our stakeholders on social, environmental and governance issues.

The Management Committee is responsible for designing and operating effective system of risk management, and managing risks in order to achieve business objectives and match the risk appetite. The Executive Committee gives guidance and insights whenever appropriate.

Risk Management in Strategy and Business Objectives Setting Process

As part of the annual planning process, business and functional units are required to identify all material risks that may impact the delivery of the Group's business objectives. Identified risks are evaluated based on the criteria set in the Policy to arrive at an optimal risk profile given the desired performance of the Group.

The principal risks currently being managed by the Group include:

Risks and change of levels from last year		**Risk responses**
Property segment		
Increased government control on the property sales market in the Mainland	↓	Review market conditions and set reasonable price targets; identify experienced sales agent for each of the product types
Over-supply of shopping malls in major Mainland cities, coupled with increased competition on lifestyle malls	↓	Repositioning of the Group's shopping malls in Shenyang, Tianjin and Chongqing; adjust composition of the leasing/operation teams
High operating and property management costs compared to the size of existing property portfolio	↔	Reduce headcounts and general overhead costs in each regional office; heighten monitoring of expenses
Lack of new property projects, hence difficult to retain good staff and maintain business sustainability	↑	More business development initiatives, yet restricting to cities in which the teams have experience in operation

Risks and change of levels from last year		Risk responses
Construction segment		
Concentration on key customers offering uneven workload due to changes of HKSAR Government's housing policies, policy on expenditure on public new works and maintenance works	↔	Accept and monitor
Keen competition in the fit-out market with reduced workload in Hong Kong	↔	Focus on the high-end market; sharpen management skills to earn reputation of project performance with good business relationship; strive for customer satisfaction and quality excellence
Abrupt changes in material prices and labour wages	↔	Give careful considerations during tendering stage; make provisions for the forecast changes in material prices and labour wages, and pre-bid with competent suppliers and subcontractors for certain trades
Workmanship and material usage non-compliance	↔	Strictly implement the enhanced quality assurance system on site
Adequacy of competent and loyal staff, who may not be retained without abrupt changes in pay levels	↔	Keep training effort; actively expand recruitment channels; improve development measures and initiatives to enhance staff commitment and engagement, as well as reinforcing staff loyalty and sense of belonging; regular monitoring of pay level movements and take pro-active measures in reviewing pay levels for staff retention
Availability of competent nominated and domestic subcontractors, which are suffering from shortage of skilled labour, and reliable suppliers may be in doubt	↓	Continue to identify good performance subcontractors and suppliers and maintain good relationship with them; careful consideration on forecast change in labour wages; effective use of credit terms
Complexity of contract clauses and potential contractual claims	↔	Careful review and provide allowance for the risks of complex clauses and potential contractual claims in tenders
Increasing bidding costs of tenders for design and build projects	↔	Continue to lobby customers via Hong Kong Construction Association for reimbursement of bidding costs; careful selection of design consultants; maintain good project management to enable efficient design process; select appropriate tender opportunties with higher winning chance based on capability review; form joint ventures with other construction companies to diversify risks whenever appropriate

Risks and change of levels from last year		Risk responses
Others		
Unexpected fluctuation of exchange rates, in particular Renminbi against Hong Kong Dollars	↔	Take out currency hedging contracts as appropriate; continue to monitor closely the movements of Renminbi
Rise in market interest rate and interest rates margin on the Group's bank borrowings	↔	Closely monitor market trend of global and local lending markets and enter into swap or hedging arrangement when appropriate
Accepting risky contractual terms which are not adequately allowed for in the decision process	↔	Give due consideration on legal consequences and avoid tendency to make concession in contractual terms during negotiations
Manpower effectiveness in meeting change of business strategy	↔	Carry out special review of manpower of relevant business operations at time of change in business strategy
Succession planning for key positions in the Group	↔	Plan and execute management development for the Company and its subsidiaries
Digital and social media crisis	↔	Drive preparedness/simulations and strategies; promote stakeholder engagement

Process for Review of Risk Management System

By reviewing the Group's strategic plan, business plan and policies, and having discussions with the Audit Committee and senior management, the senior executive in charge of CE gains insight to assess whether the Group's strategic objectives support and align with its mission, values, and risk appetite. Conversations with management provide additional insight into the alignment of mission, objectives, and risk appetite at the business-unit level.

CE regularly examines the ways used by the Group to identify and address risks, and determines which of them are acceptable. In particular, the senior executive in charge evaluates the responsibilities and risk-related processes of those in key risk management roles, through review of completed risk assessments and relevant reports issued by management, external auditor, clients and their agents, etc.

Additionally, CE quarterly conducts its own risk assessments. Discussions with management and some of the Board members, in addition to a review of the Group's policies and meeting minutes, generally reveal the Group's risk appetite. To remain current on potential risk exposures and opportunities, CE frequently researches new developments and trends related to the industries participated by the Group, as well as processes used by management to monitor, assess, and respond to such risks and opportunities. Independent analysis of unidentified changes in risks will be reported to the Audit Committee, together with recommendations to improve the risk management process and/or to rectify control defects.

Annually CE discusses in details with the heads of business and functional units about their assessments of risks and corresponding responses that have been chosen. Those with simple acceptance as the risk response shall accord to the Group's risk appetite, or the matters shall be further explored and reported to the Board. For those that management chooses to employ a risk control or mitigation responses, CE normally evaluates the effectiveness of respective actions taken through enquiry, and sometimes test the controls and monitoring procedures during routine and non-routine audits.

To assess whether relevant risk information is captured and communicated timely across the Group, CE interviews the concerned staff at various levels to determine whether the Group's objectives, significant risks, and risk appetite are articulated sufficiently and understood throughout the Group. Moreover, aided by frequent reviews of meeting minutes of Executive Committee and Management Committee, CE evaluates the adequacy and timeliness of management's reporting of and response to risks.

During the year, the Audit Committee quarterly queried the Chief Executive Officer and finance executives about identified risks and management's responses, and conducted a review of the effectiveness of the risk management system, with reference to the approaches suggested by the Institute of Internal Auditors. The affirmative result was reported to the Board.

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

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 43, 44 and 45 to the consolidated financial statements respectively.

Business Review

A fair review of the businesses of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and the Management Discussion and Analysis sections of this Annual Report. A description of the principal risks and uncertainties facing the Group can be found in the abovementioned sections and the Risk Management Report contained in this Annual Report. Also, the financial risk management objectives and policies of the Group can be found in note 40 to the consolidated financial statements. The Directors are not aware of any important events affecting the Group that have occurred since the end of the financial year.

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 references herein to other sections or reports in this Annual Report form part of this report.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 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 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 2017, 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 14 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 15 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. Gerrit Jan de Nys
(resigned on 1 March 2017)
Mr. Tsang Kwok Tai, Moses
(stepped down on 8 September 2017)

Independent Non-executive Directors:

Ms. Li Hoi Lun, Helen
Mr. Chan Kay Cheung
Mr. William Timothy Addison

In accordance with Bye-law 87(1) of the Bye-laws of the Company, Ms. Li Hoi Lun, Helen and Mr. Chan Kay Cheung shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "2018 AGM") of the Company to be held on 31 May 2018.

No Director proposed for re-election at the 2018 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 2017, the interests of the Directors and chief executive of the Company in the 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 of the Company

	Number of shares				
Name of Director	Personal interests	Family interests	Other interests	Total	Approximate percentage of issued shares (Note 1)
Mr. Lo Hong Sui, Vincent	–	312,000 (Note 2)	234,381,000 (Note 3)	234,693,000	48.44%
Mr. Wong Yuet Leung, Frankie	3,928,000	–	–	3,928,000	0.81%

Notes:

1. Based on 484,410,164 shares of the Company in issue at 31 December 2017.
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 comprised 232,148,000 shares beneficially owned by Shui On Company Limited ("SOCL") and 2,233,000 shares held by Shui On Finance Company Limited ("SOFCL"), 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.

Save as disclosed above, at 31 December 2017, 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 2017, the interests of substantial shareholders and other persons (not being a Director or chief executive of the Company) 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 were as follows:

Name of shareholder	Capacity	Number of shares/ underlying shares	Approximate percentage of issued shares (Note 1)
Mrs. Lo	Family and personal interests	234,693,000 (Notes 2 & 5)	48.44%
SOCL	Beneficial owner and interest of controlled corporation	234,381,000 (Notes 3 & 5)	48.38%
HSBC Trustee	Trustee	234,381,000 (Notes 3 & 5)	48.38%
Bosrich	Trustee	234,381,000 (Notes 3 & 5)	48.38%
Penta Investment Advisers Limited	Investment manager	43,334,138 (Notes 4 & 5)	8.94%

Notes:

1. Based on 484,410,164 shares of the Company in issue at 31 December 2017.
2. These shares comprised 312,000 shares beneficially owned by Mrs. Lo and 234,381,000 shares in which Mr. Lo, the spouse of Mrs. Lo, had a deemed interest under the SFO as mentioned in Note 3 below.
3. These shares comprised 232,148,000 shares beneficially owned by SOCL and 2,233,000 shares held by SOFCL, an indirect wholly-owned subsidiary of SOCL. SOCL was owned by the Bosrich Unit Trust, the trustee of which was 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 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 included the interests held by Penta Investment Advisers Limited in 7,386,940 underlying shares of the Company, representing approximately 1.52% of the issued shares of the Company, pursuant to certain unlisted cash settled derivatives.
5. All the interests stated above represent long positions.

Save as disclosed above, at 31 December 2017, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register which is 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.

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 HK$	Number of shares subject to options At 1.1.2017	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31.12.2017	Period during which the options are/were exercisable (Note 1)
Former Director									
Mr. Wong Fook Lam, Raymond (retired on 1 January 2017) (Note 2)	12.4.2010	12.22	700,000	–	–	–	–	700,000	12.4.2013 to 11.4.2020
Sub-total			700,000	–	–	–	–	700,000	
Employees (in aggregate)	28.7.2011	10.00	2,318,000	–	–	(876,000)	–	1,442,000	1.5.2015 to 27.7.2021
	26.11.2012	8.18	3,044,000	–	–	(3,044,000)	–	–	26.5.2013 to 25.11.2017
	14.6.2013	9.93	3,610,000	–	–	(480,000)	–	3,130,000	14.12.2013 to 13.6.2018
Sub-total			8,972,000	–	–	(4,400,000)	–	4,572,000	
Total			9,672,000	–	–	(4,400,000)	–	5,272,000	

Notes:

1. The share options granted on 28 July 2011, 26 November 2012 and 14 June 2013 are/were 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 these share options are set out in note 35 to the consolidated financial statements.
2. 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 was exercisable within a period of 12 months from the date of his retirement, following which the option lapsed accordingly.

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 Listed Securities

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

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) Disposal of minority interests in Shui On Contractors Limited ("SOCON") under an employee equity participation arrangement

On 4 August 2017, the Company entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with seven senior executives in the Company's Construction Division, pursuant to which the Company agreed to sell (the "Disposal") and the senior executives, including (among others) Mr. Choi Yuk Keung, Lawrence, Mr. Chan Ngai Shing, David, Mr. Ng Yat Hon, Gilbert and Mr. Lee Kwok Fai (collectively the "Relevant Executives"), agreed to purchase an aggregate of 15% share interest in SOCON for a total consideration of HK$75 million under an employee equity participation arrangement.

Pursuant to the Sale and Purchase Agreement, the share interests in SOCON agreed to be acquired by the Relevant Executives and the respective consideration payable by them are set out as follows:

Relevant Executives	Share interests in SOCON	Consideration (HK$ million)
Mr. Choi Yuk Keung, Lawrence	6%	30
Mr. Chan Ngai Shing, David	2%	10
Mr. Ng Yat Hon, Gilbert	2%	10
Mr. Lee Kwok Fai	2%	10

SOCON via its subsidiaries (collectively the "SOCON Group") principally engages in the construction business in Hong Kong and Macau.

As the four Relevant Executives are directors of certain members of the SOCON Group while Mr. Lee Kwok Fai is also a substantial shareholder of a subsidiary of SOCON, all of them are connected persons of the Company under Chapter 14A of the Listing Rules. Therefore, the disposal of share interest in SOCON to each of them pursuant to the Sale and Purchase Agreement constituted a connected transaction of the Company, details of which were set out in the announcement dated 4 August 2017 issued by the Company.

In accordance with the terms of the Sale and Purchase Agreement, the Disposal was completed on 4 September 2017.

(2) Engagement of main contractor for Nanjing project works

On 14 December 2017, 江蘇九西建設發展有限公司 (Jiangsu Jiu Xi Development Co, Ltd.) ("Jiangsu Jiu Xi", an indirect wholly-owned subsidiary of the Company) confirmed, by way of a letter of acceptance (the "Letter of Acceptance"), the engagement of 瑞安建築有限公司 (Shui On Construction Co., Ltd.) ("SOC (Mainland)", an indirect wholly-owned subsidiary of Shui On Land Limited ("SOL")) as the main contractor to carry out construction works, including (among others) foundation and main structural works, electrical and mechanical works, and interior fit-out works, for Site C of the Nanjing Scenic Villa project for a total contract sum of approximately RMB34.93 million (the "Engagement").

As SOC (Mainland) is a subsidiary of SOL which is an associate of Mr. Lo, the Chairman and the controlling shareholder of the Company, SOC (Mainland) is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Engagement constituted a connected transaction of the Company, details of which were set out in the announcement dated 14 December 2017 issued by the Company.

(3) Acquisition of minority interest in Pacific Extend Limited ("PEL")

On 20 December 2017, Shui On Building Contractors Limited ("SOBC", an indirect 85%-owned subsidiary of the Company, which holds 67% interest in the issued ordinary shares of PEL) entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Win Media Limited ("WML") and Mr. Lo Sun Ho, Patrick ("Mr. Patrick Lo"), pursuant to which SOBC agreed to acquire (the "Acquisition") and WML agreed to sell 10% of the issued ordinary shares of PEL (the "Sale Shares") and the shareholder's loan owed by PEL to WML in the amount of approximately HK$0.76 million (the "Shareholder's Loan") for an aggregate consideration of not more than HK$30 million, which shall comprise the following:

(i) consideration for acquiring the Sale Shares: (a) a sum equal to the net asset value of PEL at 30 June 2018 ("NAV") attributable to the Sale Shares (the "Attributable Sum"), plus (b) a sum equal to 20% of the Attributable Sum, provided that the NAV shall be adjusted upward by any dividends declared and paid by PEL during the period from 1 July 2017 to 30 June 2018 (both dates inclusive) and the director's fee paid/payable to Mr. Patrick Lo during the period from 1 October 2017 to 30 June 2018 (both dates inclusive); and

(ii) consideration for acquiring the Shareholder's Loan on a dollar-to-dollar basis: a sum of approximately HK$0.76 million.

PEL principally engages in property maintenance and refurbishment works in Hong Kong.

As WML is a company wholly owned by Mr. Patrick Lo, who is a director of PEL (an indirect non-wholly owned subsidiary of the Company), WML is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Acquisition constituted a connected transaction of the Company, details of which were set out in the announcement dated 20 December 2017 issued by the Company.

In accordance with the terms of the Sale and Purchase Agreement, completion of the Acquisition shall take place on 16 August 2018 or such other date as SOBC and WML may agree in writing, but in any event no later than 31 December 2018.

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, and trading of building materials 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.

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 businesses, 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.

Issuance of Senior Notes

During the year, the Company has issued the following senior notes (collectively the "Notes") to repay the Group's bank borrowings, and for working capital and general corporate purposes:

(1) On 8 May 2017, the Company issued the US$200 million 6.25% senior notes due 2020 (the "Original Notes"). The net proceeds of the Original Notes, after deduction of fees, commission and expenses, amounted to approximately US$196 million.

(2) On 12 June 2017, the Company issued the US$80 million 6.25% senior notes due 2020 (the "Additional Notes") (which was consolidated and formed a single series with the Original Notes). The net proceeds of the Additional Notes, after deduction of fees, commission and expenses, amounted to approximately US$79 million.

All the Notes are listed on the Stock Exchange. Further details about the Notes were set out in the announcements of the Company dated 27 April 2017 and 5 June 2017.

Disclosure Under Rule 13.20 of the Listing Rules

Financial assistance and guarantees provided by the Group to New Pi (Hong Kong) Investment Co., Ltd. ("New Pi") and certain of its subsidiaries were HK$1,591 million at 31 December 2017, which comprises:

	HK$ million
Receivables	449
Guarantees	1,142
	1,591

The receivables are unsecured, repayable on demand and out of the total outstanding balance, an amount of HK$144 million carries interest at prevailing market rates. The above balances are in relation to the disposal of a former subsidiary group in prior years to New Pi. Further details of the receivables and guarantees are set out in notes 23(c) and 38 to the consolidated financial statements.

Disclosure Under Rule 13.21 of the Listing Rules

On 8 May 2017, a written agreement (the "Indenture") was entered into between the Company as issuer and Citicorp International Limited as trustee, pursuant to which the Notes were issued. The Indenture provides that, upon the occurrence of a Change of Control (as defined in the Indenture), the Company will make an offer to repurchase all outstanding Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Please refer to the announcements of the Company dated 27 April 2017 and 5 June 2017 for details about the Notes.

On 20 November 2017, Lancewood Enterprises Limited ("Borrower I") and Chengdu Xianglong Real Estate Co., Ltd. ("Borrower II"), both being indirect wholly-owned subsidiaries of the Company, entered into facility agreements with China CITIC Bank International Limited ("Lender I") and CITIC Bank International (China) Limited, Shanghai Branch ("Lender II") respectively whereby Lender I and Lender II agreed to make available to Borrower I and Borrower II a HK$320 million three-year term loan facility and a RMB120 million three-year term loan facility (collectively the "Loan Facilities") respectively. Pursuant to the aforesaid facility agreements, there is a condition requiring that (i) SOCL remains the single largest shareholder of the Company; and (ii) Mr. Lo remains the Chairman of the Company and has the right to nominate the majority of the members of the Board of Directors of the Company. Details of the requirement were set out in the announcement of the Company dated 20 November 2017.

Any breach of the above obligations will cause a default in respect of the Notes and the Loan Facilities and may trigger cross defaults in other outstanding debts of the Group, in the aggregate amount of approximately HK$3,251 million at 31 December 2017.

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 85% of the total turnover of the Group for the year with the largest customer, Hong Kong Housing Authority, accounting for approximately 45% 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.

Donations

During the year, the Group made donations of approximately HK$1.2 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.

Auditor

Deloitte Touche Tohmatsu will retire and, being eligible, offer itself for re-appointment at the 2018 AGM. A resolution will be proposed at the 2018 AGM to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Lo Hong Sui, Vincent
Chairman

Hong Kong, 28 March 2018

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 99 to 182, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the 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
Valuation of investment properties 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: • Obtaining an understanding of the management's process for reviewing and evaluating the work of the Valuers; • Evaluating the competence, capabilities and objectivity of the Valuers and obtaining an understanding of their scope of work and their terms of engagement;

Key audit matter	How our audit addressed the key audit matter
As disclosed in note 14 to the consolidated financial statements, the investment properties are situated in Guangzhou, Shenyang, Chongqing, Tianjin and Chengdu in the People's Republic of China and carried at a total value of HK$4,538 million as at 31 December 2017, which represented 38% of the Group's total assets. The amount of fair value changes of HK$59 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 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 14 to the consolidated financial statements. The valuations of investment properties are dependent on certain key inputs, including capitalisation rate, market rent and market price.	• Evaluating the reasonableness of valuation techniques and key inputs, including capitalisation rate, market rent and market price, adopted by the management of the Group and the Valuers by comparing these estimates to comparables of similar properties in Guangzhou, Shenyang, Chongqing, Tianjin and Chengdu.
Valuation of receivables due from a former subsidiary group and the related financial guarantee	
We identified the valuation of receivables of HK$449 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 23(c) and 38 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$449 million from the Debtor and remained as a guarantor for a loan granted to the Debtor of HK$648 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. The management expects that the receivables of HK$449 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$648 million and the related interest amounting to HK$494 million will be fully released upon completion of the Auction or the Sale of Equity Interest.	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 • 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.

Key audit matter	How our audit addressed the key audit matter
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, 11 and 21 to the consolidated financial statements, the construction contracts revenue, costs and amounts due from/to customers for contract work amounted to HK\$6,403 million, HK\$6,113 million, HK\$163 million and HK\$531 million respectively for the year ended 31 December 2017. 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.

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 disclosure requirements of 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 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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 Lee Po Chi.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 HK$ million	2016 HK$ million
Turnover			
The Company and its subsidiaries		**6,472**	5,345
Share of joint ventures/associates		**481**	1,572
		6,953	6,917
Group turnover	6	**6,472**	5,345
Other income, other gains and losses	7	**254**	103
Changes in inventories of finished goods, work in progress, contract work in progress and cost of properties sold		**(566)**	(466)
Raw materials and consumables used		**(472)**	(432)
Staff costs		**(690)**	(679)
Depreciation		**(8)**	(11)
Subcontracting, external labour costs and other expenses		**(4,868)**	(4,000)
Fair value changes on investment properties	14	**(59)**	(43)
Gain on transfer of property inventories to investment properties	14	**64**	–
Dividend income from available-for-sale investments		**2**	1
Finance costs	8	**(234)**	(195)
Loss on disposal of interest in an associate	18	**(127)**	–
Share of results of joint ventures	6	**(299)**	(834)
Share of results of associates	6	**(5)**	(151)
Loss before taxation		**(536)**	(1,362)
Taxation	9	**(34)**	6
Loss for the year		**(570)**	(1,356)
Attributable to:			
Owners of the Company		**(613)**	(1,382)
Non-controlling interests		**43**	26
		(570)	(1,356)
Loss per share	12		
Basic		**HK$(1.27)**	HK$(2.86)
Diluted		**HK$(1.27)**	HK$(2.86)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 HK$ million	2016 HK$ million
Loss for the year	**(570)**	(1,356)
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss:		
Fair value changes of available-for-sale investments	**15**	(14)
Exchange differences arising on translation of financial statements of foreign operations	**291**	(319)
Share of other comprehensive expense of a joint venture	**–**	(13)
Reclassification adjustments for amounts transferred to profit or loss:		
– release of exchange differences upon disposal of interest in an associate	**(32)**	–
– release of exchange differences upon deregistration of a subsidiary	**(7)**	–
– upon disposal of property inventories, net of deferred tax of nil (2016: nil)	**–**	(3)
– upon recognition of impairment loss on available-for-sale investments	**–**	5
Item that will not be reclassified to profit or loss:		
Recognition of actuarial gain	**77**	18
Other comprehensive income (expense) for the year	**344**	(326)
Total comprehensive expenses for the year	**(226)**	(1,682)
Total comprehensive (expenses) income attributable to:		
Owners of the Company	**(269)**	(1,708)
Non-controlling interests	**43**	26
	(226)	(1,682)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$ million	2016 HK$ million
Non-current Assets			
Investment properties	14	**4,538**	1,752
Property, plant and equipment	15	**37**	23
Interests in joint ventures	16	**107**	118
Available-for-sale investments	17	**65**	50
Interests in associates	18	**–**	–
Club memberships		**1**	1
Amounts due from joint ventures	19	**–**	1,399
Amounts due from associates	20	**–**	1,294
Restricted bank deposits	25	**137**	–
		4,885	4,637
Current Assets			
Properties held for sale	22	**925**	213
Properties under development for sale	22	**1,343**	65
Debtors, deposits and prepayments	23	**3,074**	1,877
Amounts due from customers for contract work	21	**163**	374
Amounts due from joint ventures	19	**74**	689
Amounts due from associates	20	**–**	272
Amounts due from related companies	24	**8**	1
Taxation recoverable		**–**	4
Restricted bank deposits	25	**66**	482
Bank balances, deposits and cash	23	**1,486**	587
		7,139	4,564
Assets classified as held for disposal		**–**	9
		7,139	4,573

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$ million	2016 HK$ million
Current Liabilities			
Creditors and accrued charges	27	**2,578**	1,992
Sales deposits received		**528**	13
Derivative financial instruments	26	**102**	–
Amounts due to customers for contract work	21	**531**	223
Amounts due to joint ventures	19	**116**	106
Amounts due to associates	20	**–**	1
Amounts due to related companies	24	**281**	374
Amounts due to non-controlling shareholders of subsidiaries	24	**5**	14
Taxation payable		**127**	35
Bank borrowings due within one year	28	**500**	1,685
		4,768	4,443
Net Current Assets		**2,371**	130
Total Assets Less Current Liabilities		**7,256**	4,767
Capital and Reserves			
Share capital	30	**484**	484
Reserves		**3,082**	3,351
Equity attributable to owners of the Company		**3,566**	3,835
Non-controlling interests		**136**	37
		3,702	3,872
Non-current Liabilities			
Bank borrowings	28	**945**	669
Senior notes	29	**2,157**	–
Other financial liabilities		**28**	–
Defined benefit liabilities	31	**18**	112
Deferred tax liabilities	32	**406**	114
		3,554	895
		7,256	4,767

The consolidated financial statements on pages 99 to 182 were approved and authorised for issue by the Board of Directors on 28 March 2018 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 2017

	Attributable to owners of the Company												
	Share capital	Share premium account	Translation reserve	Contributed surplus (Note a)	Goodwill	Accumulated losses	Share option reserve	Actuarial gain and loss	Investmnt 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 2017	**484**	**3,172**	**131**	**197**	**(3)**	**(391)**	**24**	**(66)**	**–**	**287**	**3,835**	**37**	**3,872**
Fair value changes of available-for-sale investments	–	–	–	–	–	–	–	–	15	–	15	–	15
Exchange differences arising on translation of financial statements of foreign operations	–	–	291	–	–	–	–	–	–	–	291	–	291
Recognition of actuarial gain	–	–	–	–	–	–	–	77	–	–	77	–	77
Disposal of interest in an associate	–	–	(32)	–	–	–	–	–	–	–	(32)	–	(32)
Deregistration of a subsidiary	–	–	(7)	–	–	–	–	–	–	–	(7)	–	(7)
Loss for the year	–	–	–	–	–	(613)	–	–	–	–	(613)	43	(570)
Total comprehensive income (expense) for the year	–	–	252	–	–	(613)	–	77	15	–	(269)	43	(226)
Partial disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	75	75
Transfer upon lapse of share options	–	–	–	–	–	10	(10)	–	–	–	–	–	–
Dividends payable to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(19)	(19)
At 31 December 2017	**484**	**3,172**	**383**	**197**	**(3)**	**(994)**	**14**	**11**	**15**	**287**	**3,566**	**136**	**3,702**

	Attributable to owners of the Company												
	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	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 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	–	–	(319)	–	–	–	–	–	–	–	(319)	–	(319)
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

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 (2016: 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 (2016: HK$16 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 (2016: 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 2017

	2017 HK$ million	2016 HK$ million
OPERATING ACTIVITIES		
Loss before taxation	**(536)**	(1,362)
Adjustments for:		
Impairment loss on available-for-sale investments	**–**	5
Loss on disposal of interest in an associate	**127**	–
Gain on deregistration of a subsidiary	**(7)**	–
Gains (net of impairment of goodwill) from business combinations (note 36)	**(141)**	–
Reversal of impairment loss recognised in respect of interest in a joint venture	**–**	(29)
Share of results of joint ventures	**299**	834
Share of results of associates	**5**	151
Interest income	**(184)**	(60)
Finance costs	**234**	195
Loss on disposal of property inventories through disposal of a subsidiary	**–**	34
Dividend income from available-for-sale investments	**(2)**	(1)
Fair value loss on derivative financial instruments	**174**	–
Fair value changes on investment properties	**59**	43
Gain on transfer of property inventories to investment properties	**(64)**	–
Depreciation of property, plant and equipment	**8**	11
Gain on disposal of property, plant and equipment	**(1)**	–
Unrealised effect on income from associates/joint ventures	**12**	(2)
Share-based payment expense	**–**	1
Expense recognised in respect to defined benefit scheme	**16**	18
Operating cash flows before movements in working capital	**(1)**	(162)
Decrease in properties held for sale	**3**	118
Increase in properties under development for sale	**(67)**	–
Decrease (increase) in debtors, deposits and prepayments	**16**	(221)
Decrease (increase) in amounts due from customers for contract work	**211**	(31)
Decrease in amounts due from related companies	**–**	2
Decrease in amounts due from associates	**11**	–
Decrease in amounts due from joint ventures	**10**	82
Increase in creditors and accrued charges	**350**	242
Increase (decrease) in sales deposits received in respect of properties for sale	**19**	(11)
Increase (decrease) in amounts due to customers for contract work	**308**	(127)
Increase in amounts due to joint ventures	**5**	2
(Decrease) increase in amounts due to related companies	**(20)**	34
Decrease in amounts due to associates	**–**	(1)
Settlement for derivative financial instruments	**(72)**	–
Contribution to defined benefit scheme	**(33)**	(40)
Cash from (used in) operations	**740**	(113)
Hong Kong Profits Tax paid	**(26)**	(21)
Hong Kong Profits Tax refunded	**3**	2
Income tax of other regions in the People's Republic of China ("PRC") paid	**(8)**	(221)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**709**	(353)

	2017 HK$ million	2016 HK$ million
INVESTING ACTIVITIES		
Advance to joint ventures	**(978)**	(657)
Advance to associates	**–**	(324)
Repayment from joint ventures	**168**	213
Repayment from associates	**–**	291
Return of investment from an associate	**–**	4
Additions in property, plant and equipment	**(18)**	(7)
Payment for construction of investment properties	**(150)**	–
Interest received	**34**	34
Proceeds from disposal of property, plant and equipment	**3**	1
Dividends received from available-for-sale investments	**2**	1
Dividend received from a joint venture	**6**	–
Net cash outflow on acquisition of remaining interests in joint ventures as subsidiaries (note 36)	**(84)**	–
Net proceeds from disposal of interest in an associate	**351**	–
Net proceeds from disposal of an associate classified as held for disposal (note a)	**–**	331
Net proceeds from disposal of a property inventory through disposal of a subsidiary (note b)	**–**	441
Sales deposits received in respect of disposal of investment properties classified as held for disposal	**–**	139
Restricted bank deposits placed	**(183)**	(372)
Restricted bank deposits refunded	**466**	586
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(383)**	681
FINANCING ACTIVITIES		
New bank borrowings raised	**785**	1,656
Repayment to related companies	**(100)**	–
Repayment of bank borrowings	**(2,127)**	(2,590)
Issue of senior notes	**2,186**	–
Expenditure incurred on issue of senior notes	**(40)**	–
Interest paid	**(180)**	(171)
Other borrowing costs paid	**(12)**	(15)
Proceeds from partial disposal of interest in a subsidiary	**75**	–
Dividends paid to non-controlling shareholders of subsidiaries	**(30)**	(19)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**557**	(1,139)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**883**	(811)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**587**	1,440
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**16**	(42)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,486**	587
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances, deposits and cash	**1,486**	587

Notes:

(a) During the year ended 31 December 2016, 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 ended 31 December 2016, 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 arising therefrom was included in cash flows from investing activities, rather than operating activities.

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 2017.

HKFRS 12 (Amendments)	Disclosure of Interests in Other Entities
HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses

Except as described below, 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.

Disclosure has been made in note 41 upon application of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3. Potential Impact Arising on the New, Revised and Amendments to Accounting Standards Not Yet Effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[2]
HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
HKAS 40 (Amendments)	Transfers of Investment Property[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[2]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]

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

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

3 Effective for annual periods beginning on or after 1 January 2021

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

3. Potential Impact Arising on the New, Revised and Amendments to Accounting Standards Not Yet Effective (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for classification and measurement of financial assets, financial liabilities, general hedge 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets 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.

Based on the Group's financial instruments and risk management policies at 31 December 2017, the Directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

The Group has designated the listed equity securities classified as available-for-sale investments carried at fair value as disclosed in note 17. The Group would measure these investments at FVTOCI under HKFRS 9, however, the fair value gains or losses accumulated in the investment revaluation reserve amounting to HK$15 million at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income.

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

3. Potential Impact Arising on the New, Revised and Amendments to Accounting Standards Not Yet Effective (Continued)

HKFRS 9 Financial Instruments (Continued)

Impairment

In general, the Directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors of the Company on the Group's financial instruments at 31 December 2017, the application of HKFRS 9 is not likely to have material impact on the results and financial position of the Group.

HKFRS 15 Revenue from Contracts with Customers

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.

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 anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

3. Potential Impact Arising on the New, Revised and Amendments to Accounting Standards Not Yet Effective (Continued)

HKFRS 16 Leases (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

The application of HKFRS 16 may result in potential changes in classification of the asset depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2017, the Group as lessee has non-cancellable operating lease commitments of HK$17 million as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid and rental deposits received as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The Directors of the Company do not expect a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements of the other new, revised and amendments to HKFRSs.

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.

4. Significant Accounting Policies (Continued)

Basis of preparation (Continued)

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 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price (the highest and best use of the properties is the current use).

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.

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.

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity (including reserves and the non-controlling interests' proportionate share of recognised amount of the subsidiary's identifiable net assets) are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity impairment, and the fair value of the consideration paid or received is recognised directly in other reserve and attributed to owners of the Company.

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

4. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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 are 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.

When a business combination is achieved in stages, the Group's previously held interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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.

4. Significant Accounting Policies (Continued)

Investments in associates and joint ventures (Continued)

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. Changes in net assets of associates or joint ventures other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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.

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.

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.

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;

4. Significant Accounting Policies (Continued)

Investments in joint operations (Continued)

- 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.

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.

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.

4. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Others (Continued)

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.

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.

4. Significant Accounting Policies (Continued)

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.

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 (i.e. the higher of fair value less costs of disposal and value in use) 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 in profit or loss immediately.

4. Significant Accounting Policies (Continued)

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.

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.

4. Significant Accounting Policies (Continued)

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.

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 January 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 January 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. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);

4. Significant Accounting Policies (Continued)

Retirement benefits costs (Continued)

– net interest expense or income; and

– remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item of staff costs. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

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.

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.

Interest 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).

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

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.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

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

Senior notes

Senior notes are subsequently measured at amortised cost, using the effective interest method. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the senior notes using the effective interest method.

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.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

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 over the guarantee period.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

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 without taking into consideration of all non-market vesting condition 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 based on assessment of all relevant non-market vesting conditions. 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 or accumulated losses.

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.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

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 14, the investment properties carried at a total value of HK$4,538 million (2016: HK$1,752 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

As disclosed in notes 23(c) and 38, 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$449 million at 31 December 2017 and remained as a guarantor for a loan granted to the Debtor at a principal amount of HK$648 million plus related interest. The receivables of HK$449 million (2016: HK$423 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$648 million (2016: HK$606 million) and the related interest amounting to HK$494 million (2016: HK$388 million) will be fully released upon completion of the Auction or the Sale of Equity Interest. With some positive events as mentioned in note 23(c) 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.

The Group reviews the carrying amounts of the receivables due from the Debtor at the end of the reporting period to determine whether there is any indication that these receivables have suffered an impairment loss. 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. 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, 11 and 21, the construction contracts revenue, costs and amounts due from/to customers for contract work amounted to HK$6,403 million, HK$6,113 million, HK$163 million and HK$531 million (2016: HK$4,711 million, HK$4,488 million, HK$374 million and HK$223 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.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

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 22, the carrying value of properties under development for sale and properties held for sale were HK$1,343 million and HK$925 million (2016: HK$65 million and HK$213 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.

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$4,538 million at 31 December 2017 (2016: HK$1,752 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.

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

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 by reportable and operating segment is as follows:

For the year ended 31 December 2017

	Property HK$ million	Construction and building maintenance HK$ million	Other businesses HK$ million	Total HK$ million
REVENUE				
Sales of goods	24	–	–	24
Rental income	31	–	–	31
Revenue from rendering of services	14	–	–	14
Construction contract revenue	–	6,403	–	6,403
Group's revenue from external customers	69	6,403	–	6,472
Share of joint ventures/associates' revenue	448	4	29	481
Total segment revenue	517	6,407	29	6,953
Reportable segment results	(248)	140	14	(94)
Segment results have been arrived at after crediting (charging):				
Depreciation	(3)	(4)	–	(7)
Interest income	175	5	–	180
Fair value changes on investment properties	(59)	–	–	(59)
Gain on transfer of property inventories to investment properties	64	–	–	64
Dividend income from available-for-sale investments	–	–	2	2
Gains from business combinations	141	–	–	141
Gain on deregistration of a subsidiary	–	–	7	7
Loss on disposal of interest in an associate	(127)	–	–	(127)
Share of results of joint ventures				
Property development	(298)	–	–	(298)
Other operations in Guizhou	–	–	7	7
Venture capital investments	–	–	(8)	(8)
				(299)
Share of results of associates	(5)	–	–	(5)

6. Turnover and Segment Information (Continued)

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

For the year ended 31 December 2016

	Property HK$ million	Construction and building maintenance HK$ million	Other businesses HK$ million	Total HK$ million
REVENUE				
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
Reportable segment results	(1,176)	80	(45)	(1,141)
Segment results have been arrived at after crediting (charging):				
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	(151)	–	–	(151)

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 2017

	Property HK$ million	Construction and building maintenance HK$ million	Other businesses HK$ million	Total HK$ million
Reportable segment assets	**9,169**	**2,454**	**1,247**	**12,870**
Reportable segment liabilities	**2,129**	**2,326**	**727**	**5,182**

At 31 December 2016

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

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

	Year ended 31 December	
	2017 HK$ million	2016 HK$ million
Revenue		
Reportable segment revenue	**6,953**	6,917
Elimination of share of revenue of joint ventures/associates	**(481)**	(1,572)
Consolidated turnover	**6,472**	5,345

6. Turnover and Segment Information (Continued)

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

	Year ended 31 December	
	2017 HK$ million	2016 HK$ million
Loss before taxation		
Reportable segment results	(94)	(1,141)
Unallocated other income	3	2
Finance costs	(234)	(195)
Fair value loss on derivative financial instruments	(174)	–
Other unallocated corporate expenses	(37)	(28)
Consolidated loss before taxation	(536)	(1,362)

	At 31 December	
	2017 HK$ million	2016 HK$ million
Assets		
Reportable segment assets	12,870	10,211
Elimination of inter-segment receivables	(846)	(1,005)
Other unallocated assets	–	4
Consolidated total assets	12,024	9,210

	At 31 December	
	2017 HK$ million	2016 HK$ million
Liabilities		
Reportable segment liabilities	5,182	3,927
Elimination of inter-segment payables	(846)	(1,005)
Unallocated liabilities		
– Bank borrowings	1,176	2,155
– Senior notes	2,157	–
– Derivative financial instruments	102	–
– Taxation and others	551	261
Consolidated total liabilities	8,322	5,338

6. Turnover and Segment Information (Continued)

(d) Other segment information

At 31 December 2017

	Property HK$ million	Construction and building maintenance HK$ million	Other businesses HK$ million	Total HK$ million
Interests in joint ventures	**41**	**2**	**64**	**107**
Capital expenditure	**165**	**7**	**–**	**172**
Tax charges	**7**	**23**	**4**	**34**

At 31 December 2016

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

(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 external customers*		Non-current assets**	
	2017 HK$ million	2016 HK$ million	**2017 HK$ million**	2016 HK$ million
Hong Kong	**6,072**	4,312	**13**	12
PRC (excluding Hong Kong)	**400**	1,033	**4,563**	1,764
	6,472	5,345	**4,576**	1,776

* 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 restricted bank deposits.

6. Turnover and Segment Information (Continued)

(f) Information about major customers

Included in external revenue arising from construction and building maintenance of HK$6,403 million (2016: HK$4,711 million) is revenue of HK$2,937 million and HK$1,971 million, which arose from services provided to the Group's largest and second largest customers respectively (2016: HK$1,792 million and HK$1,499 million from the Group's largest and second largest customers respectively) contributing over 10% of the total turnover of the Group.

7. Other Income, Other Gains and Losses

	2017 HK$ million	2016 HK$ million
Included in other income, other gains and losses are:		
Interest income	184	60
Net gain on remeasurement of previously held interests in joint ventures upon business combinations	101	–
Discount on acquisition of a subsidiary	53	–
Impairment of goodwill arising on acquisition of a subsidiary	(13)	–
Reversal of impairment loss recognised in respect of interests in joint ventures	–	29
Gain on deregistration of a subsidiary	7	–
Fair value loss on derivative financial instruments	(174)	–

8. Finance Costs

	2017 HK$ million	2016 HK$ million
Interest on bank and other loans	129	181
Interest on senior notes	93	–
Other borrowing costs	12	14
	234	195

9. Taxation

	2017 HK$ million	2016 HK$ million
The tax charge (credit) comprises:		
Current taxation		
Hong Kong Profits Tax	**22**	22
PRC Enterprise Income Tax	**9**	21
PRC Land Appreciation Tax	**2**	53
	33	96
Deferred taxation (note 32)	**1**	(102)
	34	(6)

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the year.

PRC Enterprise Income Tax is calculated at 25% (2016: 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:

	2017 HK$ million	2016 HK$ million
Loss before taxation	**(536)**	(1,362)
Tax at Hong Kong Profits Tax rate of 16.5% (2016: 16.5%)	**(88)**	(225)
Effect of share of results of joint ventures	**49**	137
Effect of share of results of associates	**1**	25
Effect of different tax rates on operations in other jurisdictions	**3**	(7)
PRC Land Appreciation Tax	**1**	11
Tax effect of PRC Land Appreciation Tax	**–**	(2)
Tax effect of expenses not deductible for tax purposes	**110**	42
Tax effect of income not taxable for tax purposes	**(77)**	(22)
Tax effect of tax losses not recognised	**31**	41
Tax effect of utilisation of tax losses previously not recognised	**(4)**	(7)
Underprovision of current taxation in prior year	**9**	2
Others	**(1)**	(1)
Tax charge (credit) for the year	**34**	(6)

10. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees

Directors and Chief Executives

The emoluments paid or payable to each of the seven (2016: seven) Directors were as follows:

For the year ended 31 December 2017

Name of Director	Notes	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payments HK$'000	2017 Total HK$'000
Mr. Lo Hong Sui, Vincent		10	–	–	–	10
Mr. Wong Yuet Leung, Frankie	(a)	10	6,792	–	–	6,802
Mr. Tsang Kwok Tai, Moses	(b)	216	–	–	–	216
Mr. Gerrit Jan de Nys	(c)	70	–	–	–	70
Ms. Li Hoi Lun, Helen	(d)	485	–	–	–	485
Mr. Chan Kay Cheung	(d)	595	–	–	–	595
Mr. William Timothy Addison	(d) & (e)	443	–	–	–	443
Total		1,829	6,792	–	–	8,621

For the year ended 31 December 2016

Name of Director	Notes	Fees HK$'000	Salaries and other benefits HK$'000	Other service fees HK$'000	Retirement Share-based payments HK$'000	Share-based payments HK$'000	2016 Total HK$'000
Mr. Lo Hong Sui, Vincent		10	–	–	–	–	10
Mr. Tsang Kwok Tai, Moses	(b)	315	–	–	–	–	315
Mr. Gerrit Jan de Nys	(c)	420	–	766	–	–	1,186
Ms. Li Hoi Lun, Helen	(d)	485	–	–	–	–	485
Mr. Chan Kay Cheung	(d)	595	–	–	–	–	595
Mr. William Timothy Addison	(d) & (e)	196	–	–	–	–	196
Mr. Wong Fook Lam, Raymond	(f)	10	4,765	–	18	–	4,793
Total		2,031	4,765	766	18	–	7,580

10. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (Continued)

Directors and Chief Executives (Continued)

Notes:

(a) Mr. Wong Yuet Leung, Frankie was appointed as an Executive Director, the Chief Executive Officer and Chief Financial Officer with effect from 1 January 2017.

(b) Mr. Tsang Kwok Tai, Moses did not stand for re-appointment as a Non-executive Director upon expiration of the term of his service contract on 7 September 2017.

(c) Mr. Gerrit Jan de Nys was resigned as a Non-executive Director with effect from 1 March 2017. He provided certain consultancy services to the Company during the year ended 31 December 2016, in return for a fee.

(d) Independent Non-executive Directors.

(e) Mr. William Timothy Addison was appointed as an Independent Non-executive Director on 25 May 2016.

(f) Mr. Wong Fook Lam, Raymond retired as the Managing Director and Chief Financial Officer with effect from 1 January 2017.

(g) Neither the chief executives nor any of the directors waived any emolument in the year ended 31 December 2017 and 2016.

(h) 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.

Of the five highest paid individuals in the Group, one (2016: one) is Director of the Company whose emoluments are set out above. The emoluments of the remaining four (2016: four) highest paid employees were as follows:

	2017 HK$ million	2016 HK$ million
Salaries, bonuses and allowances	16	16
Retirement benefits scheme contributions	1	1
	17	17

The emoluments were within the following band:

	2017 No. of employees	2016 No. of employees
HK$3,500,001 to HK$4,000,000	2	2
HK$4,000,001 to HK$4,500,000	1	1
HK$5,000,001 to HK$5,500,000	1	1

11. Loss for the Year

	2017 HK$ million	2016 HK$ million
Loss for the year has been arrived at after charging (crediting):		
Cost of sales (note):		
Cost of construction	6,113	4,488
Cost of properties sold	17	606
Cost of rendering services	20	27
Direct rental outgoings arising from investment properties	40	31
	6,190	5,152
Staff costs (including directors' emoluments) (note):		
Salaries, bonuses and allowances	654	642
Retirement benefits cost	36	36
Share-based payment expense	–	1
	690	679
Gross rental revenue from investment properties	(31)	(12)
Less: direct rental outgoings (note)	40	31
Net rental expenses	9	19
Depreciation of property, plant and equipment	8	11
Auditors' remuneration	4	4
Operating lease payments in respect of rented premises	20	19
Impairment loss on amount due from a joint venture	7	–
Impairment loss on trade and other receivables	–	22
Impairment loss on available-for-sale investments	–	5
Gain on disposal of property, plant and equipment	(1)	–

Note:

Cost of sales includes HK$579 million (2016: HK$576 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.

12. Loss Per Share

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

	2017 HK$ million	2016 HK$ million
Loss for the year attributable to owners of the Company:		
Loss for the purpose of basic and diluted loss per share	**(613)**	(1,382)
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.

13. Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

14. Investment Properties

	HK$ million
FAIR VALUE	
At 1 January 2016	1,909
Exchange adjustments	(120)
Decrease in fair value recognised	(37)
At 31 December 2016	1,752
Exchange adjustments	**176**
Acquired on acquisition of subsidiaries (note 36)	**2,346**
Additions	**150**
Transfer from properties held for sale	**173**
Decrease in fair value recognised	**(59)**
At 31 December 2017	**4,538**

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.

14. Investment Properties (Continued)

The fair value of the Group's investment properties at 31 December 2017 and 31 December 2016 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.

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.

During the year, the Group has transferred certain properties inventories with carrying amount of HK$109 million to investment properties at fair value of HK$173 million upon change in use, which was evidenced by commencement of operating leases. A gain on transfer from properties held for sale to investment properties amounted to HK$64 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

There has been no change to the valuation technique during the year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The major inputs used in the fair value measurement of investment properties and information about the fair value hierarchy at 31 December 2017 and 31 December 2016 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 – Shenyang Project Phase I retail portion	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Monthly market rent	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 6.5% (2016: 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 decrease in fair value of property 1, and vice versa
			Monthly market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB65-185 (2016: RMB78-174) per sqm per month on gross floor area basis	The higher the monthly market rent, the higher the fair value	A significant increase in the monthly market rent used would result in a significant increase in fair value of property 1, and vice versa

14. Investment Properties (Continued)

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 2 – Chongqing Creative Concepts Center retail portion and car parking spaces	Level 3	Income Capitalisation and Direct Comparison Approaches The key inputs are: (1) Capitalisation rate; (2) Monthly market rent; and (3) Market price	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 5.5% (2016: 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 decrease in fair value of property 2, and vice versa
			Monthly market rent of retail portion, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB120-239 (2016: RMB125-249) per sqm per month on gross floor area basis	The higher the monthly market rent, the higher the fair value	A significant increase in the monthly market rent used would result in a significant increase in fair value of property 2, and vice versa
			Market price of car parking spaces, taking into account the time and location between the comparables and the property, of RMB120,000 per space	The higher the market price, the higher the fair value	A significant increase in the market price used would result in a significant increase in fair value of property 2 and vice versa
Property 3 – Chengdu Centropolitan retail portion, office and kindergarten	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Monthly market rent	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 5.25%-5.50%	The higher the capitalisation rate, the lower the fair value	A slight increase in the capitalisation rate used would result in a significant decrease in fair value of property 3, and vice versa
			Monthly market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB50-185 per sqm per month on gross floor area basis	The higher the monthly market rent, the higher the fair value	A significant increase in the monthly market rent used would result in a significant increase in fair value of property 3, and vice versa

14. Investment Properties (Continued)

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 4 – Tianjin Veneto Phase I	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Market unit rent for future tenancy agreements	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 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 decrease in fair value of property 4, and vice versa
			Market unit rent for future tenancy agreements, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB42-106 per sqm per month on gross floor area basis	The higher the market unit rent, the higher the fair value	A significant increase in the market unit rent used would result in a significant increase in fair value of property 4, and vice versa
Property 5 – Guangzhou Parc Oasis Car parking spaces	Level 3	Direct Comparison Approach The key input is market price	Market price, taking into account the time and location between the comparables and the property, of RMB310,000 per space	The higher the market price, the higher the fair value	A significant increase in the market price used would result in a significant increase in fair value of property 5 and vice versa

Investment properties classified as assets held for disposal	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Sensitivity
Property 6 – Shanghai Lakeville Regency Tower 18	(2016: Level 2)	With reference to the transaction price in the sale and purchase agreement	Not applicable	Not applicable	Not applicable

15. Property, Plant and Equipment

	Properties in other regions of the PRC	Plant and machinery	Motor vehicles	Equipment, furniture and other assets	Total
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
AT COST					
At 1 January 2016	1	7	35	96	139
Additions	–	–	3	4	7
Disposals	–	–	(6)	(9)	(15)
Exchange adjustments	–	–	–	(2)	(2)
At 31 December 2016	1	7	32	89	129
Additions	**–**	**–**	**5**	**13**	**18**
Acquired on acquisition of subsidiaries	**–**	**–**	**–**	**5**	**5**
Disposals	**–**	**–**	**(13)**	**(2)**	**(15)**
Exchange adjustments	**–**	**–**	**1**	**2**	**3**
At 31 December 2017	**1**	**7**	**25**	**107**	**140**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2016	–	5	23	82	110
Charge for the year	–	–	5	6	11
Eliminated on disposals	–	–	(5)	(8)	(13)
Exchange adjustments	–	–	–	(2)	(2)
At 31 December 2016	–	5	23	78	106
Charge for the year	**–**	**–**	**3**	**5**	**8**
Eliminated on disposals	**–**	**–**	**(11)**	**(2)**	**(13)**
Exchange adjustments	**–**	**–**	**–**	**2**	**2**
At 31 December 2017	**–**	**5**	**15**	**83**	**103**
CARRYING VALUES					
At 31 December 2017	**1**	**2**	**10**	**24**	**37**
At 31 December 2016	1	2	9	11	23

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%

16. Interests in Joint Ventures

(i) Joint ventures

	2017 HK$ million	2016 HK$ million
Cost of unlisted investments in joint ventures, net of impairment	**588**	807
Share of post-acquisition losses and other comprehensive income	**(481)**	(689)
	107	118

Particulars of the principal joint ventures are set out in note 44.

Notes:

(a) During the year, the joint venture partner of the Group's 81%-owned joint venture exercised the put option requiring the Group to acquire all of the shares in the joint venture owned by it for a total consideration of US$19 in accordance with the terms of the shareholders' agreement. This joint venture indirectly owns a property development project in Chengdu. Completion of the transaction took place on the same date, following which this joint venture has become an indirect wholly-owned subsidiary of the Company. Details of the transaction are set out in note 36(a).

(b) During the year, the Group completed its acquisition of the remaining 50% share interest in a joint venture, which owns 90% interest in a property development project in Tianjin, details of which are set out in note 36(b). Following completion of the acquisition, this joint venture has become an indirect wholly-owned subsidiary of the Company. Details of the transaction are set out in an announcement and a circular of the Company dated 7 September 2017 and 24 October 2017 respectively.

(c) During the year, the Group completed its acquisition of the remaining 50% share interest in a joint venture, which owns a property development project in Nanjing, details of which are set out in note 36(c). Following completion of the acquisition, this joint venture has become an indirect wholly-owned subsidiary of the Company. Details of the transaction are set out in an announcement and a circular of the Company dated 7 September 2017 and 24 October 2017 respectively.

(d) 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, subject to obtaining approval from the other shareholder of the joint venture. At the date of this report, the registration is yet to complete. Details of the transaction were set out in an announcement of the Company dated 29 August 2016.

Gracious Spring Limited ("GSL") was regarded as the material joint venture of the Group at 31 December 2016. Following completion of the acquisition of the remaining equity interest in GSL during the year, GSL has become an indirect wholly-owned subsidiary of the Company. The Group no longer holds any joint venture that is individually material to the Group at 31 December 2017.

The summarised financial information regarding the assets and liabilities of GSL Group is as follows:

	2017 HK$ million	2016 HK$ million
Current assets	**–**	2,498
Non-current assets	**–**	1
Current liabilities	**–**	(1,221)
Non-current liabilities	**–**	(2,670)

16. Interests in Joint Ventures (Continued)

(i) Joint ventures (Continued)

The above amounts of assets and liabilities include the following:

	2017 HK$ million	2016 HK$ million
Cash and cash equivalents	–	25
Current financial liabilities (excluding trade and other payables and provisions)	–	(986)
Non-current financial liabilities (excluding trade and other payables and provisions)	–	(2,670)

	2017 HK$ million	2016 HK$ million
Revenue	**100**	1,689
Loss after tax	**(221)**	(927)
Total comprehensive expense for the year	**(221)**	(927)

The above loss for the year includes the following:

	2017 HK$ million	2016 HK$ million
Interest expense	**171**	29
Income tax expense	**2**	2

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2016 HK$ million
Net liabilities of the joint venture	(1,392)
Proportion of the Group's ownership interest in the joint venture	81%
Allocation of the share of post-acquisition losses in excess of cost of investment in the joint venture	1,127
Carrying amount of the Group's interest in the joint venture	–

16. Interests in Joint Ventures (Continued)

(i) Joint ventures (Continued)

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 2017 and 31 December 2016 attributable to the Group's interest is as follows:

	2017 HK$ million	2016 HK$ million
Loss after tax	**(13)**	(198)
Total comprehensive expense	**(13)**	(211)

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:

	2017 HK$ million	2016 HK$ million
Unrecognised share of losses of the joint venture for the year	**(14)**	(11)
Accumulated unrecognised share of losses of the joint venture	**(106)**	(92)

(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.

17. Available-for-sale Investments

	2017 HK$ million	2016 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)	**65**	50

Available-for-sale investments at 31 December 2017 and 31 December 2016 represent the Group's equity interest in Shui On Land Limited ("SOL"). At 31 December 2017, the Group held a 0.4% (31 December 2016: 0.4%) equity interest in SOL.

18. Interests in Associates

	2017 HK$ million	2016 HK$ million
Cost of unlisted investments in associates	–	154
Share of post-acquisition losses and other comprehensive income	–	(154)
	–	–

Particulars of the principal associates are set out in note 45.

Note:

During the year, the Group completed the disposal of its entire interest in Richcoast Group Limited ("Richcoast") for a total consideration of approximately RMB1,300 million (HK$1,555 million) and resulted in a loss on disposal of HK$127 million. Details of the transaction are set out in an announcement and a circular of the Company dated 14 November 2017 and 6 December 2017 respectively.

Summarised financial information of material associates

Following completion of the disposal of interest in Richcoast during the year, the Group no longer holds any associate at 31 December 2017.

The summarised financial information regarding the assets and liabilities of Richcoast is as follows:

	2017 HK$ million	2016 HK$ million
Current assets	–	5,557
Non-current assets	–	8,965
Current liabilities	–	(6,550)
Non-current liabilities	–	(6,539)
Non-controlling interests	–	(511)

	2017 HK$ million	2016 HK$ million
Revenue	682	697
Loss after tax	(32)	(665)
Total comprehensive expense	(32)	(665)

18. Interests in Associates (Continued)

Summarised financial information of material 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 HK$ million
Net assets of the associate	922
Proportion of the Group's ownership interest in the associate	28.2%
Share of other reserves in respect of Richcoast, not taken up by the Group	(269)
Adjustments for unrealised gain and others	(37)
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	–

19. Amounts due from/to Joint Ventures

	2017 HK$ million	2016 HK$ million
Amounts due from joint ventures		
Non-current (note a)	–	1,399
Current (note b)	74	689
	74	2,088
Amounts due to joint ventures (note c)	116	106

Notes:

(a) The balances were 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 at 31 December 2016, a total of HK$1,185 million bore interest at 13% per annum and the rest was carried at amortised cost using the effective interest rate of 7.68% per annum. The balances were after allocation of the share of post-acquisition losses of HK$1,876 million that were 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.

20. Amounts due from/to Associates

	2017 HK$ million	2016 HK$ million
Amounts due from associates		
Non-current (note a)	–	1,294
Current (note b)	–	272
	–	1,566
Amounts due to associates (note c)	–	1

Notes:

(a) The balances at 31 December 2016 represented advances to associates for financing the development of Dalian Tiandi. The advances were unsecured and had no fixed terms of repayment, but not expected to be recovered in the next twelve months from 31 December 2016. Out of the total balance, a total of HK$854 million bore interest from 4.8% to 5.0% per annum and the rest was carried at amortised cost using the effective interest rate of 4.8% per annum. The balances were after allocation of the share of post-acquisition losses of HK$46 million that were in excess of cost of investments in associates.

(b) The balances were unsecured, repayable on demand and interest-free.

(c) The balances were unsecured, interest-free and repayable on demand.

21. Contracts in Progress

	2017 HK$ million	2016 HK$ million
Contracts in progress		
Costs incurred to date	**17,804**	15,205
Recognised profits less recognised losses	**476**	453
	18,280	15,658
Less: Progress billings	**(18,648)**	(15,507)
Net contract work	**(368)**	151
Represented by:		
Amounts due from customers for contract work	**163**	374
Amounts due to customers for contract work	**(531)**	(223)
	(368)	151

22. 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:

	2017 HK$ million	2016 HK$ million
Properties held for sale		
In other regions of the PRC (note 1)	**925**	213
Properties under development for sale		
In other regions of the PRC (note 2)	**1,343**	65

Notes:

1. Certain properties held for sale of a Group's subsidiary with carrying amount of HK$110 million is temporarily attached as asset preservation for a legal dispute in the PRC. Management is of the view that the said properties will be released when the dispute is resolved.
2. Properties under development for sale of HK$986 million at 31 December 2017 (2016: HK$65 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.

23. Other Current Assets

Debtors, deposits and prepayments

	2017 HK$ million	2016 HK$ million
Trade debtors	**718**	771
Less: Allowance for doubtful debts	**(7)**	(7)
	711	764
Retention receivable	**337**	263
Consideration receivables in respect of disposal of an associate (note b)	**1,102**	–
Prepayments, deposits and other receivables (note c)	**924**	850
	3,074	1,877

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) The balances carry interest at 5% per annum.

(c) Included in prepayments, deposits and other receivables are receivables of HK$449 million (2016: HK$423 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$144 million (2016: HK$134 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$167 million) (2016: RMB140 million (approximately HK$157 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 38). 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, and a court order was issued in 2016 to request the Debtor to preserve certain assets, in a value capped at RMB122 million (approximately HK$146 million), in the course of a legal proceeding on the recovery of an offshore loan receivable of US$12 million (approximately HK$94 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.

23. 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:

	2017 HK$ million	2016 HK$ million
Trade debtors aged analysis:		
Not yet due or within 90 days	702	761
Amounts past due but not impaired:		
91 days to 180 days	7	–
181 days to 360 days	–	–
Over 360 days	2	3
	9	3
	711	764
Retention receivable is analysed as follows:		
Due within one year	163	135
Due after one year	174	128
	337	263

Movement in the allowance for doubtful debts:

	2017 HK$ million	2016 HK$ million
Balance at the beginning of the year	7	5
Provision for the year	–	2
Balance at the end of the year	7	7

Included in the trade debtors are receivables of HK$2 million (2016: HK$16 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.

24. Amounts due from/to Related Companies/Non-Controlling Shareholders of Subsidiaries

	2017 HK$ million	2016 HK$ million
Amounts due from related companies	**8**	1
Amounts due to related companies	**281**	374
Amounts due to non-controlling shareholders of subsidiaries	**5**	14

The related companies are subsidiaries of SOCL.

The balances are unsecured, interest-free and repayable on demand.

25. Restricted Bank Deposits

Balances at 31 December 2017 represent custody deposits amounting to HK$203 million (2016: HK$482 million) placed with banks in relation to certain banking facilities and the senior notes of the Group.

The balances carried interest at market rates, which ranged from 0.35% to 0.46% (2016: 0.20% to 0.35%) per annum.

26. Derivative Financial Instruments

	2017 HK$ million	2016 HK$ million
Measured at fair value and included in the consolidated statement of financial position as current liabilities		
Foreign currency forward contracts	**102**	–

During the year, the Group entered into certain foreign currency forward contracts in a total notional amount of US$369 million with maturity in one year to reduce the risk of currency exchange fluctuation of the Group's Renminbi denominated assets, which have not been designated as hedging instruments for accounting purposes. At 31 December 2017, foreign currency forward contracts with notional amount of US$225 million was outstanding.

The fair value of derivative financial instruments falls under level 2 of the fair value hierarchy and is estimated based on valuation of the instruments provided by the counterparty banks. A fair value loss of HK$174 million was recognised in the consolidated statement of profit or loss for the current year (2016: Nil).

27. Creditors and Accrued Charges

The aged analysis of creditors (based on invoice date) of HK$604 million (2016: HK$604 million), which are included in the Group's creditors and accrued charges, is as follows:

	2017 HK$ million	2016 HK$ million
Trade creditors aged analysis:		
Not yet due or within 30 days	**409**	448
31 days to 90 days	**31**	57
91 days to 180 days	**32**	9
Over 180 days	**132**	90
	604	604
Retention payable (note b)	**430**	348
Provision for contract work/construction cost	**1,069**	812
Other accruals and payables	**475**	228
	2,578	1,992

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$77 million (2016: HK$76 million), which is due after one year from the end of the reporting period.

28. Bank Borrowings

	2017 HK$ million	2016 HK$ million
Secured bank borrowings	**520**	855
Unsecured bank borrowings	**925**	1,499
	1,445	2,354
Less: Amounts due within 12 months	**(500)**	(1,685)
Amounts due for settlement after 12 months	**945**	669
Carrying amount repayable:		
Within one year	**500**	1,685
More than one year but not exceeding two years	**443**	398
More than two years but not exceeding five years	**422**	271
More than five years	**80**	–
	1,445	2,354

28. Bank Borrowings (Continued)

The carrying amount of the Group's bank borrowings is analysed as follows:

Denominated in	Interest rate (per annum)	2017 HK$ million	2016 HK$ million
At variable rates			
Renminbi	6.15% to 6.89% (2016: 5.00% to 6.18%)	**269**	446
Hong Kong dollars	3.99% to 4.44% (2016: 3.55% to 4.75%)	**1,176**	1,765
At fixed rates			
Renminbi	(2016: 11.00%)	**–**	143
		1,445	2,354

The variable interest rates are linked to Hong Kong Interbank Offered Rate and prevailing base lending rate published by the People's Bank of China.

Notes:

(a) The Group's investment properties and properties under development for sale amounting to HK$3,147 million and HK$299 million respectively (2016: HK$1,433 million and nil respectively) were pledged as security for certain banking facilities granted to the Group at the end of the reporting period.

(b) Restricted bank deposits amounting to HK$66 million (2016: HK$482 million) at 31 December 2017 were placed with banks in relation to certain banking facility arrangements entered into with the Group.

(c) 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.

29. Senior Notes

	2017 HK$ million	2016 HK$ million
At the beginning of the year	**–**	–
Issue of new senior notes	**2,186**	–
Less: Transaction costs directly attributable to issue	**(40)**	–
Interests charged during the year	**93**	–
Less: Interest payable reclassified under other payables	**(88)**	–
Exchange adjustments	**6**	–
At the end of the year	**2,157**	–

On 8 May 2017, the Company issued US$200 million senior notes to independent third parties with a maturity of three years due on 8 May 2020 (the "Original Senior Notes"). The Original Senior Notes bear coupon at 6.25% per annum payable semi-annually in arrears.

On 12 June 2017, the Company additionally issued US$80 million senior notes to independent third parties maturing on 8 May 2020 (the "Additional Senior Notes"), which bear coupon at 6.25% per annum payable semi-annually in arrears. The Additional Senior Notes were consolidated and formed a single series with the Original Senior Notes with the same terms and conditions of the Original Senior Notes, except for the issue date and the issue price.

29. Senior Notes (Continued)

Principal terms of the senior notes

The senior notes are:

(a) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the senior notes;

(b) ranked at least pari passu in right of payment with all other unsecured and unsubordinated indebtedness of the Company (subject to any priority rights of such unsecured and unsubordinated indebtedness pursuant to applicable law);

(c) effectively subordinated to the secured obligations of the Company, to the extent of the value of the assets serving as security therefor; and

(d) effectively subordinated to all existing and future obligations of the subsidiaries of the Company.

At any time and from time to time prior to 8 May 2020, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus the Applicable Premium (see the definition below), and accrued and unpaid interest, if any, to (but not including) the redemption date. In the opinion of the Directors of the Company, the fair value of the option to early redeem the senior notes is insignificant at initial recognition and at the end of the reporting period.

"Applicable Premium" means with respect to the senior notes at any redemption date, the greater of (1) 1.00% of the principal amount of the senior notes and (2) the excess of (A) the present value at such redemption date of (i) the principal amount of the senior notes on the maturity date of the senior notes, plus (ii) all required remaining scheduled interest payments due on the senior notes through the maturity date of the senior notes (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (B) the principal amount of the senior notes on such redemption date.

At any time and from time to time prior to 8 May 2020, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net proceeds from any private placement or public offering of the common stock of the Company at a redemption price of 106.25% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In the opinion of the Directors of the Company, the fair value of the option to early redeem the senior notes is insignificant at initial recognition and at the end of the reporting period.

30. Share Capital

	2017 Number of shares	2016 Number of shares	2017 HK$ million	2016 HK$ million
Ordinary shares of HK$1 each:				
Authorised				
At the beginning and the end of the year	**1,000,000,000**	1,000,000,000	**1,000**	1,000
Issued and fully paid				
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$16 million (2016: HK$18 million). The amount of employer's voluntary contributions to the MPF Scheme forfeited for the year ended 31 December 2017 and 31 December 2016 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 7.3% (2016: 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.

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.

31. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

Defined Benefit Scheme (Continued)

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 2017 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:

	2017	2016
Discount rate	1.7%	1.7%
Expected rate of salary increase	3.5% p.a.	3.5% p.a.

The actuarial valuation shows that the fair value of the Scheme assets attributable to the Group at 31 December 2017 was HK$401 million (2016: HK$366 million), representing 96% (2016: 77%) of the benefits that has accrued to members.

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	
	2017 HK$ million	2016 HK$ million
Current service cost	13	15
Net interest on net defined benefit liabilities	2	1
Administrative expenses paid from scheme assets	1	2
Defined benefit cost recognised in the consolidated statement of profit or loss	16	18
Actuarial loss due to experience adjustment	2	3
Actuarial gain due to financial assumption changes	–	(12)
Return on Scheme assets greater than discount rate	(79)	(9)
Remeasurement effects recognised in the consolidated statement of other comprehensive income	(77)	(18)
Total	(61)	–

31. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

Defined Benefit Scheme (Continued)

The amount included in the consolidated statement of financial position arising from the Group's obligations in respect of the Scheme is as follows:

	2017 HK$ million	2016 HK$ million
Present value of defined benefit obligation	**(419)**	(478)
Fair value of Scheme assets	**401**	366
Defined benefit liabilities included in the consolidated statement of financial position	**(18)**	(112)

The Scheme assets do not include any shares in the Company (2016: Nil).

Movements of the present value of defined benefit obligation are as follows:

	2017 HK$ million	2016 HK$ million
At the beginning of the year	**478**	516
Current service cost	**13**	15
Interest cost	**7**	6
Employees' contributions	**5**	6
Actuarial loss – experience adjustment	**2**	3
Actuarial gain – financial assumptions	**–**	(12)
Benefits paid	**(86)**	(56)
At the end of the year	**419**	478

Movements of the present value of Scheme assets are as follows:

	2017 HK$ million	2016 HK$ million
At the beginning of the year	**366**	364
Interest income on Scheme assets	**6**	5
Return on scheme assets greater than discount rate	**79**	9
Employers' contributions	**33**	40
Employees' contributions	**5**	6
Benefits paid	**(86)**	(56)
Administrative expenses paid from scheme assets	**(2)**	(2)
At the end of the year	**401**	366

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:

	2017 HK$ million	2016 HK$ million
Equities	290	249
Hedge funds	43	46
Bonds and cash	68	71
	401	366

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 rate	Change to Adopted rate	Rate used in sensitivity analysis	Effect on DBO HK$ million	Effect on DBO %
At 31 December 2017					
Discount rate	1.7%	+0.25%	1.95%	(6)	(1.5%)
		-0.25%	1.45%	6	1.5%
Expected rate of salary increase	3.5%	+0.25%	3.75%	7	1.6%
		-0.25%	3.25%	(6)	(1.5%)
At 31 December 2016					
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%)

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.

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:

	2017 HK$ million	2016 HK$ million
Expected employer contributions	7	37
Expected member contributions	5	6

The weighted average duration of the defined benefit obligation at 31 December 2017 is 5.9 years (2016: 5.9 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$5 million (2016: 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 tax depreciation HK$ million	Revaluation of properties HK$ million	Tax losses HK$ million	Total HK$ million
At 1 January 2016	(2)	(248)	25	(225)
Exchange adjustments	–	11	(2)	9
Credit to consolidated statement of profit or loss	1	101	–	102
At 31 December 2016	(1)	(136)	23	(114)
Exchange adjustments	–	(15)	1	(14)
Acquisition of subsidiaries (note 36)	–	(277)	–	(277)
(Charge) credit to consolidated statement of profit or loss	–	(17)	16	(1)
At 31 December 2017	**(1)**	**(445)**	**40**	**(406)**

32. Deferred Taxation (Continued)

Notes:

(a) For the purposes of the consolidated statement of financial position presentation certain deferred tax assets and liabilities have been offset.

(b) At 31 December 2017, the Group had unused tax losses of HK$1,636 million (2016: HK$1,555 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to HK$163 million (2016: HK$89 million). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$1,473 million (2016: HK$1,466 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2017 are tax losses of approximately HK$505 million (2016: HK$587 million) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely.

(c) 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$309 million at 31 December 2017 (2016: HK$506 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 2017 was HK$31 million (2016: HK$12 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:

	2017 HK$ million	2016 HK$ million
Within one year	39	12
In the second to fifth years inclusive	105	25
After five years	38	13
	182	50

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:

	2017 HK$ million	2016 HK$ million
Within one year	12	10
In the second to fifth years inclusive	5	2
	17	12

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 2017, the Group had no significant capital commitments (2016: nil).

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 2017.

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 recognising and acknowledging the contributions which eligible participants had made or might make to the Group.

2. Eligible participants

Any of the following persons whose eligibility was 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

2,142,000 shares, representing approximately 0.44% of the issued shares of the Company as of 31 December 2017.

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)

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.

			Number of shares subject to options						
Date of grant	Grant	Subscription price per share HK$	At 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2017	Period during which share options outstanding are exercisable	Average closing reference price for exercise of options HK$ (Note)
12 April 2010	2	12.22	700,000	–	–	–	700,000	12 April 2013 to 11 April 2020	–
28 July 2011	5	10.00	2,318,000	–	–	(876,000)	1,442,000	1 May 2015 to 27 July 2021	–
26 November 2012	6	8.18	3,044,000	–	–	(3,044,000)	–	26 May 2013 to 25 November 2017	–
14 June 2013	7	9.93	3,610,000	–	–	(480,000)	3,130,000	14 December 2013 to 13 June 2018	–
			9,672,000	–	–	(4,400,000)	5,272,000		
Number of shares subject to options exercisable at the end of the year							5,272,000		

			Number of shares subject to options						
Date of grant	Grant	Subscription price per share HK$	At 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2016	Period during which share options outstanding are exercisable	Average closing reference price for exercise of options HK$ (Note)
9 April 2009	1	7.63	380,000	–	–	(380,000)	–	9 April 2012 to 8 April 2019	–
12 April 2010	2	12.22	1,400,000	–	–	(700,000)	700,000	12 April 2013 to 11 April 2020	–
13 May 2011	3	10.66	3,210,000	–	–	(3,210,000)	–	13 November 2011 to 12 May 2016	–
23 June 2011	4	10.90	1,230,000	–	–	(1,230,000)	–	23 December 2011 to 22 June 2016	–
28 July 2011	5	10.00	2,886,000	–	–	(568,000)	2,318,000	1 May 2015 to 27 July 2021	–
26 November 2012	6	8.18	3,396,000	–	–	(352,000)	3,044,000	26 May 2013 to 25 November 2017	–
14 June 2013	7	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		

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 years ended 31 December 2017 and 2016.

35. Share-Based Payments (Continued)

The vesting conditions of the respective share option grants are as follows:

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 2:

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.

The vesting schedule is as follows:

Performance	Vested portion of options
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.

35. Share-Based Payments (Continued)

For Grants 3, 4, 6 and 7:

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 5:

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:

Performance	Vested portion of options
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%

No share options were granted by the Company pursuant to the Existing Scheme during the year ended 31 December 2017 and 2016. 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$0.1 million for the year ended 31 December 2017 (2016: HK$1 million) in relation to share options granted by the Company.

36. Business Combinations

(a) On 24 July 2017, the joint venture partner of the Group's 81%-owned joint venture, Gracious Spring Limited ("GSL"), exercised the put option requiring the Group to acquire all of the shares in GSL owned by it for a total consideration of US$19 in accordance with the terms of the shareholders' agreement. GSL and its subsidiaries (the "GSL Group") own a property development project in Chengdu. Completion of the transaction took place on the same date, following which GSL has become an indirect wholly-owned subsidiary of the Company. Details of the transaction are set out in an announcement of the Company dated 24 July 2017.

The following table summarises the consideration paid, fair value of the assets acquired and liabilities assumed at the acquisition date:

	HK$ million
Fair value of the net liabilities assumed	1,759
Cash consideration	–
Share of post-acquisition loss in excess of cost of investment, adjusted for unrealised interest and others	(1,759)
	–
Recognised amounts of identifiable assets acquired and liabilities assumed	
Investment properties	1,538
Property, plant and equipment	1
Properties under development for sale	716
Debtors, deposits and prepayments	12
Bank balances, deposits and cash	107
Creditors and accrued charges	(97)
Sales deposits received	(9)
Amounts due to related companies	(3,451)
Bank borrowings	(341)
Deferred tax liabilities	(235)
Total identifiable net liabilities	(1,759)
Net cash inflow arising on the acquisition	
Bank balances, deposits and cash acquired	107

The fair value of the receivables acquired represented their gross contractual amounts at the date of acquisition.

The acquisition-related costs were not material and have been charged to other expenses in the consolidated statement of profit or loss for the year ended 31 December 2017.

The Group recognised a loss of HK$42 million as a result of measuring at fair value its 81% equity interest in GSL held before the business combination. The loss is included in "other income, other gains and losses" in the Group's consolidated statement of profit or loss for the year ended 31 December 2017.

Turnover of HK$5 million included in the consolidated statement of profit or loss since the date of acquisition to 31 December 2017 was contributed by GSL Group. GSL Group also incurred loss of HK$30 million over the same period.

36. Business Combinations (Continued)

(a) (Continued)

Had the acquisition been completed on 1 January 2017, total group turnover and loss for the year would have been HK$6,572 million and HK$625 million respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

(b) On 7 September 2017, the Group entered into a sale and purchase agreement with the joint venture partner of the Group's 50%-owned joint venture, Cosy Rich Limited ("CRL"), to acquire the remaining 50% shareholding interest and the related shareholder's loan in CRL. CRL and its subsidiaries (the "CRL Group") own 90% interest in a property development project in Tianjin. The transaction was completed in November 2017 and CRL has become an indirect wholly-owned subsidiary of the Company. Details of the transaction are set out in an announcement and a circular of the Company dated 7 September 2017 and 24 October 2017 respectively.

The following table summarises the consideration paid, fair value of the assets acquired and liabilities assumed at the acquisition date:

	HK$ million
Fair value of the net liabilities assumed	241
Cash consideration	42
Carrying amount of shareholder's loan assumed	(150)
Share of post-acquisition loss in excess of cost of investment, adjusted for unrealised interest and others	(120)
Goodwill arising on acquisition and fully impaired subsequently	13
Recognised amounts of identifiable assets acquired and liabilities assumed	
Investment properties	808
Property, plant and equipment	3
Properties held for sale	296
Debtors, deposits and prepayments	22
Bank balances, deposits and cash	7
Creditors and accrued charges	(73)
Amounts due to related companies	(1,267)
Amounts due from non-controlling shareholders of subsidiaries	(3)
Other financial liabilities	(29)
Deferred tax liabilities	(5)
Total identifiable net liabilities	(241)
Net cash outflow arising on the acquisition	
Cash consideration paid	(42)
Bank balances, deposits and cash acquired	7
	(35)

36. Business Combinations (Continued)

(b) (Continued)

The fair value of the receivables acquired represented their gross contractual amounts at the date of acquisition.

The acquisition-related costs were not material and have been charged to other expenses in the consolidated statement of profit or loss for the year ended 31 December 2017.

The Group recognised a gain of HK$80 million as a result of measuring at fair value its 50% equity interest in CRL held before the business combination. The gain is included in "other income, other gains and losses" in the Group's consolidated statement of profit or loss for the year ended 31 December 2017.

The Directors of the Company have assessed whether the amount of goodwill may be impaired in accordance with HKAS 36 ''Impairment of Assets''. The Directors of the Company conclude that there is a full impairment of goodwill based on the estimation of the recoverable amount which is the fair value of the assets and liabilities of CRL Group.

The turnover contributed by CRL Group since the date of acquisition to 31 December 2017 was insignificant to the Group. CRL Group contributed profit of HK$2 million over the same period.

Had the acquisition been completed on 1 January 2017, total group turnover and loss for the year would have been HK$6,486 million and HK$653 million respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

(c) On 7 September 2017, the Group entered into a sale and purchase agreement with the joint venture partner of the Group's 50%-owned joint venture, Win Lead Holdings Limited ("WLHL"), to acquire the remaining 50% shareholding interest and the related shareholder's loan in WLHL. WLHL and its subsidiaries (the "WLHL Group") own a property development project in Nanjing. The transaction was completed in November 2017 and WLHL has become an indirect wholly-owned subsidiary of the Company. Details of the transaction are set out in an announcement and a circular of the Company dated 7 September 2017 and 24 October 2017 respectively.

36. Business Combinations (Continued)

(c) (Continued)

The following table summarises the consideration paid, fair value of the assets acquired and liabilities assumed at the acquisition date:

	HK$ million
Consideration	
Cash consideration	294
Carrying amount of shareholder's loan assumed	(289)
Fair value of previously held 50% equity interest in WLHL	58
Total consideration transferred	63
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	1
Properties held for sale	50
Properties under development for sale	912
Debtors, deposits and prepayments	66
Amounts due from related companies	228
Bank balances, deposits and cash	138
Creditors and accrued charges	(44)
Sales deposits received	(488)
Amounts due to related companies	(645)
Bank borrowings	(65)
Deferred tax liabilities	(37)
Total identifiable net assets	116
Discount on acquisition	(53)
	63
Net cash outflow arising on the acquisition	
Cash consideration paid	(294)
Bank balances, deposits and cash acquired	138
	(156)

The fair value of the receivables acquired represented their gross contractual amounts at the date of acquisition.

The acquisition-related costs were not material and have been charged to other expenses in the consolidated statement of profit or loss for the year ended 31 December 2017.

The Group recognised a gain of HK$63 million as a result of measuring at fair value its 50% equity interest in WLHL held before the business combination. The gain is included in "other income, other gains and losses" in the Group's consolidated statement of profit or loss for the year ended 31 December 2017.

36. Business Combinations (Continued)

(c) (Continued)

Discount on acquisition of HK$53 million mainly arose from the net fair value gain on certain property inventories and was recognised in the consolidated statement of profit or loss.

No turnover was contributed by WLHL Group since the date of acquisition to 31 December 2017. WLHL Group contributed loss of HK$3 million over the same period.

Had the acquisition been completed on 1 January 2017, total group turnover and loss for the year would have been HK$6,906 million and HK$589 million respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

37. 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 2017	9
	462
Net cash inflow arising on disposal:	
Cash consideration received	453
Transaction costs paid	(12)
	441

38. Contingent Liabilities

At 31 December 2017, the Group had the following contingent liabilities, which have not been provided for in the consolidated financial statements:

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 23(c) 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 2018, subject to extension after further discussions. The outstanding principal amount of the loan under the Guarantee amounting to RMB542 million (HK$648 million) (2016: RMB542 million (HK$606 million)) and the related interest amounting to RMB413 million (HK$494 million) (2016: RMB347 million (HK$388 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.

39. 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	2017 HK$ million	2016 HK$ million
SOCL and its subsidiaries		
Dividend income	2	1
Management and information system services	1	1
Interest expenses	22	10
Rental expenses	2	2

The outstanding balances with SOCL Private Group at the end of the reporting period are disclosed in note 24.

(b) During the year, the Group had the following transactions with joint ventures.

Nature of transactions	2017 HK$ million	2016 HK$ million
Interest income	162	320
Imputed interest income	11	10
Management fee income	14	18
Interest expenses	18	24
Subcontracting work expenses	8	2

The outstanding balances with joint ventures at the end of the reporting period are disclosed in note 19.

39. Material Related Party Transactions (Continued)

(c) During the year, the Group had the following transactions with associates.

Nature of transactions	2017 HK$ million	2016 HK$ million
Interest income	32	36
Imputed interest income	23	22

The outstanding balances with associates at the end of the reporting period are disclosed in note 20.

(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 repaid unsecured non-interest bearing short-term loan of HK$100 million to a subsidiary of SOL.

(f) During the year, the Group disposed of its 15% share interest in a holding company of the construction businesses to seven senior executives of the construction division for an aggregated consideration of HK$75 million, which was received in cash. Details of the transaction are set out in an announcement of the Company dated 4 August 2017.

(g) During the year, the Group received dividend income amounting to HK$6 million from a joint venture.

(h) During the year ended 31 December 2016, the Group paid consultancy fee of HK$1 million to Mr. Gerrit Jan de Nys, a former Non-executive Director of the Company, for providing certain consultancy services to the Company.

(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:

	2017 HK$ million	2016 HK$ million
Fees	2	2
Salaries and other benefits	24	27
Performance bonuses	3	5
Retirement benefit scheme contributions	2	2
Other services fee	–	1
	31	37

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.

40. 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 borrowings and senior notes, and equity attributable to the owners of the Company, comprising issued share capital, reserves and retained profits or accumulated losses.

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

	2017 HK$ million	2016 HK$ million
Financial assets		
Available-for-sale investments	65	50
Loans and receivables (including cash and cash equivalents)	4,804	6,562
Financial liabilities		
Derivative financial instruments	102	–
Amortised cost	5,272	3,941

(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, deposits and cash, creditors, amounts due to joint ventures, associates, related companies and non-controlling shareholders of subsidiaries, derivative financial instruments, senior notes and bank 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 and People's Bank of China Prescribed Interest Rate arising from the Group's borrowings.

40. 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 (2016: 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 (2016: 100 basis points) and all other variables were held constant, the Group's loss for the year would increase/decrease by approximately HK$15 million for the year ended 31 December 2017 (2016: HK$22 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:

	2017 HK$ million	2016 HK$ million
Assets		
United States dollars	95	95
Hong Kong dollars	9	3
Liabilities		
Renminbi	–	391
United States dollars	2,188	–
Hong Kong dollars	578	271

40. 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% (2016: 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% (2016: 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% (2016: 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	2017 HK$ million	2016 HK$ million
Renminbi	–	(27)
United States dollars	7	7
Hong Kong dollars	(40)	(19)

(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% (2016: 20%), the Group's reserve at 31 December 2017 would increase/decrease by approximately HK$13 million (2016: HK$10 million), and will be further recognised in profit or loss as impairment loss if decrease in price.

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 38. 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.

40. Financial Instruments (Continued)

(c) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group has certain concentration of credit risk in respect of amounts due from trade debtors and other receivables. At 31 December 2017, 50% (2016: 22%) of total trade debtors and other receivables was due from two counterparties. At 31 December 2017, other receivables of HK$449 million (2016: HK$423 million) were due from a counterparty and a guarantee on outstanding loan principal amounting to RMB542 million (HK$648 million) (2016: RMB542 million (HK$606 million)) and related interest amounting to RMB413 million (HK$494 million) (2016: RMB347 million (HK$388 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.

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.

40. Financial Instruments (Continued)

(c) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

For derivative financial instruments that are settled on a net basis, undiscounted net cash outflows are presented.

	Weighted average effective interest rate	On demand or less than 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	% p.a.	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
At 31 December 2017							
Bank deposits	**0.56%**	**–**	**28**	**139**	**–**	**167**	**164**
Non-derivative financial liabilities							
Trade and other payables (note 1)	**–**	**(1,565)**	**(105)**	**–**	**–**	**(1,670)**	**(1,670)**
Bank borrowings							
– variable rate	**4.68%**	**(555)**	**(486)**	**(462)**	**(86)**	**(1,589)**	**(1,445)**
Senior notes	**6.25%**	**(137)**	**(137)**	**(2,205)**	**–**	**(2,479)**	**(2,157)**
	–	**(2,257)**	**(700)**	**(2,528)**	**(86)**	**(5,571)**	**(5,108)**
Derivative financial instruments	**–**	**(102)**	**–**	**–**	**–**	**(102)**	**(102)**
Financial guarantee contracts (note 2)	**–**	**(1,142)**	**–**	**–**	**–**	**(1,142)**	**–**
At 31 December 2016							
Bank deposits	0.32%	449	–	–	–	449	447
Non-derivative financial liabilities							
Trade and other payables (note 1)	–	(1,511)	(76)	–	–	(1,587)	(1,587)
Bank borrowings							
– variable rate	4.17%	(1,601)	(413)	(288)	–	(2,302)	(2,211)
– fixed rate	11%	(154)	–	–	–	(154)	(143)
		(2,817)	(489)	(288)	–	(3,594)	(3,494)
Financial guarantee contracts (note 2)	–	(1,923)	(358)	(118)	–	(2,399)	–

Notes:

1. Trade and other payables represent trade creditors, retention payable, amounts due to joint ventures, associates, related companies and non-controlling shareholders of subsidiaries, and other payables.
2. At the end of the reporting period, the Group has provided financial guarantees to certain parties (note 38). 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.

40. Financial Instruments (Continued)

(d) Fair value measurements of financial instruments

At 31 December 2017 and 31 December 2016, the Group's available-for-sale investments and derivative financial instruments were measured at fair value. The fair value of the available-for-sale investments was classified as level 1 fair value measurement and was derived from unadjusted quoted prices available on the Stock Exchange (active market) and the fair value of the derivative financial instruments was classified as level 2 fair value measurement and was determined based on forward exchange rate that are quoted in an active market provided by counterparty banks.

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.

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.

41. Reconciliation of Liabilities arising from Financing Activities

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

	Advances from related companies	Bank borrowings	Senior notes	Interest payable (included in other payables and amounts due to related companies)	Dividends payable to non-controlling interests	Total
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
At 1 January 2017	200	2,354	–	19	11	2,584
Financing cash flow	(100)	(1,342)	2,146	(192)	(30)	482
Acquisition of subsidiaries	–	406	–	–	–	406
Finance costs	–	–	93	141	–	234
Interest payable reclassified to other payables	–	–	(88)	88	–	–
Dividends payable to non-controlling interests	–	–	–	–	19	19
Exchange adjustments	–	27	6	–	–	33
At 31 December 2017	100	1,445	2,157	56	–	3,758

42. Statement of Financial Position of the Company

	2017 HK$ million	2016 HK$ million
Non-current Assets		
Property, plant and equipment	3	3
Interests in subsidiaries	6,858	7,423
Club memberships	1	1
Restricted bank deposits	137	–
	6,999	7,427
Current Assets		
Debtors, deposits and prepayments	210	196
Amounts due from subsidiaries	792	148
Amounts due from joint ventures/associates	1	8
Amounts due from related companies	118	1
Restricted bank deposits	6	110
Bank balances, deposits and cash	273	100
	1,400	563
Current Liabilities		
Creditors and accrued charges	428	22
Derivative financial instruments	102	–
Amounts due to joint ventures/associates	75	419
Amounts due to related companies	1	602
Bank borrowings	140	1,225
	746	2,268
Net Current Assets (Liabilities)	654	(1,705)
Total Assets Less Current Liabilities	7,653	5,722
Capital and Reserves		
Share capital (note 30)	484	484
Reserves (note)	2,870	3,033
	3,354	3,517
Non-current Liabilities		
Amounts due to subsidiaries	2,124	2,093
Senior notes	2,157	–
Defined benefit liabilities	18	112
	4,299	2,205
	7,653	5,722

42. Statement of Financial Position of the Company (Continued)

Note: Movement of the Company's reserves are set out below:

	Share premium HK$ million	Contributed surplus HK$ million	Retained Profits/ (accumulated losses) HK$ million	Share option reserve HK$ million	Actuarial gain and loss HK$ million	Other reserve HK$ million	Total HK$ million
At 1 January 2016	3,172	89	344	47	(91)	231	3,792
Loss for the year	–	–	(778)	–	–	–	(778)
Recognition of actuarial gain	–	–	–	–	18	–	18
Total comprehensive (expense) income for the year	–	–	(778)	–	18	–	(760)
Recognition of share-based payments	–	–	–	1	–	–	1
Transfer upon lapse of share options	–	–	24	(24)	–	–	–
At 31 December 2016	3,172	89	(410)	24	(73)	231	3,033
Loss for the year	**–**	**–**	**(240)**	**–**	**–**	**–**	**(240)**
Recognition of actuarial gain	**–**	**–**	**–**	**–**	**77**	**–**	**77**
Total comprehensive (expense) income for the year	**–**	**–**	**(240)**	**–**	**77**	**–**	**(163)**
Transfer upon lapse of share options	**–**	**–**	**10**	**(10)**	**–**	**–**	**–**
At 31 December 2017	**3,172**	**89**	**(640)**	**14**	**4**	**231**	**2,870**

43. 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 2017 and 31 December 2016, 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/ registered and paid up capital	Interest held by the Company		Principal activities
		Directly	Indirectly	
Construction and building maintenance business				
Shui On Contractors Limited*	200 shares of US$1 each	85% (Note 1)	–	Investment holding
P.D. (Contractors) Limited	1,000,000 ordinary shares (HK$1,000,000)	–	69.70% (Note 2)	Renovation work
Pacific Extend Limited	10,000 ordinary shares (HK$10,000) 6,000 special shares (HK$6,000)	–	56.95% (Note 3)	Maintenance contractor
Pat Davie Limited	2,600,100 ordinary shares (HK$2,600,100) 100,000 non-voting deferred shares (HK$1,000,000) 6,800,000 non-voting deferred shares (HK$6,800,000)	–	69.70% (Note 2)	Interior decoration, fitting out, design and contracting
Pat Davie (Macau) Limited##	Two quotas of total face value of MOP1,000,000	–	69.70% (Note 2)	Interior decoration, fitting out, design and contracting
Shui On Building Contractors Limited	117,000,100 ordinary shares (HK$117,000,100) 33,000,100 non-voting deferred shares (HK$33,000,100) 50,000 non-voting deferred shares (HK$50,000,000)	–	85% (Note 4)	Building construction and maintenance
Shui On Construction Company Limited	100 ordinary shares (HK$100) 69,000,000 non-voting deferred shares (HK$69,000,000) 1,030,000 non-voting deferred shares (HK$103,000,000)	–	85% (Note 4)	Building construction
Shui On Plant and Equipment Services Limited	16,611,000 ordinary shares (HK$16,611,000) 45,389,000 non-voting deferred shares (HK$45,389,000)	–	85% (Note 4)	Owning and leasing of plant and machinery and structural steel construction work

43. Particulars of Principal Subsidiaries (Continued)

Subsidiaries	Issued and fully paid share capital/ registered and paid up capital	Interest held by the Company		Principal activities
		Directly	Indirectly	
Property business				
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^	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**++ (Beijing Yida Real Estate Development Co., Ltd.)	Registered and paid up capital of RMB30,000,000	–	100%	Property development
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**+ (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

43. Particulars of Principal Subsidiaries (Continued)

Subsidiaries	Issued and fully paid share capital/ registered and paid up capital	Interest held by the Company		Principal activities
		Directly	Indirectly	
Property business (continued)				
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
Chengdu Xianglong Real Estate Co., Ltd.**+	Registered and paid up capital of RMB450,000,000	–	100% (Note 5)	Property development
Cosy Rich Limited*	2 shares of US$1 each	–	100% (Note 6)	Investment holding
Win Lead Holdings Limited*	100 shares of US$1 each	–	100% (Note 6)	Investment holding
江蘇九西建設發展有限公司**+ (Jiangsu Jiu Xi Development Co., Ltd.)	Registered and paid up capital of RMB382,000,000	–	100% (Note 6)	Property development

43. Particulars of Principal Subsidiaries (Continued)

Subsidiaries	Issued and fully paid share capital/ registered and paid up capital	Interest held by the Company		Principal activities
		Directly	Indirectly	
Other businesses				
Lamma Rock Products Limited	100 ordinary shares (HK$1,000) 3,500,000 non-voting deferred shares (HK$35,000,000)	–	100%	Investment holding
T H Industrial Management Limited#	2,740 ordinary shares of US$1 each	–	100%	Investment holding
Shui On Building Materials Limited	100 ordinary shares (HK$100) 1,000,000 non-voting deferred shares (HK$1,000,000)	–	100%	Investment holding
Shui On Cement (Guizhou) Limited*	100,000 shares of US$1 each	–	100%	Investment holding
Shui On Materials Limited*	1 share of US$1	100%	–	Investment holding
Tinsley Holdings Limited***	2 ordinary shares of US$1 each	–	100%	Investment holding
Winway Holdings Limited***	2 ordinary shares of US$1 each	–	100%	Investment holding
貴州凱里瑞安水泥有限公司**+ (Guizhou Kaili Shui On Cement Co. Ltd.)	Registered and paid up capital of 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 2017 or at any time during the year.

Notes:

1. During the year, the Group disposed of its 15% interest in Shui On Contractors Limited (see note 39(f)), reducing the retained interest to 85% and its related subsidiaries mentioned in notes 2 to 4 below. In addition, the issued and fully paid share capital of this company was increased from 1 share of US$1 to 200 shares of US$1 each.
2. The share interests held by the Group in these companies were decreased from 82% to 69.70% during the year ended 31 December 2017.
3. The share interest held by the Group in this company was decreased from 67% to 56.95% during the year ended 31 December 2017.
4. The share interests held by the Group in these companies were decreased from 100% to 85% during the year ended 31 December 2017.
5. The equity interest held by the Group in this company was increased from 81% to 100% during the year ended 31 December 2017 (see note 36(a)).
6. The share/equity interests held by the Group in these companies were increased from 50.04% to 100% during the year ended 31 December 2017 (see note 36(b) and (c)).

44. 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 2017 and 31 December 2016. 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/ registered and paid up capital	Interest held by the Group	Principal activities	Note
Construction and building maintenance business				
Super Race Limited	420,000 ordinary shares (HK$3.697,000)	50%	Supply of sink units and cooking benches	1
鶴山超合預制件有限公司**@ (Heshan Chaohe Yizhi Jian Co. Ltd.)	Registered and paid up capital of US$1,284,600	50%	Manufacture of sink units and cooking benches	1
Property business				
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
Other businesses				
The Yangtze Ventures Limited#	1,000 ordinary shares of HK$0.1 each	65.5%	Venture capital investments	1
The Yangtze Ventures II Limited#	1,000 ordinary shares of HK$0.1 each	75.4%	Venture capital investments	1
On Capital China Fund Series A#	13,923 participating shares of US$0.01 each	66.81%	Venture capital investments	1
On Capital China Fund Series B#	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**@ (Guizhou Zunyi Shui On Cement Co. Ltd.)	Registered and paid up capital of RMB92,000,000	80%	Inactive	1
Nanjing Jiangnan Cement Co., Ltd.**@	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

@ Equity joint venture

Notes:

1. 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.
2. Cosy Rich Limited, Chengdu Xianglong Real Estate Co., Ltd., Win Lead Holdings Limited and 江蘇九西建設發展有限公司 (Jiangsu Jiu Xi Development Co., Ltd.) became wholly-owned subsidiaries of the Company following the Group's acquisition of share/equity interests in these joint ventures during the year ended 31 December 2017.

45. 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. Following completion of the disposal of the Group's interest in Richcoast Group Limited in December 2017, the Group no longer holds any interest in associates.

Indirect associates	Issued and paid up share capital/ registered and paid up capital	Interest held by the Group	Principal activities
Richcoast Group Limited*	780 shares of US$1 each	28.20%	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** (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				
	2013	2014	2015	2016	2017
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Turnover	7,952	6,102	5,916	5,345	**6,472**
Loss before taxation	(330)	(1,345)	(1,041)	(1,362)	**(536)**
Taxation	(542)	(14)	(68)	6	**(34)**
Loss for the year	(872)	(1,359)	(1,109)	(1,356)	**(570)**
Attributable to:					
Owners of the Company	(889)	(1,374)	(1,126)	(1,382)	**(613)**
Non-controlling interests	17	15	17	26	**43**
	(872)	(1,359)	(1,109)	(1,356)	**(570)**

2. Assets and Liabilities

	At 31 December				
	2013	2014	2015	2016	2017
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Total assets	23,120	18,520	12,339	9,210	**12,024**
Total liabilities	(13,729)	(10,650)	(6,759)	(5,338)	**(8,322)**
	9,391	7,870	5,580	3,872	**3,702**
Equity attributable to:					
Owners of the Company	9,324	7,833	5,542	3,835	**3,566**
Non-controlling interests	67	37	38	37	**136**
	9,391	7,870	5,580	3,872	**3,702**

CORPORATE INFORMATION

BOARD

Executive Directors

Mr. Lo Hong Sui, Vincent (Chairman)

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

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. 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
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

BNP Paribas

China CITIC Bank International Limited

Hang Seng Bank, Limited

Industrial and Commercial Bank of China Limited

Shanghai Commercial Bank Limited

Standard Chartered Bank (Hong Kong) Limited

STOCK CODES

Shares: 983

Senior Notes: 4518

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