瑞安建業
SOCAM DEVELOPMENT

Stock Code: 983

RESTORE
SHAREHOLDER VALUE

Annual Report 2018

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 Mainland China, 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.

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.

CONTENTS

OUR BUSINESS

PROPERTY

In Mainland China, 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.

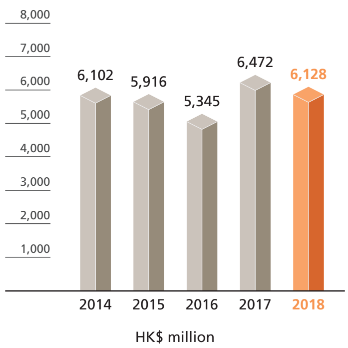
CONSTRUCTION

Our construction business marked the origin of SOCAM. In Hong Kong, we are 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.

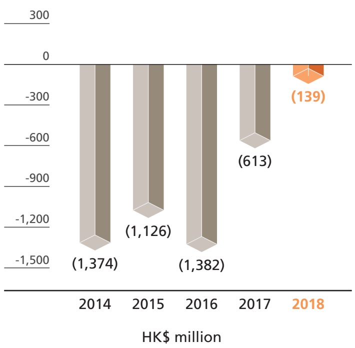
FINANCIAL HIGHLIGHTS

HK$ million	Year ended 31 December 2014 (Re-presented)	2015	2016	2017	2018
Turnover					
SOCAM and subsidiaries	6,102	5,916	5,345	6,472	**6,128**
Share of joint ventures and associates	640	363	1,572	481	**34**
Total	6,742	6,279	6,917	6,953	**6,162**
Loss attributable to shareholders	(1,374)	(1,126)	(1,382)	(613)	**(139)**
Basic loss per share (HK$)	(2.84)	(2.33)	(2.86)	(1.27)	**(0.31)**
At 31 December					
Total assets (HK$ billion)	18.5	12.3	9.2	12.0	**10.6**
Net assets (HK$ billion)	7.8	5.5	3.8	3.6	**2.9**
Net asset value per share (HK$)	16.17	11.44	7.92	7.36	**7.52**
Net gearing	53.7%	21.0%	33.5%	53.6%	**84.9%**

Turnover

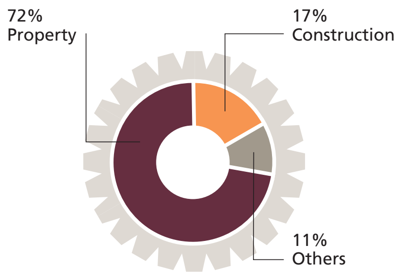


Loss Attributable to Shareholders of the Company

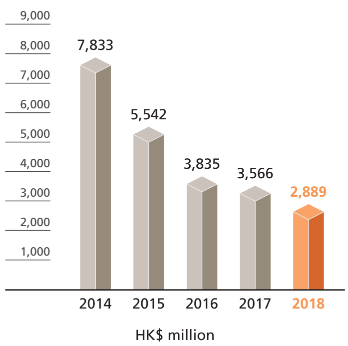


Assets Employed

At 31 December 2018

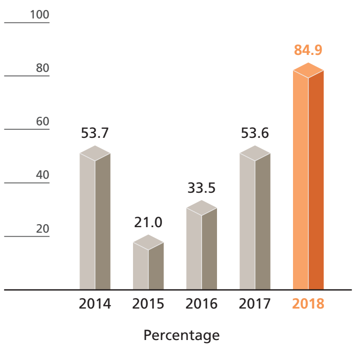


Equity Attributable to Shareholders of the Company



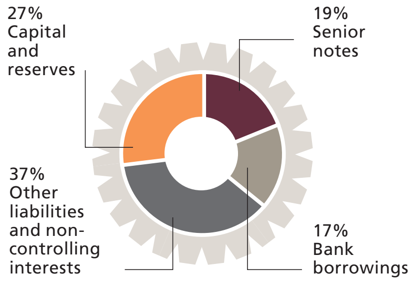
Net Gearing

At 31 December



Capital and Liabilities

At 31 December 2018



MAJOR EVENTS IN 2018

Jan

SOHO units at the Chengdu Centropolitan were launched for sale.

Mar

SOCAM, together with major subsidiaries, namely Shui On Construction (SOC), Shui On Building Contractors (SOBC), SOCAM Asset Management, Pacific Extend Limited (PEL) and Pat Davie Limited (PDL), received the Caring Company Logo from the Hong Kong Council of Social Services.

Hong Kong Children's Hospital garnered the Annual Award 2017 from the Architectural Services Department.

Apr

SOBC was awarded the contract for design and construction of the Hong Kong Garden in the Beijing International Horticultural Exposition 2019 for the Architectural Services Department.

Jul

'Tiandi Kitchen', a new food court in Shenyang Tiandi, was opened.

SOBC was awarded a term contract from the Architectural Services Department for the design and construction of fitting-out works to buildings and lands and other properties (Hong Kong Island and Outlying Islands).

Aug

Chengdu Centropolitan mall was officially opened to provide a wide range of lifestyle experience to local residents.

SOCAM announced a conditional cash offer to buy back 100 million shares at a premium to the, then, market price. The offer was duly approved by the independent shareholders at the special general meeting in August.

Oct

SOC was awarded a contract from the Urban Renewal Authority as the main contractor for the revitalisation of Central Market, a 'Conserving Central' government initiative.

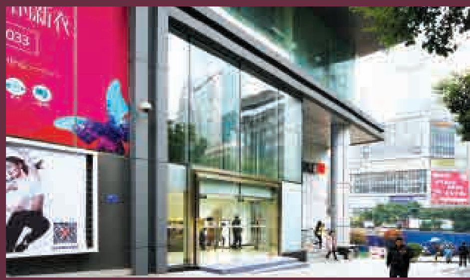
SOC and SOBC received the OSH Excellence Award from the Occupational Safety and Health Council.

SOBC completed the construction contracts for the public housing So Uk Estate Phases 1 and 2 in Sham Shui Po, Hong Kong in April and October respectively.

Nov

SOCAM received a Certificate of Commendation at the Secretary for Home Affairs' Commendation Scheme 2018 for our contributions to the relief work after passage of Super Typhoon Mangkhut.

Nov



A major revamp of Chongqing Creative Concepts Center shopping mall was completed.

Dec

SOBC was awarded a minor works term contract for alterations, additions and improvement works of buildings and lands and other properties for the Education Bureau.

PDL completed the interior fitting-out contract of Taikoo Place Phase 2A for Swire Properties.

SOCAM acquired a 23-storey commercial building in Kwun Tong. The property has a total GFA of approximately 2,600 square meters.

CHAIRMAN'S STATEMENT

Vincent H. S. Lo
Chairman

"2018 has marked our Company's significant transition from five years of consolidation and restructuring to following a path of prudent revitalisation. We now seek to take further initiatives to strengthen our balance sheet, move into profitability in the immediate years ahead and to grow shareholders' interests."

Dear Shareholders,

Towards the end of 2018, escalating tensions on the US-China trade disputes over tariffs, technology transfer and market access experienced a calm down. Following intense talks between the two nations over the last few months, a deal to end the trade war seems likely, but there are no signs of a long-term truce. Political unrest over national identity in Europe rumbled on. Notwithstanding that the global economy in 2018 delivered real GDP growth of 3.7 per cent, matching that of the previous year, growth momentum in developed market economies has become fragile. Market confidence as 2019 unfolds trends towards a cautious outlook at best.

The operating environment for the Group's businesses remained challenging. While the overall property market in China has been generally buoyant but with uncertainties going forward. Each city is allowed to adopt its own policy and measures in controlling the market. The retail market has continued to be beset by the oversupply of retail spaces and the ever-rising uptake of e-commerce convenience. In Hong Kong, a skilled labour shortage remained a concern for the construction industry, but the situation eased slightly in 2018 due to there being fewer new public housing projects.

Despite the various uncertainties in the macro environment, SOCAM has made positive progress in revitalising our property portfolio and construction business. The successful sales launch of SOHO units at Chengdu Centropolitan and the recognition of sales of Nanjing Scenic Villa contributed to the encouraging progress on our quest for improved results. Over the year, we also saw increased profit contributions from SOCAM's construction business.

Substantially improved operating results were reflected in the Group's profit or loss statement. SOCAM's loss contracted from HK$613 million in 2017 to HK$139 million in 2018, despite the negative impact of the depreciation of the Renminbi. The Group's property business reported a profit of HK$197 million in 2018, excluding the foreign exchange losses, as compared with HK$420 million loss reported in 2017, adjusted also for foreign exchange gains. Profit for our construction business was HK$201 million in 2018, compared with HK$135 million in 2017. The Group's revenue for 2018 decreased, against 2017, by 5.3 per cent to HK$6.1 billion, reflecting a leaner operation.

2018 has marked our Company's significant transition from five years of consolidation and restructuring to following a path of prudent revitalisation. The exit from our Lafarge Shui On Cement joint venture and disposal of our interests in Dalian Tiandi played a large part in putting the Company in a more vigorous position to concentrate on our core operations. As a result, SOCAM is now leaner and more resilient, as reflected in its improved financial results. This puts us in a position to seek, where prudent, new opportunities that align with our core competencies and shareholders' best interests.

Restoring Shareholder Value

Our top priorities for 2018 are revitalising the profitability of our businesses, and optimising our shareholders' interests. In the past few years the Company's share prices have persistently declined and traded at a significant discount to the Group's net asset value (NAV) per share. In May 2018, in line with our effort to improve shareholder value, SOCAM announced a conditional cash offer to buy back 100 million shares at a premium to the, then, market price. Upon completion in August 2018, this had the added benefit of increasing the Group's NAV per share.

The launch of Chengdu Centropolitan SOHO tower was met with favourable market response and all the units were sold during the year, generating healthy returns for the Group. On the back of the positive market conditions, SOCAM is progressing with the construction and development of Tianjin Veneto Phase 2 and Nanjing Scenic Villa Phase 3. Sales launches of Tianjin Veneto Phase 2 began in January 2019, achieving satisfactory results, and will continue as the year unfolds.

Operating in a fast-changing environment, the Group has been revamping our retail properties by focusing on enhancing consumer experience and community connectivity. After progressive completion of the asset enhancement programme, SOCAM's four shopping malls are moving towards providing a more sustainable recurring income stream as both rental and average occupancy rates grew. The Group will continue to push ahead vigorously with its revamp programme to enhance the tenant mix, in order to increase the footfall and rental revenue.

To enhance profitability, the management team has been working to identify new business opportunities. The purchase of a completed commercial property in Kwun Tong, Hong Kong in December 2018 has enabled the Group to expand its property portfolio beyond Mainland China.

Our construction business posted higher profit in 2018. As we maintained our stringent approach to resource allocation, we are also strengthening our competitive position by increasing efficiencies and productivity.

New contracts awarded this year amounted to HK$2 billion, compared with new contracts of HK$6.8 billion in 2017. This fall in value of new construction business was largely due to there being fewer sizeable projects available in the market over the reporting year. However, the Group is cautiously optimistic as to future growth as we will continue to seek profitable tendering opportunities where our proven competencies and experience give us an edge. During the year, SOCAM has been fully engaged in current projects including the design and construction of the Junior Police Officers Married Quarters at Fan Garden and public housing projects. We began work on the Central Market revitalisation project, with completion expected in 2021.

Sustainable construction is an integral part of our business strategy to create value for our stakeholders. The Group is actively engaged in the adoption of innovative technology and will continue to explore evolving construction methods and green purchasing that are essential to our competitive business advantage. Our industry award winning Hong Kong Children's Hospital project, recently completed, is but one example of SOCAM's emphasis on environmental sustainability and competent project management.

Our Commitment to Shareholders

2019 is set to be a year of new opportunities and further challenges for SOCAM. China's economy is expected to slow slightly in 2019 in the wake of growing global headwinds and unresolved trade tensions with the US. The residential property market is predicted to cool down as the control measures of the Central Government continue to bite, but demand for high-quality developments is likely to remain firm. Retail sales are expected to remain relatively strong in 2019, although the traditional retail sector faces ongoing challenges from e-commerce. The economies of both Hong Kong and Macau are likely to be impacted by the slowdown of China's economy and growing tensions with its trading partners. Yet we remain firmly committed to sustainable growth and the enhancement of shareholder value.

I would like to take this opportunity to welcome our new Board member, Ms. Stephanie Lo. Stephanie became a Non-executive Director of the Company with effect from 1 January 2019. She brings with her solid working experience in property development in Mainland China and is eager to contribute to the Company's development in the years ahead. She also adds diversity to the Board.

Finally, I would like to thank all of my fellow Directors for their support in incrementally realising our goals over the past few years, and our management team and dedicated staff for their hard work and commitment. We now seek to take further initiatives to strengthen our balance sheet, move into profitability in the immediate years ahead and to grow shareholders' interests.

Vincent H.S. Lo
Chairman

Hong Kong, 22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

"The Group recorded an improvement in operating results during the year, which was driven by a number of corporate successes, including the sales launch of SOHO units at Chengdu Centropolitan, recognition of sales of Nanjing Scenic Villa, improved profit from the Group's construction business, and the disposal of the Group's stake in Dalian Tiandi at the end of 2017."

Business Review

SOCAM's strategy is to accelerate the enhancement of the Group's asset value and improve operating results through revitalising our construction business and property portfolio, with the medium-term objective of creating greater value for our shareholders.

Market Environment

The economies of the Group's principal markets, namely Mainland China, Hong Kong and Macau remained broadly stable during 2018. In China, GDP growth eased slightly to 6.6 per cent for the year, down from 6.8 per cent in 2017. Although this was the weakest annual figure for 28 years, it was in line with the Central Government's stated aim of slowing growth to around 6.5 per cent per annum, as it seeks to reduce corporate and local government debts to contain risks to the financial system. The Renminbi depreciated by 5.3 per cent against the US dollar during the year, due to a combination of the US-China trade tensions and the strengthening of the US dollar following four interest rate rises by the US Federal Reserve Bank. The pace of Renminbi depreciation accelerated during the second half of the year, although some of the losses were reversed in early 2019.

Hong Kong's economy recorded GDP growth of 3 per cent for 2018, down slightly on 2017's figure of 3.8 per cent, and above the trend growth rate of 2.7 per cent per annum for the past decade. The budget surplus for the 2017/2018 fiscal year was a record HK$138 billion. The HKSAR Government announced plans to use some of this surplus to fund infrastructure and ancillary works relating to housing, as well as development projects for hospitals and schools, creating significant tendering opportunities for our construction business going forward.

Improved Results

In 2018, SOCAM made further progress on its strategy of asset enhancement and revitalising its businesses. The Group recorded an improvement in operating results during the year, which was driven by a number of corporate successes, including the sales launch of SOHO units at Chengdu Centropolitan, recognition of sales of Nanjing Scenic Villa, improved profit from the Group's construction business, and the disposal of the Group's stake in Dalian Tiandi at the end of 2017.

Turnover of the Group for 2018 decreased by 5.3 per cent over 2017 to HK$6.1 billion, while the net loss attributed to shareholders declined to HK$139 million from HK$613 million in 2017. This reduction was achieved despite the impact of the fluctuation of the Renminbi against the Hong Kong dollar in 2018, which led to a negative foreign exchange translation loss totalling HK$115 million during the year, and realised foreign exchange loss of HK$57 million on US$225 million of currency hedging contracts that matured in the first half of 2018.

Key Corporate and Business Initiatives

Share Buy-back Offer

SOCAM announced on 29 May 2018 that it would make a conditional cash offer to buy back up to 100,000,000 shares of the Company at HK$2.50 per share, representing a discount of approximately 66.0 per cent to the Group's NAV of HK$7.36 per share as at 31 December 2017. The offer benefitted all independent shareholders by providing them with an opportunity to realise part of their investment in the Company at a premium over the prevailing market price, and by increasing the NAV per share. The shares have persistently traded at a significant discount to the Group's NAV per share. Taking the closing price of the Company's shares of HK$2.39 on 25 May 2018 as the reference date (being the last trading day before the buy-back announcement), and NAV per share of HK$7.36 as at 31 December 2017, the discounts to NAV have ranged from 67.5 per cent on that day to as high as 75.1 per cent, based on the average closing price of the Company's shares of approximately HK$1.83 as quoted on the Stock Exchange of Hong Kong for the three months up to and including the said last trading day.

The share buy-back offer and the whitewash waiver with respect to a mandatory general offer were supported by and duly approved by the independent shareholders at the special general meeting of the Company on 2 August 2018. Valid acceptances in respect of a total of 126,388,142 shares were received, representing approximately 26.09 per cent of the then total number of issued shares and approximately 126.39 per cent of the maximum number of 100,000,000 shares to be bought back by the Company under the offer. The total consideration paid by the Company for buying back the shares was HK$250 million. The Group's pro forma NAV per share as at 31 December 2017 increased by approximately 17.0 per cent as a result of the share buy-back. During 2018, the share price of the Company increased by approximately 1.06 per cent, outperforming the Hang Seng Index which was down by 13.61 per cent.

The transaction was completed on 24 August 2018, upon which the total number of issued shares of the Company reduced to 384,410,164. Immediately after completion, the aggregate interests of the controlling shareholder, Shui On Company Limited, and the parties acting in concert with it in the issued shares increased from approximately 49.32 per cent to approximately 62.15 per cent.

Chengdu Centropolitan SOHO Sales Launch

The SOHO units at Chengdu Centropolitan, a mixed-use development comprising residential, SOHO and office, retail space and carparks, was launched for sale in January 2018, and all units were sold at the end of the year. In total, 494 units were handed over to buyers in 2018, and the corresponding sales revenue of HK$509 million was recognised.

Purchase of Commercial Building in Kwun Tong

On 13 November 2018, SOCAM announced the purchase of a commercial building in Kwun Tong, Hong Kong, at an agreed property price of HK$303.5 million. The Board believes the acquisition represents an attractive opportunity for the Group to expand its property portfolio beyond Mainland China, as well as benefit from anticipated growth in the property's value. The purchase, which was financed by the Group's internal resources and available banking facilities, was completed on 18 December 2018. Depending on market conditions and availability of financial resources, the Group may consider strata-title sales of some units of the property.

Development of Tianjin Veneto Phase 2

During 2018, the Group began construction of Phase 2 of Tianjin Veneto, a European-style mall in a prime location near Tianjin's Wuqing Station, with completion slated for 2020. The Phase 2 expansion will see a further 49,400 square metres gross floor area (GFA) of retail and SOHO space developed. Strata-title sales of approximately 300 retail shops out of a total of 486 were launched in stages in January 2019, following the issue of the pre-sale permits. To date, committed sales revenue has exceeded RMB100 million, in line with our expectation.

Termination of Agreement for Disposal of Nanjing Cement Plant

The Company announced on 25 July 2018 the termination of the proposed disposal of its 35 per cent equity interest in Nanjing Jiangnan Cement Co., Ltd. (NJC), a joint venture that operates a cement grinding mill in Nanjing. The framework agreement for this disposal at a total transaction amount of HK$171 million was entered into in August 2016. However, NJC was unable to complete registration of the disposal with the relevant government authorities in Mainland China due to the disapproval of the domestic shareholder. As a result, SOCAM and the purchaser agreed to terminate the framework agreement, and SOCAM refunded the total transaction amount to the purchaser in 2018.

Improved Profit for Construction Business

The Group's construction business showed improvements in profit during the year. It recorded a profit of HK$201 million in 2018, compared with HK$135 million in 2017. Turnover was HK$4.9 billion, down from HK$6.4 billion in the previous year. The gross value of contracts on-hand was approximately HK$14.1 billion as at 31 December 2018, with contracts to be completed of HK$7.3 billion.


城中汇
艺想时光 艺术培训中心
汇动城中 璀璨绽放

CHENGDU CENTROPOLITAN MALL

mainly targets families in the neighbourhood and provides them with well-rounded experiences.

PROPERTY

Attributable GFA	Total Assets	Profit/(Loss)*
490,100 sq.m. at 31 December 2018	HK $7,642 million at 31 December 2018	HK $197 million Year ended 31 December 2018
557,600 sq.m. at 31 December 2017	HK $7,854 million at 31 December 2017	HK $(420) million Year ended 31 December 2017

* excluding foreign exchange gains/losses

Chengdu Centropolitan

MARKET REVIEW

The residential property market in Mainland China was generally buoyant in 2018, with average new home prices in China's 70 major cities rising by 9.7 per cent during the year. Prices had increased for 44 consecutive months by the end of the year, although there was a slight decline in the number of cities reporting rises towards the close of 2018. Demand for residential property showed some signs of weakening, however, in the face of government control measures.

Retail sales remained robust, but the sector continued to face challenges from the rise of e-commerce and in adapting to the spending habits of the millennial shoppers. To respond to these changes, operators are repositioning their malls to offer consumers a 'lifestyle experience', with revamped premises, refined tenant mixes and a greater emphasis on food and beverage (F&B) and leisure activities. Vacancy rates and rental growth for the retail and office sectors vary from city to city due to individual market dynamics.

Chengdu

Chengdu's commercial property sector remained strong in 2018, driven by a buoyant local economy. Demand for retail space was firm as the city continued to attract major international brands, with city-wide vacancy rates falling despite a number of new mall openings during the year. In the office sector, vacancy rates for Grade A office space decreased and average rents rose, with demand driven by the real estate and finance sectors, as well as co-working space tenants. Going forward, the Tianfu New Area, which is being developed under the Government's industrial and investment policies, is expected to increase the overall quality of Chengdu's real estate market.

Chongqing

In Chongqing, vacancy rates rose and average rents edged lower in 2018 as competition in the retail sector intensified and several retailers closed. There was a significant increase in supply during the year, with new malls opening, particularly in non-core areas. Retailers are increasingly focusing on providing child-related products and services to meet consumer demand.

Nanjing

Nanjing experienced strong economic growth in 2018. There was a slight increase in the supply of new residential properties coming to market during the year. However, due to strengthened cooling measures by the Central and Nanjing Governments, sales activity slowed. New home prices remained broadly stable, rising by 0.7 per cent year-on-year in December. Going forward, government regulation and controls are expected to lead to a decline in sales volumes, although prices are expected to remain largely unchanged.

Shenyang

The supply of retail property reached a six-year peak in Shenyang in 2018, as new projects entered the market. As a result, city-wide vacancy rates increased, particularly in premium shopping malls. Despite this, rents in prime locations rose slightly, while in other areas they remained static. With the increasing competition, high-quality retail developers are gradually expanding their business to non-core areas, while experimental marketing models are becoming a core differentiator for malls.

Tianjin

The retail sector in Tianjin saw an increase in supply during 2018, mainly in the form of community-orientated shopping malls in non-prime areas. Competition resulting from the increase in supply put downward pressure on rents, although rents in prime retail areas remained stable. Established malls are undergoing facility upgrades and changing their tenant mix in order to compete with newer outlets.

Operating Performance

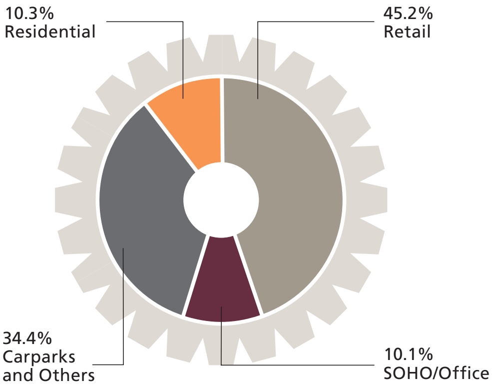
Since 2013, SOCAM has been implementing a monetisation strategy to unlock asset value, improve our balance sheet and rationalise our operations. The Group has reduced its property portfolio in Mainland China from an attributable GFA of 2.1 million square metres at the end of 2012 to 0.5 million square metres at the end of 2018. Within the current portfolio, 390,600 square metres are completed properties, and 111,100 square metres are currently under development.

As of 31 December 2018, SOCAM owned seven projects in Mainland China and Hong Kong, as summarised below:

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
Chengdu	Centropolitan	–	33,500	43,000	112,800	189,300	189,300	Completed
Chongqing	Creative Concepts Center	–	–	21,000	9,900	30,900	30,900	Completed
Guangzhou	Parc Oasis	–	–	300	4,800	5,100	5,100	Completed
Nanjing	Scenic Villa	51,600	–	–	19,300	70,900	70,900	2020
Shenyang	Shenyang Project Phase I	–	1,800	62,200	22,500	86,500	86,500	Completed
Tianjin	Veneto**	–	12,800	100,200	3,400	116,400	104,800	(Phase 1) Completed (Phase 2) 2020
Hong Kong	93 Wai Yip Street	–	2,600	–	–	2,600	2,600	Completed
Total		**51,600**	**50,700**	**226,700**	**172,700**	**501,700**	**490,100**	

* *The GFA shown excludes sold and delivered areas.*

*** SOCAM has 90% interest in this project.*



The Group's property business recorded a profit of HK$197 million in 2018, excluding foreign exchange losses, as compared with a loss of HK$420 million, adjusted from a HK$291 million loss reported in 2017. Revenue of HK$1,129 million resulting from sales was recognised during 2018. The main contributions came from the Chengdu Centropolitan and Nanjing Scenic Villa projects. The Group handed over 494 units, representing 31,490 square metres GFA in its SOHO Tower at Chengdu Centropolitan, recognising sales revenue totalled HK$509 million. At Nanjing Scenic Villa, 94 villas with a total GFA of approximately 29,210 square metres were handed over during the year, generating revenue of HK$585 million.

Major Property Sales by Project During the Year:

	2018			2017		
	Contracted sales		**Handover**	Contracted sales		Handover
Project	**Contracted amount* (RMB million)**	**GFA sold (sq.m.)**	**GFA delivered (sq.m.)**	Contracted amount* (RMB million)	GFA sold (sq.m.)	GFA delivered (sq.m.)
Chengdu Centropolitan (SOHO Tower)	**458**	**31,460**	**31,490**	5	620	392
Nanjing Scenic Villa (Residential)	**432**	**21,970**	**29,210**	239	12,730	26,400

* *VAT inclusive*

Total gross rental income stated before deduction of applicable taxes from our retail and office properties was approximately RMB50 million during the year, up from RMB24 million in 2017, mainly due to the leasing of the office tower and mall at Chengdu Centropolitan and the improved contribution from Tianjin Veneto's retail mall following its refurbishment.

Rental Income from Retail and Office Properties in Mainland China (stated before deduction of applicable taxes):

	Rental income (RMB)			
Project	**2018**	**Monthly average**	2017	Monthly average
Chengdu Centropolitan				
Retail*	**8,160,000**	**680,000**	999,000	NA
Office**	**15,561,000**	**1,300,000**	3,076,000	508,000
Chongqing Creative Concepts Center				
Retail	**4,635,000**	**390,000**	3,667,000	306,000
Shenyang Tiandi				
Retail	**9,198,000**	**770,000**	8,388,000	699,000
Tianjin Veneto Phase 1				
Retail	**12,866,000**	**1,070,000**	8,128,000	677,000

* *Officially opened in August 2018. Only basement and ground floor were opened in December 2017.*

** *Opened in June 2017.*

Occupancy Rates of Retail and Office Properties:

	Total GFA	Occupancy Rate	
Project	(sq.m.)	**Dec 2018**	Dec 2017
Chengdu Centropolitan			
Retail*	43,000	**83**	18
Office	33,300	**91**	56
Chongqing Creative Concepts Center			
Retail	21,000	**93**	60
Shenyang Tiandi			
Retail	62,200	**80**	60
Tianjin Veneto Phase 1			
Retail	63,600	**83**	66
Hong Kong 93 Wai Yip Street			
Office**	2,600	**36**	NA

* *Officially opened in August 2018. Only basement and ground floor were opened in December 2017.*

** *Acquired in December 2018.*

SOCAM operates four shopping malls in Mainland China, with a combined developable GFA of 189,800 square metres. The Company is focused on revamping our retail properties to enhance turnover, footfall and rentals and compete in the current market, in which consumers value family-focused outlets that provide an all-round shopping, dining and entertainment experience.

Retail Properties Average Monthly Footfall:

Project	**2018**	2017
Chengdu Centropolitan*	**240,000**	N/A
Chongqing Creative Concepts Center	**40,000**	37,000
Tianjin Veneto Phase 1	**312,000**	160,000
Shenyang Tiandi	**215,000**	197,000

* *Officially opened in August 2018. Only basement and ground floor were opened in December 2017.*

Retail Portfolio Rental Reversion from 1 January to 31 December 2018:

Project	No. of new leases/ renewals	Net lettable area (sq.m.)	% of total net lettable area	Variance over average rental rate for 2017
Chengdu Centropolitan	67	18,700	70%	N/A*
Chongqing Creative Concepts Center	11	4,400	42%	+21%
Tianjin Veneto	32	11,400	29%	-4%**
Shenyang Tiandi	25	6,800	25%	+35%

* *Officially opened in August 2018. Only basement and ground floor were opened in December 2017.*

** *A number of tenancies for well-known international brands were entered into before 2018 and occupy prime locations in the mall. New leases were signed in 2018 for non-prime locations with lower rents.*

Project Development and Marketing Progress

CHENGDU CENTROPOLITAN

Chengdu Centropolitan is a mixed-use development, comprising residential, SOHO and office, retail space and car parks. All residential and SOHO units have been sold. It had a total GFA of approximately 189,300 square metres as at 31 December 2018.

SOHO, Office & Carparks

The project was fully completed in 2017. In January 2018, SOCAM took back the SOHO units from the previous en-bloc sale buyer and relaunched them at favourable market prices. As at 31 December 2018, all of these units had been sold, and 494 units were handed over to buyers during the year. Turnover achieved amounted to HK$509 million.

Leasing activity of the office tower continues to progress, buoyed by demand for high quality office space in the district. As at 31 December 2018, the tower was 91 per cent let, compared with 56 per cent as at 31 December 2017.

The office Tower achieved a 91% occupancy rate as at December 2018

The shopping mall was officially opened in August 2018

The Group launched sales of car parking spaces at the project in March 2019 after the title certificate for the basement was obtained.

Shopping Mall

The development includes an integrated shopping mall occupying approximately 43,000 square metres GFA, the basement and ground floor of which opened in December 2017, with levels 2 to 6 officially opened in August 2018. As at 31 December 2018, the occupancy rate of the mall was 83 per cent.

The basement, which includes a fresh market, fast food stalls and unique features designed to meet the day-to-day needs of the local community, won the 'Creative Commercial District' award from the Chengdu Retail Association in March 2018. The mall hosts a gym, studio, cinema and children's education centre, as well as major tenants including Burger King and Watson's. In November 2018, the mall signed a tenancy agreement for part of the basement floor with Hema Fresh of the Alibaba Group. Hema Fresh's business model is a best-case example of "new retail", as it offers online and offline integration and experiential consumption.

TIANJIN VENETO

The Veneto is a European-style mall with a total GFA of 113,000 square metres in a prime location near Tianjin's Wuqing Station, which is on the Beijing-Tianjin intercity railway line.

Substantial revamp of Phase 1 to improve the tenant mix

Decathlon, French sportswear retail shop, opened in August 2018

Phase 1 Shopping Mall

In 2016, SOCAM began a substantial revamp of Phase 1, covering 63,600 square metres GFA, which has improved the tenant mix and enhanced the visitor experience. As a result of these efforts, monthly footfall in 2018 almost doubled compared with the previous year. As at 31 December 2018, Phase 1 had an occupancy rate of 83 per cent, compared with 66 per cent in December 2017. Average monthly rental income was also 58 per cent higher during the year than in 2017. A number of new tenants were added in 2018, including popular sports retailer Decathlon, which opened in August.

Construction and Sales of Phase 2

Construction work on the Phase 2 expansion, under which a further 49,400 square metres GFA of retail and SOHO space is being developed, began in the second half of 2018. Phase 2 of the project is targeted for completion by 2020. Strata-title sales of around 300 retail shops, out of a total of 486 units, were launched in stages in January 2019 after the pre-sale permits were obtained. So far, contracted sales have exceeded RMB100 million,which is in line with our plan.

SHENYANG PROJECT PHASE 1

The Group continued to make steady progress with Shenyang Project Phase 1 during 2018. While the residential and office portions of this project have been substantially sold, SOCAM retains Shenyang Tiandi, a 62,200 square metres shopping mall in the city's commercial hub. Although it opened in 2013, the mall is undergoing an extensive revamp to reposition it as a 'destination point' to attract consumers from Shenyang's growing middle class, as well as visitors from the surrounding area.

In 2018, we made steady progress in improving the tenant mix, while our decision to revamp the food court has also attracted shoppers. The 'Bar Street', which offers alfresco dining, re-opened in May, while 'Tiandi Kitchen', a sizeable new food court featuring a range of well-known local and Asian restaurants, was launched in July. The occupancy rate stood at 80 per cent as at 31 December 2018, and we aim to increase it to 90 per cent in the first half of 2019. Average monthly rental income during the year was 10 per cent higher than in 2017.

Shenyang Tiandi saw steady progress

CHONGQING CREATIVE CONCEPTS CENTER

The shopping mall completed a major revamp during the year

The office and residential portions of this development, located in Chongqing's Central Business District, have been sold, with the Group retaining the 30,900 square metres GFA shopping mall and car parks.

The mall has been revamped to position it as a 'Mini Community Mall' with a greater emphasis on lifestyle elements, such as education and F&B. During 2018, a gym and two new restaurants were opened, which has acted as major attractions. SOCAM also rented out a net leasable GFA of approximately 2,000 square metres to a boutique hotel, which had its soft opening in January 2019. Discussions are underway with potential tenants to lease the remaining leasable GFA of less than 1,000 square metres of the shopping mall. The mall had an occupancy rate of 93 per cent as at 31 December 2018.

Efforts were made to increase the rental rate following the completion of a major revamp of the mall's exterior in the last quarter of the year. Average monthly rental income for the whole of 2018 was 26 per cent higher than that achieved in 2017.

NANJING SCENIC VILLA

94 villas were handed over to buyers in 2018

Scenic Villa is a residential development located in Nanjing with a developable GFA of approximately 70,900 square metres as at 31 December 2018, comprising completed properties of approximately 10,100 square metres and those under development of approximately 60,800 square metres. The development offers distinctive low-rise apartments with balconies in a garden and lakeside setting. So far, 174 villas, out of a total of 230 villas launched for pre-sale, at Phase 2 have been sold. The Group will continue to push for sales of the remaining villas. Meanwhile, construction of Phase 3, which will consist of six commercial blocks with a developable GFA of approximately 17,000 square metres, is underway. Turnover on property sales achieved in 2018 amounted to HK$587 million.

Nanjing Scenic Villa launched new show flats

COMMERCIAL BUILDING IN KWUN TONG

In December 2018, SOCAM completed the purchase of a commercial building in Kwun Tong, Hong Kong, with approximately 2,600 square metres GFA. The acquisition represents an attractive opportunity for the Group to expand its property portfolio beyond Mainland China. Depending on market conditions and available financial resources, the Group may consider strata-title sales of some units of the property.

Basic Information

The Property	93 Wai Yip Street, Kwun Tong, Kowloon
Year of Completion	2016
Usage	Commercial
Gross Floor Area	Approximately 2,600 square metres

The commercial building was acquired in December 2018

GUANGZHOU PARC OASIS

This residential development was fully completed in 2012 and all units have been sold. During the year, five car parking spaces were sold, generating revenue of around HK$2 million. The remaining carparks are currently held for leasing.

SO UK ESTATE

is a redevelopment project of one of the most historic public housing estates in Hong Kong, with 14 blocks and nearly 7,000 units.

CONSTRUCTION

Operating Profit	New Contracts Secured	Turnover
HK $201 million 2018	HK $2.0 billion 2018	HK $4.9 billion 2018
HK $135 million 2017	HK $6.8 billion 2017	HK $6.4 billion 2017

Kai Long Court, a home ownership scheme project

The Group's construction business provides a comprehensive range of building construction, maintenance and interior fitting out services, carried out by its three subsidiary companies: Shui On Construction Company Limited (SOC), Shui On Building Contractors Limited (SOBC) and Pat Davie Limited (PDL).

MARKET REVIEW

The construction sectors in Hong Kong and Macau continue to face a number of challenges in terms of both manpower and rising costs.

In both markets an ageing population has led to a shortage of skilled and unskilled workers in the industry. In Hong Kong, there is an estimated shortfall of 5,000 to 10,000 skilled construction workers, and the situation is expected to worsen going forward, with 42 per cent of registered construction workers aged over 50 as at June 2018. Macau faces similar issues.

The tightening manpower market, combined with the escalating prices of construction materials and rising operating costs, has led to Hong Kong having the highest construction costs in Asia and the third highest in the world, after New York and San Francisco. To help address the cost and manpower challenges, the HKSAR Government has set up a HK$1 billion Construction Innovation and Technology Fund to help the industry harness automation, and make greater use of pre-fabricated parts and innovative construction methods, as well as attract more young people to the industry. Macau has sought to address the issue by importing labour, with overseas workers now accounting for around half of its construction workforce.

SOCAM continues to plan ahead to deal with these issues, and is particularly focused on ensuring we have an adequate supply of skilled labour for our construction business. We put great effort into recruiting graduate engineers from universities each year, and making sure we foster the talent of these young individuals through providing them with professional knowledge and practical experience in the construction industry. We continue to tighten our controls over building material costs and to manage our procurement to overcome volatility in both prices and supply.

Safety

Safety has always been a top priority at SOCAM, and this year we stepped up our efforts to promote the importance of safety at worksites by introducing Health, Safety and Environment (HSE) management sharing and training sessions which target site agents, to enrich their operational and managerial capabilities, as well as to improve their safety awareness and ability to cope with urgent site issues. The Company has also recently launched bi-annual HSE sharing sessions at all of our construction sites to provide updates on the latest regulations and internal rules for project managers and site agents, who are key communicators at our sites.

Our efforts to promote safety were recognised during the year by a number of organisations, including the Occupational Safety & Health (OSH) Council, the Labour Department and the Hong Kong Construction Association. We received a range of awards, including an OSH Award in recognition of 30 years of cooperation with the OSH Council in implementing health and safety management. We were also recognised for our innovation, with SOBC receiving an Innovative Safety Initiative Award 2018 – Safety Management System, Training and Promotion (Silver Award) from the Construction Industry Council for its innovative solution to prevent falls in construction sites. In addition, SOBC was given a COO Safety Award by CLP Power Hong Kong Limited (CLP), which is awarded by the Chief Operating Officer of CLP each year to the contractor with the best safety performance and distinguishes us from dozens of competitors for our steadfast commitment to safety.

Operating Performance and New Contracts Awarded

(HK$)	2018	2017
Profit	**201 million**	135 million
Turnover	**4.9 billion**	6.4 billion
Gross value of contracts on hand (as of 31 December)	**14.1 billion**	18.5 billion
Gross value of contracts to be completed (as of 31 December)	**7.3 billion**	9.8 billion

The Group's construction business showed improvements in profit for 2018, despite the challenging operating environment. It recorded a profit of HK$201 million in 2018, compared with HK$135 million in 2017. Turnover was HK$4.9 billion, down from HK$6.4 billion in the previous year. The gross value of contracts on-hand was approximately HK$14.1 billion as at 31 December 2018, with contracts to be completed of HK$7.3 billion, compared with HK$18.5 billion and HK$9.8 billion respectively as at 31 December 2017.

SOCAM secured new construction, renovation and fit-out contracts in Hong Kong and Macau during 2018 worth a total of HK$2.0 billion, compared with new contracts of HK$6.8 billion in 2017. Within this total SOC secured a contract from the Urban Renewal Authority (URA) with a gross value of HK$494 million, SOBC won eight contracts with a total gross value of HK$852 million, while PDL was awarded 28 contracts with a total gross value of HK$666 million.

Major new projects with a contract value in excess of HK$100 million secured in 2018 were:

- URA – Main Contractor of Central Market Revitalisation Project (HK$494 million);
- Education Bureau – Minor Works Term Contracts (HK$424 million); and
- Architectural Services Department (ASD) – Design and Construction of Fitting Out Work to Buildings and Lands and Other Properties on Hong Kong Island and the Outlying Islands (HK$342 million).

Other new contracts, each with a value up to HK$100 million, included:

- Design and construction of the Hong Kong Garden in the Beijing International Horticultural Exposition 2019;
- CLP – Castle Peak Power Station storm drain refurbishment;
- Hong Kong International Airport food court revamp at Terminal 1;
- Hong Kong Skycity Marriott Hotel;
- The Clifford C.F. Wong Secondary Library;
- Tung Chung Town lot nos. 2 & 11;
- InterContinental Hotel, Hong Kong – L1/L2 function room and corridor;
- Wynn Macau Renovation – Encore Tower Soft Refurbishment; and
- Altira, Macau – L9 Megstar.

In addition, the contract terms of two projects were extended during the year. The MTR Corporation Limited (MTR) term contract for architectural and building works was extended for two years, while the CLP contract for the design and construction of minor building and civil engineering works was extended for one year.

Progress on existing projects

SOCAM's existing projects continued to make progress in 2018, despite challenges due to the shortage of skilled workers. As at 31 December 2018, a total of 62 contracts were underway in Hong Kong, as well as 19 contracts in Macau. The total contract sum of projects in progress was HK$5,661 million at the year end.

Projects completed during the year

Major projects completed during the year in Hong Kong and Macau included:

- Construction of Public Rental Housing at So Uk Estate Phases 1 and 2;
- Construction of Home Ownership Scheme at Kai Tak Site 1G1(B);
- Interior fitting out projects of Redevelopment of Taikoo Place Phase 2A – Footbridge and Lobby;
- Link Asset – Wan Tsui Commercial Complex and Fu Shin Shopping Centre fit-out works;
- City of Dreams – Hotel Main Lobby and Porte Cochere fit-out works;
- Wynn Palace – Main gaming pits noodle restaurant conversion; and
- Nova City Phase 5 – Retail areas and main entrance fit-out works.

SHUI ON BUILDING CONTRACTORS LIMITED (SOBC)

SOBC is a leading building contractor in public housing construction in Hong Kong. Since 1981, it has completed a number of public housing projects, as well as shopping centres and public amenities in government estates, often pioneering new town developments. Its subsidiary, PEL, which was established in 2000, principally undertakes maintenance and minor works for government organisations and public utilities.

New contracts awarded to SOBC totalled HK$852 million in 2018. They included the award of an HK$27 million contract from the ASD to design and construct the Hong Kong Garden at the Beijing International Horticultural Exposition 2019, and a contract worth HK$21.4 million from CLP for the Castle Peak Power Station storm drain refurbishment.

A HK$424 million contract was awarded by the Education Bureau, being Minor Works Term Contract for Additions, Alterations and Improvement Works of Buildings and Lands and Other Properties for which the Education Bureau is responsible in Hong Kong.

So Uk Estate was completed during the year

SOBC also secured another new contract from the ASD in 2018, being the Term Contract for the Design and Construction of Fitting Out Works to Building and Lands and other properties for which the ASD is responsible. The designated contract area comprises Hong Kong Island and Outlying Islands. The contract value is HK$342 million.

The terms of two existing contracts with a total additional contract sum of HK$240 million were extended during the year. The MTR term contract for architectural and building works was extended for two years, while the CLP contract for the design and construction of minor building and civil engineering works was extended for one year.

SOBC completed the construction contracts for the public housing So Uk Estate Phases 1 and 2 in Sham Shui Po and construction of Home Ownership Scheme at Kai Tak Site in Hong Kong during the year.

SHUI ON CONSTRUCTION COMPANY LIMITED (SOC)

SOC has extensive experience in the construction of commercial and institutional projects for government and major institutions, including large luxury hotels, shopping centres, office buildings and arts and sports facilities, as well as schools, universities, hospitals and recreational parks.

During 2018, SOC won a new contract valued at HK$494 million from the URA, being the main contractor of Central Market Revitalisation Project.

SOC continued to make progress on its major contract from the ASD for the design and construction of the Junior Police Officers Married Quarters at Fan Garden, Fanling. The project, which is due for completion in 2020, will provide 1,184 units of flats. The project won the Gold prize in the Building Sites (Public Sector) category of the Construction Industry Safety Award Scheme 2018/2019.

In February 2018, Hong Kong Children's Hospital, a joint venture project between SOCAM and China State Construction, was handed over to the Hospital Authority. The hospital, which was completed on time in September 2017, is the first children's hospital in Hong Kong's public healthcare system. It is opening in phases from December 2018. This project was a winner in the Construction and Engineering category in both the Hong Kong Institute of Project Management Awards and the Asia Pacific Federation of Project Management Awards in 2018.

SOC made progress on its major contract in Fan Garden, Fanling

Hong Kong Children's Hospital opened in phases from December 2018

PAT DAVIE LIMITED (PDL)

PDL has a reputation for being a market leader in fast-track, high quality interior fitting for large clients, including hotels, banks, corporate offices, clubs, retail outlets and shopping arcades. It offers a full range of services, including design-and-build tailored to individual client needs.

In 2018, PDL continued to be very active in the fit-out and refurbishment markets of Hong Kong and Macau, securing a total of 28 new contracts worth an aggregate value of around HK$666 million across the commercial, retail and hospitality sectors. The largest contracts secured during the year were for the revamp of the food court at Hong Kong International Airport's Terminal 1, and the refurbishment work for the Wynn Macau Hotel in Macau.

Contracts worth a total of HK$851 million were completed during the year for clients including City of Dreams and Wynn Palace in Macau, and for projects including Nova City Phase 5, and the HK$310 million Taikoo Place Phase 2A.

Macau is currently one of PDL's main markets. In 2018, the company submitted a number of tenders for major projects in Macau's gaming sector. Macau's economy contracted in 2018, with GDP growth for the full year coming in at 4.7 per cent, compared with 9.1 per cent in 2017. Despite this easing, the gaming, tourism and retail sectors continued to perform well, with gaming revenues enjoying a strong rebound in 2018. The situation augurs well for potential new business for PDL going forward.

PDL completed the interior fit-out project of Taikoo Place Phase 2A

OUTLOOK

> "SOCAM intends to build on its asset enhancement strategy in 2019 and to this end has identified a number of key disposal targets."

The year 2019 is set to be one of change and challenge for businesses. Global economic uncertainties driven in part by the trade tensions with the US will continue to exert downward pressure on the Chinese economy. New consumer behaviour and technological advances will continue to change the market landscape. Profound transformation is expected in the commercial sector to accommodate the new competitive environment.

SOCAM intends to build on its asset enhancement strategy in 2019 and to this end has identified a number of key disposal targets, namely the office tower at Chengdu Centropolitan, as well as our interests in NJC and in the Kaili cement plant in Guizhou. In addition, the Company has launched sales of car parking spaces at Chengdu Centropolitan and will conduct further strata-title sales of retail units at Tianjin Veneto Phase 2. In the retail sector, the Group is well positioned to deal with increased competition following the revamp of our malls in Mainland China, bringing consumers a 'lifestyle experience' with enhanced leisure and F&B offerings. We will strive to refine our tenant mix further in order to increase occupancy rates and rental yield.

The economies of both Hong Kong and Macau are likely to be impacted by the slowdown in China's economy and the trade tensions. The construction sector in these markets also continues to face issues with manpower shortages, rising material costs and high levels of competition.

Despite these potential headwinds, SOCAM foresees tendering opportunities in both markets. In Hong Kong, the HKSAR Government has set a target to provide 315,000 public housing units over 10 years, which is expected to lead to a steady flow of new public housing contracts from the Housing Authority in the years ahead. Tenders for government offices, schools and hospitals are also in the pipeline, from which SOBC and SOC are also poised to benefit, although competition will be intense. In Macau, gaming is expected to remain the main driver of the economy, supported by the tourism and retail sectors, which will create ongoing opportunities for PDL.

Financial Review

Financial Results

The Group's loss attributable to shareholders for the year ended 31 December 2018 was HK$139 million on a turnover of HK$6,128 million, compared with the loss of HK$613 million and turnover of HK$6,472 million for the previous year.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

An analysis of the total turnover is as follows:

	Year ended 31 December 2018 HK$ million	Year ended 31 December 2017 HK$ million
Turnover		
SOCAM and subsidiaries		
Construction and building maintenance	**4,914**	6,403
Property	**1,214**	69
Total	**6,128**	6,472
Joint ventures and associates		
Property	**–**	448
Others	**34**	33
Total	**34**	481
Total	**6,162**	6,953

Turnover from the construction business recorded a 23 per cent decrease this year, compared to that of last year. The decrease in turnover was mainly attributable to the completion of the mega-sized contract for the construction of the Hong Kong Children's Hospital in a joint venture contract with China State Construction in late 2017 and the completion of the Public Rental Housing Development at So Uk Estate Phase 2 in 2018. Revenue from these two contracts represented about 39 per cent or HK$2.5 billion of the segment turnover in 2017.

The Group acquired the remaining 19 per cent interest in the Chengdu Centropolitan project in July 2017 and the 45 per cent and 50 per cent respective interests in Tianjin Veneto and Nanjing Scenic Villa in November 2017. As a result, these projects became controlled subsidiaries of the Company and revenue earned and costs incurred of these projects were then consolidated into the consolidated financial statements of the Group. The significant increase in the Group's property revenue to HK$1,214 million, from HK$69 million in the prior year was mainly attributable to the handover of a considerable number of SOHO units and villa units by the Chengdu Centropolitan project and the Nanjing Scenic Villa project, respectively. The Group's share of property sales revenue from jointly developed projects of HK$448 million in the prior year was mainly derived from (a) the then 50 per cent owned Nanjing Scenic Villa and (b) the then 22 per cent owned Dalian Tiandi, which was disposed of in December 2017.

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

	Year ended 31 December 2018 HK$ million	Year ended 31 December 2017 HK$ million
Property		
Profit on property sales	**215**	6
Net rental expenses	**(76)**	(33)
Fair value changes on investment properties, net of deferred tax provision	**106**	3
Share of results of joint ventures	**–**	(149)
Net gain on acquisitions of interests in joint ventures	**–**	141
Share of results of associates – Dalian Tiandi	**–**	(82)
Disposal of interest in Dalian Tiandi	**74**	(127)
Operating expenses, net of project fee income	**(122)**	(179)
	197	(420)
Construction	**201**	135
Venture capital investments	**(12)**	(8)
Net finance costs		
– Senior notes	**(145)**	(93)
– Bank borrowings	**(70)**	(91)
Corporate overheads and others	**(35)**	(30)
Marked-to-market loss of currency hedging contracts	**(57)**	(174)
Foreign exchange (loss) gain	**(115)**	143
Taxation	**(47)**	(32)
Non-controlling interests	**(56)**	(43)
Total	**(139)**	(613)

Property

Property operation recorded a significant turnaround in 2018 as compared to 2017. A HK$197 million profit was reported for the current year, as compared with a HK$420 million loss for the prior year. Profit from property sales related to strata-title sales of SOHO units of Chengdu Centropolitan, as well as villa units of Nanjing Scenic Villa. Increase in net rental expenses was mainly attributable to the consolidation of the negative rentals from the shopping malls of Chengdu Centropolitan and Tianjin Veneto in 2018, which were previously reflected under "Share of results of joint ventures".

The basement and ground floor of the shopping mall of Chengdu Centropolitan commenced business in December 2017, while levels 2 to 6 officially began operation in August 2018. The mall incurred a loss during the first year of operation. On the other hand, the office tower of Chengdu Centropolitan was well received in the market with 91 per cent of its spaces let out as at 31 December 2018. For Tianjin Veneto, a smaller net rental loss was reported in this year, as compared to the last year, as both tenant occupancy rate and customer traffic showed improvement.

The valuation of the Group's investment properties, at the year-end, produced a net gain of HK$106 million, reflecting the enlarged investment property portfolio of the Group following the acquisition of the controlling interest in the Chengdu Centropolitan and Tianjin Veneto projects in late 2017, coupled with the acquisition of a commercial building in Kwun Tong in December 2018.

In December 2017, the Group completed the disposal of its 22 per cent interest in Dalian Tiandi for a consideration of RMB1.3 billion. Interest income amounted to HK$42 million, calculated at the rate of 5 per cent per annum on the outstanding consideration payable to the Group amounting to RMB921 million as at 31 December 2017, was recognised in 2018. In addition, a one-off write-back of approximately HK$32 million was made for fees payable relating to the Dalian Tiandi project in 2018.

The Group achieved further saving in total operating expenses in the current year as the organisation was streamlined further in line with the leaner operation.

Construction

Construction business posted much higher profit for the current year. Average net profit margin increased to 4.1 per cent of turnover, from 2.1 per cent margin in the previous year, largely due to (a) more profit was derived from the maintenance contracts which carried higher margin; and (b) no further loss was incurred on the So Uk Estate Phase 1 project in 2018.

In September 2017, 15 per cent 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$56 million in 2018, from HK$43 million in the previous year.

Net finance costs

In May and June 2017, the Company issued 6.25 per cent 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 2018, as compared with 2017, largely due to the full year effect on interest and amortisation of issue costs of the senior notes, totaled HK$145 million. Excluding the finance costs of the senior notes, net finance costs on the Group's bank borrowings was reduced to HK$70 million for the year, from HK$91 million in 2017, in line with the reduction in average 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 expired in late December 2017, and the remaining outstanding contracts with notional amount of US$225 million matured subsequently in March and May 2018. As a result of the appreciation of the Renminbi against the United States dollar upon the maturity of the respective currency hedging contracts, a further loss of HK$57 million was incurred during the year.

However, the currency exchange rate reversed in the second half of 2018 with Renminbi registering a 4.8 per cent depreciation against the Hong Kong dollar during 2018, and this brought about foreign exchange losses to the Group totalling HK$313 million, of which HK$115 million and HK$198 million were recognised in the consolidated statement of profit or loss and the consolidated statement of financial position respectively, in contrast to the foreign exchange gains of HK$143 million and HK$291 million respectively for the prior year.

Assets base

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

	31 December 2018 HK$ million	31 December 2017 HK$ million
Total assets	**10,602**	12,024
Net assets	**2,889**	3,566
	HK$	HK$
Net asset value per share	**7.5**	7.4

Total assets of the Group decreased to HK$10.6 billion at 31 December 2018, from HK$12.0 billion at 31 December 2017, which can be explained in the segment analysis below. The decrease in net assets of the Group was principally attributable to the combined effect of (i) HK$139 million loss for the year, (ii) decrease in the translation reserve of HK$198 million as a result of the depreciation of the Renminbi against the Hong Kong dollar, and (iii) the buy-back of 100 million SOCAM shares at HK$2.5 per share, completed in August 2018. The buy-back of SOCAM shares served to increase the net asset value per share of the Company to HK$7.5 at 31 December 2018, from HK$7.4 at 31 December 2017, notwithstanding the loss incurred and the decrease in translation reserve in 2018.

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

	31 December 2018 HK$ million	**per cent**	31 December 2017 HK$ million	per cent
Property	**7,642**	**72**	7,854	65
Construction	**1,792**	**17**	2,189	18
Corporate and others	**1,168**	**11**	1,981	17
Total	**10,602**	**100**	12,024	100

Decrease in property assets at 31 December 2018 was mainly due to strata-title sales of SOHO units of Chengdu Centropolitan, as well as villa units of Nanjing Scenic Villa. The decrease in the total value of "Corporate and others" assets was partly due to buy-back of 100 million SOCAM shares at HK$2.5 per share and related costs incurred in 2018.

Equity, financing and gearing

The shareholders' equity of the Company decreased to HK$2,889 million on 31 December 2018, from HK$3,566 million on 31 December 2017, 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$2,454 million on 31 December 2018, as compared with HK$1,913 million on 31 December 2017.

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

	31 December 2018 HK$ million	31 December 2017 HK$ million
Bank borrowings repayable:		
Within one year	**978**	500
After one year but within two years	**362**	443
After two years but within five years	**387**	422
After five years	**121**	80
Total bank borrowings	**1,848**	1,445
US$ senior notes due 2020	**2,023**	2,157
Total bank and other borrowings	**3,871**	3,602
Bank balances, deposits and cash	**(1,417)**	(1,689)
Net bank and other borrowings	**2,454**	1,913

Since September 2018, the Group commenced to repurchase its 6.25 per cent senior notes due 2020 from the open market. A total of US$19.5 million senior notes was repurchased up to 31 December 2018, at a slight discount to the face value. Discount and interest saved on the US$19.5 million senior notes repurchased amounted to HK$6 million for 2018. The net gearing ratio of the Group, calculated as net bank and other borrowings over shareholders' equity, increased to 84.9 per cent at 31 December 2018, from 53.6 per cent at 31 December 2017, mainly attributable to the combined effect of an increase in net borrowings and the decrease in shareholders' equity during the year as previously explained.

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 Mainland China 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 Mainland China is denominated in Renminbi and property assets in Mainland China 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. During 2017, the Company took out currency hedging contracts in a total notional amount of approximately US$369 million, which had all matured as at May 2018. No further currency hedging contract had been arranged. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Employees

At 31 December 2018, the number of employees in the Group was approximately 1,060 (31 December 2017: 1,100) in Hong Kong and Macau, and 480 (31 December 2017: 470) in subsidiaries and joint ventures in Mainland China. 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 Mainland China, 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report is prepared in compliance with the Environmental, Social and Governance (ESG) Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The ESG report discloses SOCAM's performance on environmental and social issues from 1 January to 31 December 2018. The social performance data in the report covers the entire Group while the environmental performance data focuses on Hong Kong headquarters, 7 construction projects in Hong Kong and 2 shopping malls in Mainland China. For the governance section, please refer to the Corporate Governance Report in the Annual Report.

CONTENTS

SHUI ON WE CARE

Our Corporate Social Responsibility (CSR) model is built on team work and inter-departmental collaboration, based on principles codified in a policy statement formulated in 2008 which comprehensively defines our CSR goals:

Caring for our people

We cultivate a safety mindset to prevent accidents, keep our people and sub-contractors safe and sound, and care for employees' holistic wellbeing.

Caring for the environment

We are working to be part of the solution by conserving resources and promoting sustainable construction.

Caring for the community

We empower our employees to support the communities where we operate, and embrace the underprivileged groups.

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 ESG related impacts and the latter responsible for coordination and implementation. Divisions and departments within the Group integrate CSR objectives into their operations and activities.

SOCAM Board
Approves CSR direction and policies

ESG Steering Committee
Oversees all ESG related matters

CSR Steering Committee
Coordinates and implements CSR policy

Stakeholders

HIGHLIGHTS

Employees

No. of staff
1,540 (2017: 1,572)

Training hours
11,228 (2017: 13,003)

Community

Volunteering hours
2,367 (2017: 3,526)

Corporate donation
HK$ **1.5** million
(2017: HK$1.2 million)

No. of volunteers
387 (2017: 590)

Safety and Environment

Safety training participants
136,136
(2017: 78,873)

Accident rate
8 (per 1,000 workers)
(2017: 7.85)

Greenhouse gas emissions
CO_2 **70,677** tCO_2e
(2017: 171,072)

STAKEHOLDER ENGAGEMENT

Interests and concerns

Shareholders and investors

- Transparency
- Return on investment
- Corporate strategy and governance
- Risk management

Clients, buyers and tenants

- Sustainability performance
- Robust project management
- Full compliance with regulations
- Quality product offerings
- Health and safety
- Ethical marketing

Sub-contractors

- Effective project management
- Occupational health and safety
- Ethical business practices
- Assessment criteria

Suppliers

- Long-term partnership
- Ethical business practices
- Assessment criteria

Actions and initiatives undertaken in 2018

Shareholders and investors

- Organised the annual general meeting to engage with shareholders
- Published annual report, interim report and other required disclosure in a timely manner
- Conducted a review of the Group's risk management and internal control systems

Clients, buyers and tenants

- Received customer feedback and continued to implement a systematic approach to ensure effective and preventive actions are taken for health, safety and product quality
- In our drive for sustainable construction, our public housing construction project in Chai Wan was awarded the Contractor in New Works Merit Award of the CIC Sustainable Construction Awards 2018

Sub-contractors

- We conducted regular site walks to review issues on structural and architectural qualities with staff and sub-contractor representatives
- Held an annual HSE Target Seminar, a major industry event where we set our improvement targets, learn from authorities the latest safety standards, and share our practices with our stakeholders including sub-contractors

Suppliers

- Communicated with suppliers on safety and environmental requirements
- Conducted regular onsite audits and assessments

Shui On's corporate mission statement introduced in 1984 embodies our emphasis on our relationships with clients, employees and business partners. Over the years, we have continued to define our action plans to engage with our stakeholders on an ongoing basis. The table below shows how we communicate with key stakeholder groups and address their respective concerns.

Employees	Community	Environmental NGOs	Media
• Compensation and benefits • Occupational health and safety • Career development opportunities • Corporate culture and engagement	• Community relations	• Environmental protection	• Latest corporate developments • Social and industry issues
• Conducted an online culture survey, covering more than 1,100 employees from Hong Kong, Macau and Mainland China to improve our workplace based on survey findings on a continual basis • Organised 124 in-house training programmes, which amounts to 11,228 hours in total, average 7.3 hours per employee	• Continued to sponsor and support youth and elderly services in collaboration with NGOs • Participated in various community initiatives in Hong Kong and Mainland China and recorded 2,367 volunteering hours • Contributed to the relief work after super typhoon Mangkhut made its way through Hong Kong	• Our head office replaced spotlights with more energy-efficient LED alternatives • At Fanling Fan Garden construction site, we invested in a solar power board and used B5 Biodiesel to reduce carbon emissions in energy consumption • Promoted green procurement guidelines, purchased products certified by recognised international standards	• Regular press releases and corporate announcements to maintain continuing and open dialogue with the media • Responded to enquiries in a timely manner

CARING FOR THE ENVIRONMENT

Environmental responsibility is an integral part of our operations. As a major construction company, we are increasingly concentrating on the principles of sustainable construction and have established a strong track record in executing green building projects.

We implement programs designed to mitigate our environmental impact, focused on sustainable resource management and waste reduction. Our environmental management system (EMS) is certified under the ISO14001:2015 standard. Under its rigorous framework, we take a systematic approach to managing our resources efficiency and emissions control in order to drive continuous improvement. We place particular significance on assessing our environmental data, such as energy and material use, carbon emissions, water consumption and waste production.

Our Environmental Management Approach

Planning

- During planning phase, we take into consideration the impact of construction on the surrounding environment
- We optimise the layout of the construction site to minimise the distance of truck traffic
- We select suppliers near our site for efficiency, thus reducing energy consumption and carbon emissions

Engagement

- We engage with neighbourhood regarding our environmental protection measures
- The environment protection committee conducts monthly meetings to discuss implementation of environmental measures
- We evaluate our subcontractors' performance according to our environmental requirements.

Taking action

- We install power generator far from the neighbourhood
- We adopt applicable energy-and water-saving measures both at sites and offices
- We allocated approximately HK$7.5 million for green procurement for Chai Wan Wing Tai Road Public Housing project

Carbon Emissions – Measuring Our Impact

At SOCAM, we continue to enforce our energy management program to enhance our overall environmental performance, involving rigorous collection of energy consumption and greenhouse gas emissions data. The table below discloses our total resources consumption of our head office, seven construction projects and two shopping malls in 2018.

		2018[1]				2017
Resources Consumption	**Unit**	**Head Office**	**Construction**	**Shopping mall**	**Total**	
Electricity	kWh	637,443	2,534,881	5,255,196	8,427,520	7,365,933
Diesel	liter	3,683	747,346	0	751,029	1,026,846
Petrol	liter	18,442	2,232	5,268	25,942	38,320
Acetylene	m^3	0	7,893	0	7,893	2,222
Water	m^3	998	86,450	45,225	132,673	156,097

Scope 1 greenhouse gas emissions are due to direct fuel consumption of generators, vehicles and work processes. Scope 2 emissions include electricity and heating, while Scope 3 constitutes any other indirect generation in the value chain. We boast a comprehensive Scope 3 inventory that considers water and sewage processing, waste treatment, raw material usage and transportation, as well as business travel. This year, our Scope 1, 2 and 3 carbon footprint amounted to 2,028.6, 8,561.8, 60,086.6 tonnes of carbon dioxide equivalent respectively. Owing to a drop in the procurement volume, the Scope 3 emissions had reduced accordingly.

	2018[1]				2017
Carbon Emissions (tCO_2e)	**Head Office**	**Construction**	**Shopping mall**	**Total**	
Direct (Scope 1)	58.7	1,954.4	15.5	2,028.6	2,800.2
Indirect (Scope 2)	325.1	1,325.2	6,911.5	8,561.8	5,844.5
Indirect (Scope 3)	86.8	59,022.7	977.1	60,086.6	162,426.9
Total emissions	470.6	62,302.3	7,904.1	70,677.0	171,071.6

1 Compared with 2017, the data collection boundary in 2018 includes different projects but the total number of projects is the same

Minimising carbon footprints and air pollutants

Fuel consumption of our vehicles and machinery contribute to emissions of greenhouse gas and air pollutants. We regularly monitor air emissions in compliance with statutory regulations, and prioritise the use of quality machinery approved by the Environmental Protection Department (EPD) QPME (Quality Powered Mechanical Equipment) scheme. Dust control is carried out by installing automatic watering systems and dust-proof scaffolding.

Powering up by biodiesel

Biodiesel is an alternative to conventional diesel, a renewable energy manufactured from vegetable oils, animal fats, waste cooking oil etc. In 2018, we explored the use of B5 biodiesel comprehensively at Fanling Fan Garden Government Police Married Quarters site and Chai Wan Wing Tai Road Public Housing site, in order to mitigate the levels of our cabon footprint. As a result, the B5 biodiesel usage at the two sites accounted for more than a third of our diesel usage of our seven construction projects, substantially reducing the use of diesel and 35.1 tonnes of GHG emission.

Reducing Waste and Conserving Resources

Resources Conservation

SOCAM is committed to driving appreciable reduction in the consumption of energy and water during the construction phase. We prioritise the use of electrical appliances certified with first-class energy efficiency labels, and install light sensors and time controllers to reduce unnecessary lighting and air-conditioning. At our Fanling Fan Garden construction site, we introduced solar paneling and solar power electrical appliances to minimise the use of non-renewable sources of electricity.

On conserving water usage, we have installed water treatment systems on site to recycle grey water for a variety of site and vehicle cleaning purposes, thereby reducing the consumption of fresh water. The rainwater harvesting system at the Fan Garden construction site also alleviates the burden on municipal water supply.

Noise

SOCAM strictly complies with the Noise Control Ordinance and we only operate in permitted hours. To further reduce noise nuisance, we have adopted equipment and machinery certified by the EPD, and employed containers as sound barriers.

Waste

We follow waste management principles that incorporate sustainability values, and reduction and re-use of waste is our foremost priority. This year, we generated 122,907 tonnes of inert construction waste, 14,011 tonnes of non-inert construction waste and 19.3 tonnes of paper waste.

Design

We use modular and standardised building layouts that allow for off-site prefabrication of standardised building components, which incur less waste materials.

We carry out forward- thinking designs which accommodate future adaptation of buildings e.g. reuse of C&D materials such as bricks and tiles, use of recycled materials in new construction such as reycled aggregates and asphalt, and use of pulverised fuel ash.

We use Building Information Modelling (BIM) technology which identifies any potential conflict in work process at the early stages, thereby reducing inefficiencies.

Construction

We coordinate field management to allow surplus excavated material to be efficiently allocated.

We employ lean construction which cuts down unnecessary use of raw materials for walls, floors and foundation.

We adopt green procurement procedures that favor suppliers providing durable products in environmental friendly packaging.

Demolition

We prioritise manual demolition and dismantling over mechanical means, which allows greater salvage of reuseable materials.

We adopt sequential demolition to prevent mixture of reusable materials.

Building a Green City Landscape

Contributing to Hong Kong's urban landscape, SOCAM endeavours to construct buildings grounded on sustainability values, and institute sustainability considerations for every construction project at the inception stage. Our business strategy is to provide holistic green building solutions, including environmentally friendly materials and efficient energy management. 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, operation and maintenance through the entire construction lifecycle.

This year, our public rental housing construction project at Wing Tai Road, Chai Wan garnered the award of "Contractor in New Works Merit Award" at the 2018 CIC Sustainable Construction Awards. This new industry award appreciates collaborative relationships among industry stakeholders, based on its performance on engagement and communication, supply chain management, measures and achievement, and initiatives in sustainable construction:

CIC Sustainable Construction Award

- All four types of non-road mobile machinery are EPD-compliant and run on B5 biodiesel.
- 100% of our machinery is high quality motorised equipment approved under the QPME scheme.
- All inert waste is transferred to the Chai Wan Public Filling Barge Transfer station, achieving a transfer rate above the statutory requirements.

Construction of Public Housing in Chai Wan

Spreading the Green Message

The Group placed major emphasis in spreading the green message and practicing sustainable living especially among our staff. Company-wide events were held to raise staff's awareness to more eco-friendly living as they come up with new ideas for green office and sites, workshops to share low carbon footprint knowledge and eco tours to adopt a greener lifestyle.

The Group also continues spreading the green message to communities in which our business operations belong. During the year, employees participated in a parent-child painting workshop to beautify our Fanling Fan Garden site hoardings with creative drawings and green ideas, turning the site into a popular "check-in point". In the Race for Water event, by completing tasks related to the importance of water conservation at scenic spots around the city, our employees had a heightened awareness of the water scarcity crisis relevant to us locally.

DELIVERING BUILDINGS RESPONSIBLY

Sustainable Supply Chain

Our operations require us to work closely with a number of suppliers, sub-contractors, as well as property management agencies. We have been engaging with them so that they recognize their responsibilities to safeguard the environment and nurture positive relations with their workers and local communities.

During the year, SOCAM continued to engage with its supply chain partners regarding contract requirements in order to address sustainability issues and encourage them to improve their performance. We selected suppliers and subcontractors after evaluating their sustainability performances. We encouraged suppliers to adhere to green procurement procedures and their past records formed a solid reference during the tendering process.

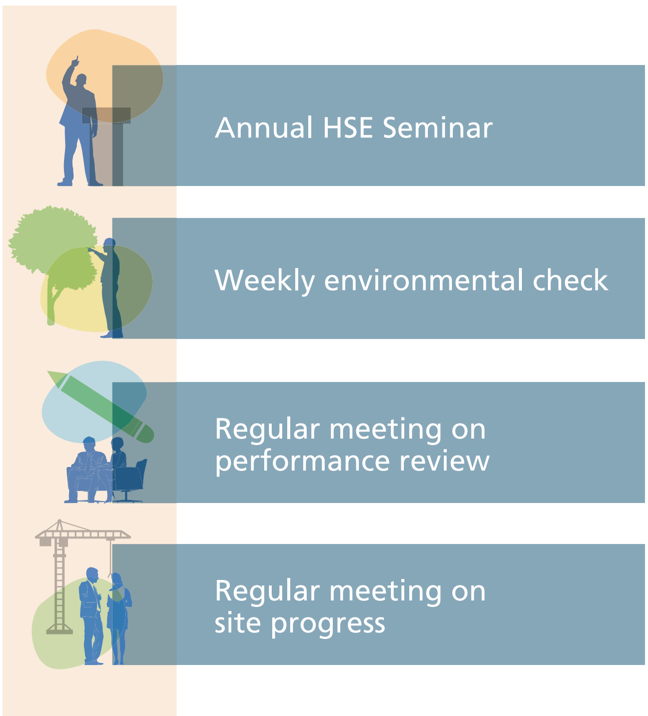
For our construction business, the Group requires sub-contractors to fulfil internal sustainability standards of waste reduction measures, including use of 100% B5 biodiesel, FSC or PEFC certified wood, etc. For property business, the Group is stringent when selecting property management agencies, to ensure a high level of service guarantee.

Engaging with Suppliers

To ensure systematic and effective supply chain management, we maintain ongoing dialogue with our sub-contractors through various channels.

For suppliers 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 property management agencies operate to the highest standards in terms of all-rounded caretaking responsibilities and prevention and control of emergency situations. Our selection criteria focus on market reputation, competitive advantage, feasibility of operational plan as well as resources and commitment of the central team.



Surveillance visits for quality check

Tender interviews

Annual performance appraisal

Number of Suppliers/Subcontractors

	Hong Kong	Macau	Mainland China
Construction	756	-	-
Interior fit-out	223	125	-
Property	-	-	90

Promoting Green Procurement

Aiming to mitigate carbon emissions and improve resources usage efficiency, the Group has been following a set of green procurement guidelines, promoting green procurement practices such as buying products that can be recycled, and use less packaging. We prioritise procurement of electrical appliances certified with first-class energy efficiency labels. All procurement items are subject to risk assessment before placing order to ensure efficient consumption of resources.

During the year, the Group spent approximately HKD7.5 million on green procurement for the Chai Wan Public Housing project, representing 1.3% of the total procurement amount of the project. These green procurement items include products certified by internationally recognized standards, such as FSC and PEFC certified Fibrillar wood, Grade 1 water-consuming devices under the Water Efficiency Labelling Scheme by the Water Supplies Department.

Management of Critical Equipment

SOCAM has established protocols that often go beyond legal stipulations for management and maintenance of critical equipment, such as electrical and fire service installations. We conduct annual inspection of fire-fighting equipment, regular fire drills and routine maintenance as required to prevent any breakdowns that not only interrupt operations but also constitute a potential threat to life and property.

Product Responsibility

To consistently deliver quality construction and meet specifications, SOCAM has been adopting prefabricated panels and modules and various technological tools including Building Information Management, mobile checking app and RFID.

Use of prefabricated parts helps mitigate risks due to severe weather, limitations of site area and insufficient manpower, while generating less waste of building materials.

In terms of building design, the Group has adopted the Building Information Modeling (BIM). Use of digital modeling of buildings on computers has helped enhance efficiency of product development and management. The use of BIM has also reduced the use of paper and helped digitalise information, which ultimately increases productivity and helps achieve the goal of sustainable development.

By adhering to requirements of the latest ISO 9001:2015 Quality Management system, we ensure our Health Safety & Environment policy and Quality policy are strictly implemented. 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.

CARING FOR OUR PEOPLE

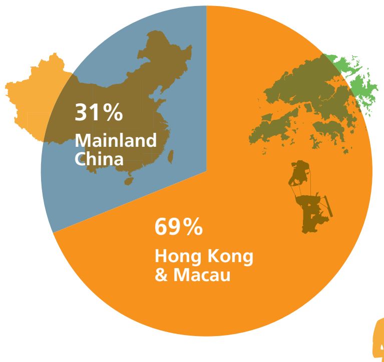
At SOCAM, we make determined efforts to provide our employees with rewarding careers, ensuring they have the opportunities to fulfil their aspirations and a safe and healthy workplace to thrive.

Workforce at a Glance

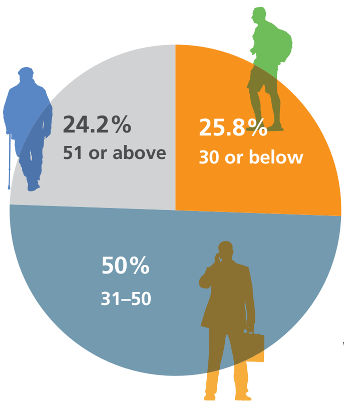
As at 31 December 2018, we had 1,062 full-time staff and workers based in Hong Kong and Macau, and 478 staff based in our project offices in Beijing, Guangzhou, Shanghai, Nanjing, Tianjin, Chongqing, Shenyang and Chengdu in Mainland China. Our construction division employs 1,016 people (2017: 1,051) while the property division employs 361 people (2017: 349). There are 163 staff mainly in corporate offices and other functions. Our employee turnover rate averaged 14.6% compared to 16% in the previous year.

Communications and regular dialogue with our employees are of prominent concerns, to ensure staff concerns are taken care of. During the year, we conducted an Employee Opinion Survey to seek feedback from our employees on aspects of work environment and satisfaction, communications and corporate image. Over 1,100 employees participated in the survey. Feedback will be used to drive ongoing improvements in our workplace practices.

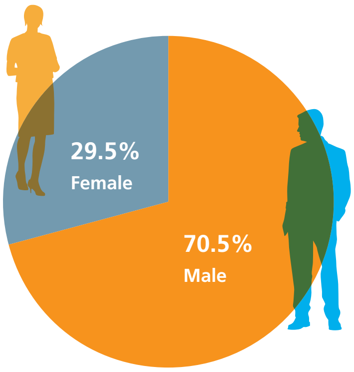
Total Number of Employees : 1,540 (as at 31 December 2018)



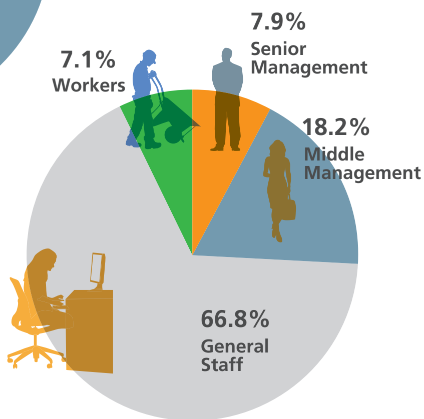
Geographic



Age



Gender



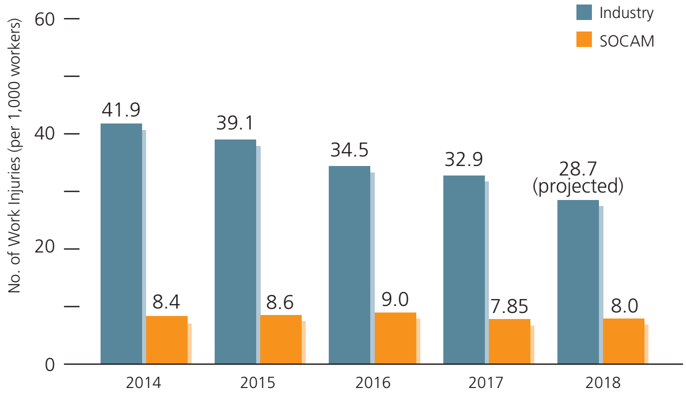
Employee Category

We uphold integrity and transparency in all our conduct. Our employment policy does not tolerate any forms of discrimination and harassment, while recruitment processes are undertaken with impartiality. Our staff are well-trained on the requirements laid out in our Employee Code of Conduct and Business Ethics Policy. A whistle-blowing mechanism is also in place for employees to report any incidents of misconduct or mistreatment. We prohibit the use of child labour and forced labour in our business operations.

Enhancing the Safety Culture

As a leading company in promoting safety in the industry, our Construction Division continued to place emphasis and resources in ensuring Occupational Health and Safety our top priority and we remain determined to constantly enhance our safety strategy and provide the best protection for our staff. In 2018, we continued to ensure a low accident rate at our sites, and achieved a single-digit accident rate of 8 cases per thousand workers as compared to the industry average of 28.7 cases (projected) per thousand workers, sustaining an accident rate below the industry average.

Accident Rate



8	Accident rate (per 1,000 workers) (2017: 7.85)
35	Work-related injury cases (2017: 52)
0	Work-related fatalities

A total of 5,306 lost days were reported due to work injuries, lower than 8,965 days recorded in 2017.

During the year, the Group has been bestowed with several awards regarding occupational health and safety, such as the OSH Excellence Award presented by Occupational Safety & Health Council and the COO Safety Award presented by CLP Power, recognising our achievements in promoting workplace safety in 2018. We have further extended this safety culture to subcontractors.

The Group has a dedicated Health, Safety & Environment (HSE) Management Committee responsible for policy implementation as well as oversight of the safety management systems. The committee is responsible for systematic review of method statement and operational practices. Training needs were addressed along with a series of initiatives to reinforce site safety culture and in response to new legislations.

The Group has been formulating effective plans and initiatives to cultivate a safety culture within the Group. The table below shows our approach and initiatives:

Enhance workplace safety

- Half yearly survey by behaviour-based safety working group
- Red-yellow card disciplinary system
- Independent site inspections
- Reinforce noise monitoring and control

Strengthen safety training

- HSE management training course for sub-contractors in-charge
- Sharing of good site practices

Promote a safety culture

- Onsite dissemination of safety messages by senior management
- The Annual Health, Safety and Environment (HSE) Target Seminar

Highlights of Safety Initiatives in 2018

Safety First

Top management promotes "safety first" at sites.

New Uniform

To nourish a safety culture and strengthen the professional image, the Group designed a new uniform for our safety representatives.

Safety Representatives

Appointed safety representatives of the subcontractors to enhance the overall safety level on the site.

Talent Development

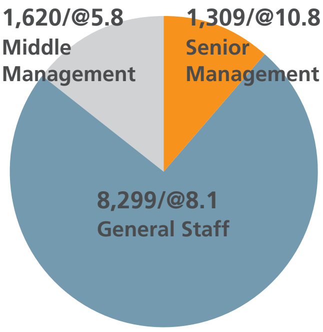
SOCAM's employees are a major pillar of our success and commitment to sustainability. We select people of competence from the open market, ensure fairness and retain them with attractive remuneration and welfare. We try our best to keep our employees motivated and grow with the Company. In 2018, our average voluntary attrition rate was 14.6%, which has fallen compared to 16.0% in the previous year.

The Group encourages lifelong learning, a pillar of our corporate culture, Shui On Spirit, upon which our employees stay competitive. To help employees excel in their jobs, we provide wide-ranging opportunities and invest resources in training and developing our employees, from new staff orientation to programmes which enrich employees' professional knowledge. We also provide tuition sponsorship and offer study leave when necessary to encourage our employees to pursue job-related external trainings. During the year, SOCAM organised 124 in-house programmes, which amounted to 11,228 hours in total.

Our comprehensive career development and training programme match our people's needs in various professions and levels. Three major career development programmes, namely Graduate Engineer Programme, Apprentice Programme as well as HSE Training Programme, continued to serve as vital talent pools for SOCAM, which coupled with the strong learning culture, contributed to the sustainable growth of the company. To further cater for individual needs, we have also implemented regular training programmes covering areas including professional knowledge, personal effectiveness, supervisory development, as well as e-learning and IT skills.

Total number of training hours:
11,228 (2017: 13,003)

Number of Training Hours by Employee Category



Career Development Programmes

Graduate Engineer Programme

Apprentice Programme

HSE Training Programme

Regular Training Programmes

Professional Knowledge

Personal Effectiveness

Staff Development

E-learning and IT skills

New Employee Orientation

Enjoyment of Work

The fun of learning is enhanced by sharing and the enjoyment of work is enhanced by a sense of belonging. We value each employee as a member of the Shui On family, and thereby their wellness. The Group encourages work-life balance, and supported a series of wellness initiatives including setting up an Interest Development Fund to encourage employees to develop their interest outside work. A number of activities were organised to arouse employees' awareness in physical as well as psychological fitness, ranging from annual dinner, outdoor excursions, wellness talks, sport and festival events, and daily exercise.

During the year, our Recreation Club continued to organise various interest classes, leisure tours and celebration activities for enjoyment of our people. These leisure activities serve not only as a good relaxing balance but also engaging opportunities for personal development.

Sports Activities

Outdoor Excursions

Festival Activities

Health and Wellbeing Activities

CARING FOR THE COMMUNITY

SOCAM's community involvement covers mainly charitable donations and sponsorships that contribute to the communities in which we operate. We also actively encourage our employees to participate in volunteer services, predominantly focusing on youth development and elderly over the years.

Charitable donations HK$ 1.5 million
2017: HK$ 1.2 million

Total number of volunteering hours 2,367
2017: 3,526

Total number of volunteers 387
2017: 590

As a company with strong roots in Hong Kong, SOCAM has always valued our relationship with the stakeholders. We support fund-raising events organised by various non-governmental organisations and charities in Hong Kong and Mainland China. In 2018, as part of SOCAM's commitment to caring for the community, we donated approximately HK1.5 million to different community causes.

In terms of volunteering, the Shui On Seagull Club has, since 1982, proven to be effective in motivating and mobilizing staff in the fellowship of goodwill for the benefit of the community. In 2018, 387 SOCAM participants contributed a total of 2,367 hours in serving the community.

The Group has been designated a 'Caring Company' for 13 consecutive years, and the "5 years Plus"recognition was also bestowed on our major subsidiaries, including Shui On Construction Company Limited, Shui On Building Contractors Limited, Pat Davie Limited, Pacific Extend Limited and SOCAM Asset Management (HK) Limited.

	Youth	Elderly	The Underprivileged
Objectives	To empower the youth and to cultivate a caring culture for the generation to come	To bridge the gap between the elderly and the society	To spread our We Care spirit and promote social harmony
Commitments	Sponsored outstanding students though the Future Stars – Upward Mobility Scholarship	Festive outings with the elderly during Dragon Boat Festival	Supported seriously ill or injured children through sponsoring Ronald McDonald House Charities Hong Kong
	Sponsoring Child Development Initative Alliance to equip the youth with necessary occupational skills	Organised a local visit to Tung Chung for the elderly, encouraging them to experience the community	Through The French Chamber Foundation, supported the working poor in Hong Kong through healthy meals, training/coaching and employment.
	Sponsored social enterprise, ONE TEN, aiming to boost teenagers' self-confidence	Organised a Spring Blessing Party for the elderly to promote sharing during festive seasons	Sponsored The Lighthouse Club Hong Kong in support of construction workers in need

Youth Development

Through extending our reach to youths and empowering our younger generation, we aim to enhance their personal skills and also to cultivate among them the seed of a responsible citizen for the years ahead. With this belief, SOCAM has supported an array of youth development programmes in Hong Kong and Mainland China.

ONE TEN, a social enterprise offering fitness classes to students to help them boost self-confidence and establish a positive attitude towards life, continued to be our partner this year. We also sponsored scholarships for outstanding students, including the Future Stars – Upward Mobility Scholarship by The Commission on Poverty and youth programmes by Child Development Initiative Alliance.

Unceasing Volunteer Efforts

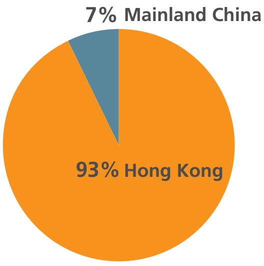
By collaborating with different charity organisations in Hong Kong and Mainland China, Shui On Seagull Club spread our “We Care” spirit to the communities we belong to, and raised concerns over the wellbeing of the underprivileged groups.

During the year, we engaged with the elderly and low income families, the disabled and orphans of the community through various means including celebratory events during festive seasons, as well as recreational outings.

Annual Charity Walk

In addition to direct corporate donations, we organise a company-wide charity walk every year to raise funds and promote the serving spirit among our employees. This year, our Annual Charity Walk raised HK$160,000 for the St. James’ Settlement offering assistance to children with special needs in language learning.

Breakdown of Volunteering Hours by Region



Super Typhoon Relief Work

Our construction team participated in the relief work in Hong Kong after passage of Super Typhoon Mangkhut.

Mid-autumn Outing with the Elderly

We organised an outing for the elderly to admire the full moon and enjoy mooncakes together.

Walk for Children

Our employees in Shenyang joined the activity aiming to donate clothes for children.

Parent-child Fun Day

We held a series of interactive activities for a group of parents and children to encourage them to build close rapport.

HKEX ESG REPORTING GUIDE INDEX

General Disclosure and KPIs	Descriptions	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.	Carbon Emissions – Measuring Our Impact
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	Carbon Emissions – Measuring Our Impact
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	No significant generation of hazardous waste during the reporting period.
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Reducing Waste and Conserving Resources
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Reducing Waste and Conserving Resources
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Reducing Waste and Conserving Resources
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 in total and intensity.	Carbon Emissions – Measuring Our Impact
KPI A2.2	Water consumption in total and intensity.	Carbon Emissions – Measuring Our Impact
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Reducing Waste and Conserving Resources; Building a Green City Landscape
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for the purpose, water use efficiency initiatives and results achieved.	We source water from the municipal water supply, and do not encounter any issue in sourcing water that is fit for purpose.
KPI A2.5	Total packaging materials used for finished products and, if applicable, with reference to per unit produced.	The use of packaging material for finished products is not applicable to our Group's business
Aspect A3	**The environment and natural resources**	
General disclosure	Policies on minimising the issuers' significant impact on the environment and natural resources.	Caring for the Environment
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Caring for the Environment
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.	Workforce at a Glance
KPI B1.2	Employee turnover rate by age group and geographical region.	Workforce at a Glance
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.	Enhancing the Safety Culture
KPI B2.1	Number and rate of work related fatalities.	Enhancing the Safety Culture
KPI B2.2	Lost days due to work injury.	Enhancing the Safety Culture
KPI B2.3	Description of occupational health and safety measures adopted and how they are implemented and monitored.	Enhancing the Safety Culture

General Disclosure and KPIs	Descriptions	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.	Talent Development
KPI B3.1	The percentage of employees trained by gender and employee category.	Talent Development
KPI B3.2	The average training hours completed per employee by gender and employee category.	Talent 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 forbid child and forced labour 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.	Sustainable Supply Chain
0KPI B5.1	Number of suppliers by geographical region.	Sustainable Supply Chain
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.	Promoting Green Procurement
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.	Delivering Buildings Responsibly
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	There are no recalls concerning the provision and use of the Group's products and services.
KPI B6.2	Number of product and service related complaints received and how they are dealt with.	Product Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual property rights are not material to our operations
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.	Product Responsibility
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.	Workforce at a Glance
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.	No concluded legal case regarding corrupt practices were recorded during the year
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Workforce at a Glance
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 to the focus areas.	Caring for the Community

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

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

aged 71, has been the Chairman of the Company since 1997. He is the Chairman of the Shui On Group, which he founded 48 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, a Member of the Board of Directors of Boao Forum for Asia, 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 70, has been an Executive Director, the Chief Executive Officer and Chief Financial Officer of the Company since 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 since January 2017. He is also one of the Trustees of the Shui On Provident and Retirement Scheme. Prior to joining the Shui On Group, Mr. Wong had many years of banking experience with several major international banks in Hong Kong. He graduated with a Bachelor of Science degree in Economics and a Master of Arts degree from the London School of Economics and Political Science and The University of Lancaster in the United Kingdom respectively. Mr. Wong is currently a Non-executive Chairman of Walcom Group Limited, a company listed on the Alternative Investment Market of the London Stock Exchange plc. He was a Non-executive Director of Solomon Systech (International) Limited, which is listed in Hong Kong, from February 2004 to December 2006, an Independent Non-executive Director of this company from January 2007 to May 2014 and a director of Sichuan Shuangma Cement Co., Ltd., a company listed in Shenzhen, from July 2012 to August 2015.

Non-executive Director

Ms. Lo Bo Yue, Stephanie

aged 36, has been appointed as a Non-executive Director of the Company with effect from 1 January 2019. Ms. Lo is currently an Executive Director of SOL, a company listed in Hong Kong. She is also an Executive Director of Shui On Management Limited and the Vice Chairman of China Xintiandi Holding Company Limited, both being subsidiaries of SOL. Ms. Lo is the daughter of Mr. Lo, the Chairman of the Company, and a director of SOCL, the controlling shareholder of the Company. She joined the Shui On Group in August 2012 and has over 14 years of working experience in property development industry in Mainland China, architecture and interior design as well as other art enterprises. Prior to joining the Shui On Group, Ms. Lo was working for various architecture and design firms in New York City, amongst which was Studio Sofield, a firm well-known for its capability in retail design. She holds a Bachelor of Arts degree in architecture from Wellesley College in Massachusetts. She currently serves as a Member of The Thirteenth Shanghai Committee of Chinese People's Political Consultative Conference and The Seventh Council Member of Shanghai Chinese Overseas Friendship Association.

Independent Non-executive Directors

Ms. Li Hoi Lun, Helen

aged 63, 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 72, 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 66, 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 65, 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 58, 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 35 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 58, 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 64, 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.

Mr. Lam Kwok Kong, Wilson

aged 48, is the Director — Corporate Finance and also a director of certain subsidiaries of the Company. Mr. Lam joined the Company in 2006 and was the General Manager — Finance and Accounts before he took up the current position in January 2019. Prior to joining the Company, Mr. Lam worked in KPMG and has accumulated more than 10 years of accounting, auditing and financial management experience. He holds a Bachelor of Arts degree in Accountancy from the City University of Hong Kong. He is an Associate of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

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 2018, 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 operating 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, 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 Independent Non-executive Directors at least annually, without the presence of other Directors and 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 six members, including two Executive Directors and four Non-executive Directors, three of whom are Independent Non-executive Directors. The existing 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)

Non-executive Director:

Ms. Lo Bo Yue, Stephanie

Independent Non-executive Directors:

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

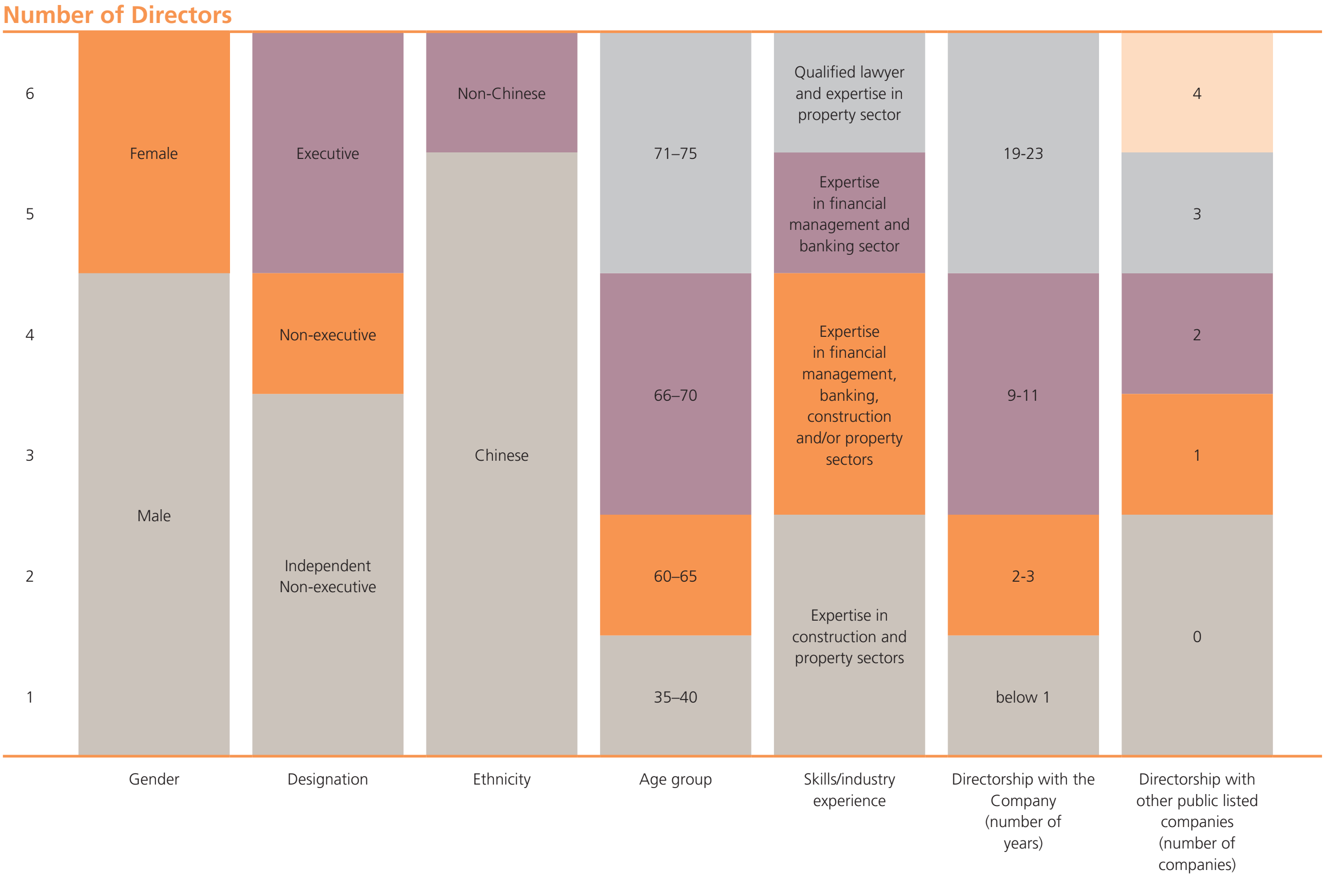
Ms. Lo Bo Yue, Stephanie was appointed as a Non-executive Director of the Company with effect from 1 January 2019.

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.

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.

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



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 process 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. A summary of the Board Diversity Policy is provided 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. In 2018, upon the recommendation of the Nomination Committee, the Board formally adopted a Nomination Policy setting out the nomination procedures and the process and criteria to select and recommend candidates for directorship. A summary of the Nomination Policy is provided in the Nomination Committee Report contained in this Annual Report.

Each of the Non-executive Directors of the Company is appointed for a specific term of two years, subject to the provisions on Directors' retirement and re-election 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. Besides, every Director, including those appointed for a specific term, shall be subject to retirement by rotation at the annual general meeting of the Company at least once every three years. All retiring Directors shall be eligible for re-election by shareholders at the general meetings of the Company.

In accordance with the Bye-laws of the Company, Mr. Wong Yuet Leung, Frankie, Ms. Lo Bo Yue, Stephanie and Mr. William Timothy Addison shall retire at the forthcoming annual general meeting of the Company to be held on 30 May 2019. All the said Directors, being eligible, will offer themselves for re-election at the annual general meeting.

Board Committees

The Board has set up six standing Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Finance Committee, the Investment Committee and the Executive Committee, to oversee particular aspects of the 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 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 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	Composition at the date of this report	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	At least four times a year

Remuneration Committee

Major roles and functions	Composition at the date of this report	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	Composition at the date of this report	Frequency of meetings
• To review the structure, size and composition of the Board at least annually • To make recommendations to the Board on candidates nominated for appointment or re-appointment as Directors in accordance with the Nomination Policy and on succession planning for Directors • To make recommendations to the Board on membership of the Board Committees • To assess the independence of Independent Non-executive 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	Composition at the date of this report	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** Ms. Li Hoi Lun, Helen (Note) Mr. Chan Kay Cheung Mr. William Timothy Addison	At least four times a year

Note: Ms. Li Hoi Lun, Helen was appointed as a member of the Finance Committee with effect from 1 June 2018.

Investment Committee

Major roles and functions	Composition at the date of this report	Frequency of meetings
• To review 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	On an as needed basis

Executive Committee

Major roles and functions	Composition at the date of this report	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 & accounting function	Monthly

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 regularly at least four times a year to review and discuss the Group's strategies, operating and financial performance as well as governance matters, in addition to meetings for ad hoc matters. The frequencies of the Board Committee meetings have been set out in the section above.

Regular Board meetings are scheduled in advance each year to facilitate maximum attendance of Directors. At least 14 days' notice of a regular Board meeting is given to all Directors who are given an opportunity to include matters for discussion in the agenda. For regular meetings of the Board Committees, the same practice is followed so far as is practicable.

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.

Relevant senior executives are invited to attend the regular Board meetings and, where necessary, other Board and Board Committee meetings to make presentations and answer enquiries.

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 individual attendance records of each Director at the Board and Committee meetings as well as the general meetings of the Company held in 2018 are set out below:

	Number of meetings attended/entitled to attend								
Name of Director	**Board meetings**	**Audit Committee meetings**	**Remuneration Committee meetings**	**Nomination Committee meeting**	**Finance Committee meetings**	**Investment Committee meetings**	**Executive Committee meetings**	**Annual general meeting**	**Special general meeting**
Mr. Lo Hong Sui, Vincent	4/4	N/A	3/3	1/1	N/A	N/A	10/12	0/1 (Note 1)	0/1
Mr. Wong Yuet Leung, Frankie	4/4	N/A (Note 2)	N/A	N/A	6/6	2/2	12/12	1/1	1/1
Ms. Li Hoi Lun, Helen	4/4	4/4	3/3	1/1	3/3 (Note 3)	2/2	N/A	1/1	1/1
Mr. Chan Kay Cheung	4/4	4/4	3/3	1/1	6/6	2/2	N/A	1/1	1/1
Mr. William Timothy Addison	4/4	4/4	N/A	N/A	6/6	2/2	N/A	1/1	0/1

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 31 May 2018. 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 2018.
3. Ms. Li Hoi Lun, Helen was appointed as a member of the Finance Committee with effect from 1 June 2018.

Induction, training and continuous professional development

On appointment, Directors are provided with comprehensive induction to ensure that they have appropriate understanding of the Group's operations and governance policies as well as their responsibilities and obligations. Each new Director receives an induction package containing information about the business activities and organisation structure of the Group, its principal policies and procedures, the guidelines on directors' duties plus relevant statutory and regulatory requirements. Briefings are conducted by senior executives, supplemented by visits to selected operational sites, to provide to the new Directors a better understanding of the operations and policies of the Group.

To help Directors keep abreast of the legal and regulatory developments as well as the current trends and issues facing the Group, the Company continues its efforts in providing updates on the changes in applicable rules and regulations from time to time and recommending/organising seminars and internal briefing sessions to the Directors. Site visits to the projects of the Group are also arranged for the Directors as and when appropriate.

During 2018, in addition to attending management briefings and reviewing papers in relation to the Group's businesses and strategies, the Directors participated in the following training activities arranged by the Company:

Name of Director	**Attending seminar** (Note 1)	**Reading materials/ attending webcasts** (Note 2)
Mr. Lo Hong Sui, Vincent	✓	✓
Mr. Wong Yuet Leung, Frankie	✓	✓
Ms. Li Hoi Lun, Helen	✓	✓
Mr. Chan Kay Cheung	✓	✓
Mr. William Timothy Addison	✓	✓

Notes:

1. Seminar entitled "Cyber Security Sharing", presented by an external professional consultant.
2. Covering major regulatory changes and topics relevant to directors' duties.

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

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

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 2018.

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 2018, the remuneration paid/payable to the external auditor of the Company in respect of audit services and non-audit services amounted to approximately HK$3.9 million and HK$2.9 million respectively. The fees paid 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** (HK$'000)
Agreed-upon procedures in relation to preliminary results announcement for the year ended 31 December 2017	35
Review of the interim report for the six months ended 30 June 2018	1,280
Agreed-upon procedures in relation to financial information of certain subsidiaries of the Company	35
Agreed-upon procedures in respect of total equity and calculation of leverage ratio of the Company	250
Professional services rendered in relation to the major acquisition of interest in a commercial building in Hong Kong	400
Professional services rendered in relation to the buy-back of shares of the Company	930

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 2018, 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 2018 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 control

The Group has diverse business activities for which a high level of autonomy in operational matters has been vested in divisional managers who are also responsible for the development of their divisions. In the circumstance, well-designed systems of risk management and internal controls are necessary to help the Group achieve its long-term objectives. The systems and policies of the Group are designed to minimise internal control risks and manage business risks, protect the assets of the Group from loss or impairment, accurately report the performance of the Group and its financial position, and ensure compliance of relevant legislation, rules and regulations. This includes taking into consideration social, environmental and ethical matters. The systems, which are annually reviewed by the Board to ensure their 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 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. Adequacy and effectiveness of the risk management and internal control systems of the Group were confirmed by management in written form and independently appraised by CE with the result submitted to the Board. 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 2018, 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 weaknesses identified by them and 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.

Whistle-blowing mechanism

A Whistle-blowing Policy has been put in place for the Group's employees to follow when they believe 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. Vendors, customers and business partners of the Group are encouraged 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 are set out in the document titled "Procedures for Shareholders to Elect Directors" which is available on the website of the Company.

Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publicly available. Such request shall be in written form and addressed to the Company's Corporate Communications Head at the head office of the Company in Hong Kong or through email at socamcc@shuion.com.hk. 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 2018. The latest version of the Company's Memorandum of Association and Bye-laws is available on the websites of the Company and the Stock Exchange.

Corporate Governance Enhancement

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

On behalf of the Board
Lo Hong Sui, Vincent
Chairman

Hong Kong, 22 March 2019

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 in 2018. 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 2018, 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 2017 (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, the Risk Management Report and the Environmental, Social and Governance Report included in the 2017 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 2018 (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 2017 and its review of the Group's condensed consolidated financial statements for the six months ended 30 June 2018;

- reviewed and considered the reports of CE on the business risks, operational and financial controls of selected property projects of the Group in Mainland China;
- reviewed and considered the reports of CE on the overall business risks of selected construction projects in the public sector and the operational and/or financial controls of the Group's human resources function, construction and fitting-out businesses in Hong Kong;
- reviewed and considered the report of CE on the cyber security risks pertaining to the Group;
- reviewed and considered the report of CE on the test check of management's responses recorded in the Risk Registers under the Company's Risk Management Policy;
- reviewed and considered the reports of CE on complaints received in 2018 regarding two cases;
- conducted an annual review of the Company's Risk Management Policy, Whistle-blowing Policy and Policy on Engaging Non-audit Services from External Auditor;
- reviewed the quarterly updates of CE on the risk situation of the Group;
- reviewed the quarterly reports of CE on connected transactions, including the compliance of the Company 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 2018 and for the audit of the Group's consolidated financial statements for the year ended 31 December 2018;
- 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 Group'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 2018, complaints were received regarding (i) the business conduct of certain personnel of the leasing function and general management of a project company in Tianjin; and (ii) certain over-claims against a subsidiary by a subcontractor in Hong Kong. The complaints were investigated by CE with appropriate actions taken by management pursuant to CE's recommendations.

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 2018, 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 2019 for shareholders' approval at the forthcoming annual general meeting of the Company.

Chan Kay Cheung
Chairman, Audit Committee

Hong Kong, 22 March 2019

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 three meetings in 2018. 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	3/3
Mr. Lo Hong Sui, Vincent	3/3
Mr. Chan Kay Cheung	3/3

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 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 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 Group'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 corporate 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, Mainland China and other parts of the world are reviewed and monitored from time to time with the assistance of external consultants engaged by the Company.

The Executive Director, Mr. Wong Yuet Leung, Frankie, acting as Chief Executive Officer and Chief Financial Officer, is taking the accountability for the performance of the Group. As approved by the Remuneration Committee, the remuneration package of Mr. Frankie Wong includes: (i) monthly salary and allowances; and (ii) gratuity to be granted to him upon his retirement as incentive. 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 Company's executive target bonus scheme (the "Target Bonus 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 in the recent years.

In 2011, share options were granted to certain key executives under a long-term incentive plan adopted by the Board upon the recommendation of the Remuneration Committee. Details of the outstanding share options under this grant are set out in the Directors' Report contained in this Annual Report.

Remuneration of Directors

The remuneration paid to those Directors of the Company who held the office during the year ended 31 December 2018 was as follows:

	Director's fees (Note 1) HK$'000	**Salary and other benefits** HK$'000	**For the year ended 31 December 2018 Total** HK$'000
Executive Directors			
Mr. Lo Hong Sui, Vincent	10	–	10
Mr. Wong Yuet Leung, Frankie	10	6,960 (Note 2)	6,970
Independent Non-executive Directors			
Ms. Li Hoi Lun, Helen	523	–	523
Mr. Chan Kay Cheung	595	–	595
Mr. William Timothy Addison	455	–	455
TOTAL	1,593	6,960	8,553

Notes:

(1) According to the fee schedule as approved by the Board for the year ended 31 December 2018, each Executive Director was entitled to an annual fee of HK$10,000 while an Independent Non-executive Director was entitled to an annual fee of HK$250,000. In addition, 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 membership	65,000
Investment Committee membership	65,000

(2) With effect from 1 January 2019, the annual salary and allowances of Mr. Frankie Wong, being an Executive Director, the Chief Executive Officer and Chief Financial Officer of the Company, has been adjusted to HK$7,200,000 upon annual review by the Remuneration Committee.

Remuneration of Senior Management

The remuneration paid to the members of the senior management for the year ended 31 December 2018 was within the following bands:

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

Service Contracts

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

Summary of Work Done

During 2018, the Remuneration Committee:

- considered and decided 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 2017;
- reviewed and endorsed the Remuneration Committee Report included in the 2017 Annual Report of the Company, with a recommendation to the Board for approval;
- considered and determined that no bonus be awarded to the Executive Director, Chief Executive Officer and Chief Financial Officer in view of the financial loss of the Group for the year ended 31 December 2017, in accordance with the Target Bonus Scheme;
- considered and approved that, instead of awarding any annual bonus pursuant to the Target Bonus Scheme, a gratuity and, where appropriate, a special bonus be granted to the Executive Director, Chief Executive Officer and Chief Financial Officer upon his retirement in such amount(s) to be determined by the Remuneration Committee based on the achievement of certain performance targets; and
- considered and approved the 2019 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 2019 salary review guidelines for the Group as a whole.

Li Hoi Lun, Helen
Chairman, Remuneration Committee

Hong Kong, 22 March 2019

Nomination Committee Report

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

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

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

Meeting Attendance

The Nomination Committee held one meeting and passed three written resolutions in 2018. 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 make recommendations to the Board on candidates nominated for appointment or re-appointment as Directors in accordance with the Nomination Policy and on succession planning for Directors;
- to make recommendations to the Board on membership of the Board Committees;
- to assess the independence of the Independent Non-executive Directors;
- to review annually 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 diversity of the Board.

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 to 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.

The Nomination Committee reviews the Board composition annually against the objective criteria as set out in the Board Diversity Policy. In 2018, upon the recommendation of the Committee, the Board appointed Ms. Lo Bo Yue, Stephanie as a Non-executive Director effective 1 January 2019 to enhance the Board diversity. The nomination was made by the Committee after taking into account the key elements of educational background, professional experience, skills and knowledge of Ms. Lo for making contribution to the Board in view of the prevailing business strategy of the Group, with due consideration to such criteria as gender and age for the benefits of diversity under the Board Diversity Policy. An analysis of the current Board composition is set out in the Corporate Governance Report contained in this Annual Report. The Committee considers that the Board now has an appropriate mix of skills, experience and diversity among its members in light of the business needs of the Group.

Nomination Policy

In 2018, upon the recommendation of the Nomination Committee, the Board formally adopted a Nomination Policy to set out the nomination procedures and the process and criteria to select and recommend candidates for directorship.

In accordance with the Nomination Policy, the procedures and process in respect of the nomination of Directors are summarised below:

1. The Nomination Committee shall invite nomination of candidates from Board members, if any, for its consideration. The Committee may also put forward candidates who are not proposed by Board members. External recruitment agencies may be engaged to assist in identifying and selecting suitable candidates, if considered necessary.

2. For appointments to the Board, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for re-election as Directors at a general meeting, the Committee shall make nominations to the Board for its consideration and recommendation to shareholders of the Company.

3. A shareholder of the Company may also propose candidate for election as a Director at a general meeting in accordance with the procedures posted on the Company's website.

The following factors would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate:

- reputation for integrity
- qualifications, skills and experience that are relevant to the Group's businesses having regard to the corporate strategy
- commitment in respect of available time and relevant interest
- diversity in all its aspects, including but not limited to those objective criteria as set out in the Board Diversity Policy

In the case of nominating the candidate for appointment/re-appointment as an Independent Non-executive Director, in addition to the above selection criteria to which the Nomination Committee would give due regard, the independence of the candidate would be assessed with reference to the independence criteria as set out in the Rules Governing the Listing of Securities on the Stock Exchange.

If an Independent Non-executive Director serves more than nine consecutive years, particular attention would be given to reviewing the independence of such Director for determining his/her eligibility for nomination by the Board to stand for re-election at a general meeting.

Summary of Work Done

During 2018, 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 2017 Annual Report of the Company, with a recommendation to the Board for approval;
- considered the proposed appointment of a Non-executive Director and her service contract, with a recommendation to the Board for approval;
- considered the nomination of two retiring Directors for the Board's recommendation to stand for re-election by shareholders at the 2018 annual general meeting of the Company;
- considered the renewal of service contract with an Independent Non-executive Director, with a recommendation to the Board for approval;
- considered the proposed appointment of an Independent Non-executive Director to the Finance Committee, with a recommendation to the Board for approval;
- considered and endorsed the Nomination Policy, with a recommendation to the Board for approval; and
- considered and endorsed the revised terms of reference of the Nomination Committee, with a recommendation to the Board for approval.

Lo Hong Sui, Vincent
Chairman, Nomination Committee

Hong Kong, 22 March 2019

Risk Management Report

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

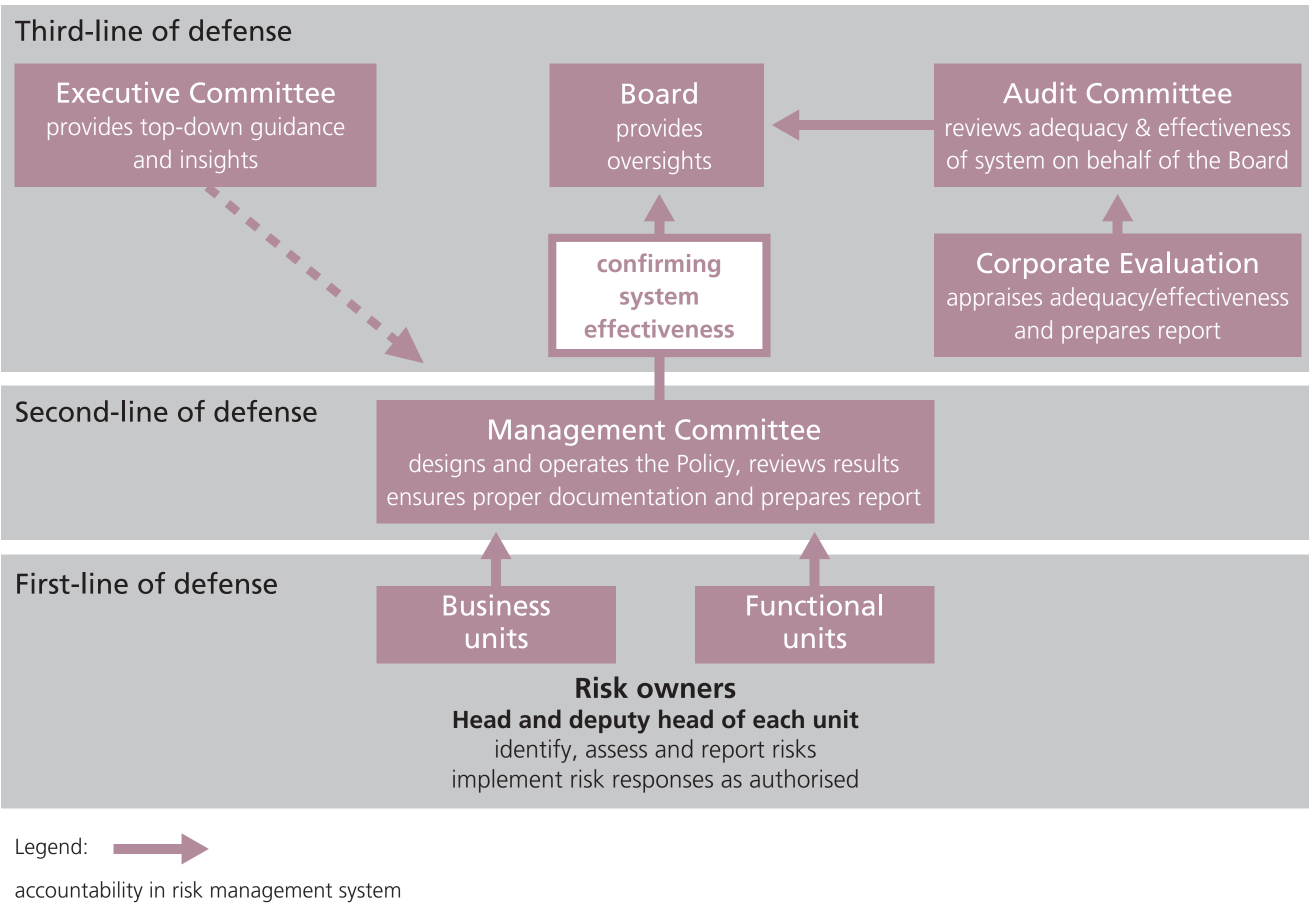
The Company has implemented a Risk Management Policy (the "Policy") since 2007 after the revision of the Code on Corporate Governance (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which required the Directors to review 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.

As a result of the above and with considerations on the Group's circumstances, management proposed a number of important amendments to the Policy, which took effect in December 2017 after the review of the Audit Committee and approval of the Board. No changes have been made in 2018 after considering the latest market trends and Group's circumstances.

Risk Governance Structure

The risk governance structure of the Company is depicted 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 bear, 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 to the relevant regulations, rules and trends of Hong Kong, Mainland China 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 the 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 or she quarterly gives updates on the 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	↔	Reposition the Group's shopping malls; 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	↓	Develop more business 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 up the training effort; actively expand recruitment channels; improve development measures and initiatives to enhance staff commitment and engagement, as well as to reinforce staff loyalty and sense of belonging; regularly monitor 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, while shortage of reliable suppliers may arise	↔	Continue to identify good performance subcontractors and suppliers and maintain good relationship with them; carefully consider the forecast change in labour wages; make effective use of credit terms
Complexity of contract clauses and potential contractual claims	↔	Carefully 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; carefully select design consultants; maintain good project management to enable efficient design process; select appropriate tender opportunities 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 swap or hedging arrangement or issue fixed coupon medium term bonds 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 control or mitigation measure as the risk response, CE normally evaluates the effectiveness of respective actions taken through enquiry, and sometimes tests 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 the Executive Committee and the 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 2018.

Principal Activities

The Company is an investment holding company. The principal activities of its principal subsidiaries and joint ventures are set out in notes 41 and 42 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 38 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 2018 are set out in the Consolidated Statement of Profit or Loss.

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

Dividend Policy

The dividend policy of the Company is to distribute to shareholders funds surplus to the operating needs of the Group as determined by the Directors with a dividend payout ratio of not more than 20 per cent of the consolidated net profit of the Group for each financial year, after taking into account the following factors:

– the Group's financial results
– shareholders' interests
– general business conditions and strategies
– the Group's funding requirements
– restrictions under any bank loan and bond covenants
– statutory and regulatory restrictions and provisions in the Company's Bye-laws
– any other factors that the Directors may deem relevant

Share Capital

Details of the share capital of the Company during the year are set out in note 28 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 2018, 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

Non-executive Director:

Ms. Lo Bo Yue, Stephanie
(appointed on 1 January 2019)

Independent Non-executive Directors:

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

In accordance with Bye-law 86(2) of the Bye-laws of the Company, Ms. Lo Bo Yue, Stephanie shall retire at the forthcoming annual general meeting (the "2019 AGM") of the Company to be held on 30 May 2019. In addition, in accordance with Bye-law 87(1) of the Bye-laws of the Company, Mr. Wong Yuet Leung, Frankie and Mr. William Timothy Addison shall retire by rotation at the 2019 AGM. All the said Directors, being eligible, will offer themselves for re-election.

No Director proposed for re-election at the 2019 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 2018, the interests of the Directors and chief executive of the Company in the shares and debentures of the Company or any of its associated corporations (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:

(a) 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	61.05
Mr. Wong Yuet Leung, Frankie	3,928,000	–	–	3,928,000	1.02

Notes:

1. Based on 384,410,164 shares of the Company in issue at 31 December 2018.
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 held under 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 the founder and 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.

(b) Long positions in the shares of the associated corporation of the Company

Name of Director	Name of associated corporation	Number of shares: Personal interests	Number of shares: Family interests	Number of shares: Other interests	Total	Approximate percentage of issued shares (Note 1)
Mr. Lo	Shui On Land Limited ("SOL")	–	1,849,521 (Note 2)	4,611,835,751 (Note 3)	4,613,685,272	57.22

Notes:

1. Based on 8,062,216,324 shares of SOL in issue at 31 December 2018.
2. These shares were beneficially owned by Mrs. Lo, the spouse of 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 4,611,835,751 shares mentioned in Note 3 below.
3. These shares were held by SOCL through its controlled corporations, comprising 1,477,888,889 shares, 675,493,996 shares, 183,503,493 shares, 29,847,937 shares, 633,333,333 shares, 908,448,322 shares, 150,000,000 shares, 323,319,781 shares and 230,000,000 shares held by Shui On Investment Company Limited ("SOI"), Shui On Properties Limited ("SOP"), Chester International Cayman Limited ("Chester International"), New Rainbow Investments Limited ("NRI"), Lanvic Limited ("Lanvic"), Boswell Limited ("Boswell"), Merchant Treasure Limited ("Merchant Treasure"), Doreturn Limited ("Doreturn") and Smart Will Investments Limited ("Smart Will") respectively whereas SOI, SOP, Chester International, Lanvic, Boswell, Merchant Treasure, Doreturn and Smart Will were all wholly-owned subsidiaries of SOCL. NRI was a wholly-owned subsidiary of the Company which in turn was held by SOCL and its wholly-owned subsidiary, SOFCL, as to 60.97 per cent. SOCL was held under 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 the founder and 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.

(c) Interests in the debentures of the associated corporation of the Company

Name of Director	Name of associated corporation	Nature of interests	Amount of debentures
Mr. Lo	Shui On Development (Holding) Limited	Trust interests (Note 1)	RMB50,000,000
		Family interests (Note 2)	RMB35,500,000
		Family interests (Note 2)	US$2,000,000

Notes:

1. This represents the interests in the debentures held by SOI, which was a wholly-owned subsidiary of SOCL. SOCL was held under the Bosrich Unit Trust. The units of the Bosrich Unit Trust were the property of a discretionary trust, of which Mr. Lo was the founder and one of the discretionary beneficiaries.
2. This represents the interests in the debentures held by Mrs. Lo, the spouse of Mr. Lo.

Save as disclosed above, at 31 December 2018, 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

At 31 December 2018, the interests of substantial shareholders (not being a Director or chief executive of the Company) in the 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	Approximate percentage of issued shares (Note 1)
Mrs. Lo	Family and personal interests	234,693,000 (Notes 2 & 4)	61.05
SOCL	Beneficial owner and interest of controlled corporation	234,381,000 (Notes 3 & 4)	60.97
HSBC Trustee	Trustee	234,381,000 (Notes 3 & 4)	60.97
Bosrich	Trustee	234,381,000 (Notes 3 & 4)	60.97

Notes:

1. Based on 384,410,164 shares of the Company in issue at 31 December 2018.
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 held under 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 the founder and 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. All the interests stated above represent long positions.

Save as disclosed above, at 31 December 2018, 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 33 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						Period during which the options are/were exercisable (Note 1)
			At 1.1.2018	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31.12.2018	
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	1,442,000	–	–	–	–	1,442,000	1.5.2015 to 27.7.2021
	14.6.2013	9.93	3,130,000	–	–	(3,130,000)	–	–	14.12.2013 to 13.6.2018
Sub-total			4,572,000	–	–	(3,130,000)	–	1,442,000	
Total			5,272,000	–	–	(3,830,000)	–	1,442,000	

Notes:

1. The share options granted on 28 July 2011 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 33 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.

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

Pursuant to the cash offer made by UBS AG Hong Kong Branch on behalf of the Company (the "Offer") in 2018, the Company bought back a total of 100,000,000 shares for an aggregate consideration of HK$250 million at a price of HK$2.50 per share. All the 100,000,000 shares bought back by the Company were cancelled upon completion of the Offer on 24 August 2018. Please refer to the offer document dated 17 July 2018 and the announcements dated 16 August 2018 and 24 August 2018 issued by the Company for further details about the Offer.

In addition, during the year, out of the aggregate principal amount of US$280 million 6.25 per cent senior notes due 2020 issued by the Company in 2017, the Company repurchased on the Stock Exchange a total of US$19.5 million principal amount of the senior notes for an aggregate consideration of US$19.1 million. The repurchased notes were not cancelled by the Company.

Save as disclosed above, 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 Transaction

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

Provision of renovation and improvement works

On 30 April 2018, SOI, an indirect wholly-owned subsidiary of SOCL, accepted the quotation submitted by Pat Davie Limited, an indirect non-wholly owned subsidiary of the Company, for providing services, including (among others) design, procurement of materials and labour, and project management, in relation to certain landscape renovation and improvement works for residential premises located at Repulse Bay, Hong Kong (the "Transaction") for a total contract sum of approximately HK$3.54 million.

As SOI is a subsidiary of SOCL which is the controlling shareholder of the Company, it is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Transaction constituted a connected transaction of the Company, details of which were set out in the announcement dated 30 April 2018 issued by the Company.

Directors' Interests in Competing Businesses

During the year and up to the date of this report, the following Directors are considered to have interests in the business, 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.

(4) Ms. Lo Bo Yue, Stephanie 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

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.

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$1,637 million at 31 December 2018, which comprised:

	HK$ million
Receivables	469
Guarantees	1,168
	1,637

The receivables are unsecured, repayable on demand and out of the total outstanding balance, an amount of HK$137 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 20(e) and 36 to the consolidated financial statements.

Disclosure Under Rule 13.21 of the Listing Rules

On 8 May 2017, a written agreement (the "Indenture", as amended by a supplemental indenture dated 25 May 2018) was entered into between the Company as issuer and Citicorp International Limited as trustee, pursuant to which the US$280 million 6.25 per cent senior notes due 2020 (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 per cent 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, 5 June 2017, 8 May 2018 and 28 May 2018 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$3,299 million at 31 December 2018.

Retirement Benefit Plans

Details of the Group's retirement benefit plans are shown in note 29 to the consolidated financial statements.

Major Suppliers and Major Customers

The five largest suppliers of the Group accounted for less than 19 per cent of the total purchases of the Group for the year.

The five largest customers of the Group accounted for approximately 64 per cent of the total turnover of the Group for the year with the largest customer, Hong Kong Housing Authority, accounting for approximately 37 per cent 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 per cent 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$1.5 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 2019 AGM. A resolution will be proposed at the 2019 AGM to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Lo Hong Sui, Vincent
Chairman

Hong Kong, 22 March 2019

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 100 to 186, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the 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 a 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; and

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties (Continued) As disclosed in note 14 to the consolidated financial statements, the investment properties are situated in Hong Kong and the People's Republic of China ("PRC") and carried at a total value of HK$5,069 million as at 31 December 2018, which represented 48% of the Group's total assets. The amount of fair value changes of HK$72 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 Hong Kong and the PRC.
Estimation of expected credit losses ("ECL") of receivables due from a former subsidiary group and the accounting impact of the related financial guarantee We identified the estimation of ECL in respect of receivables of HK$469 million due from China Central Properties Limited's former subsidiary group (the "Debtor") and the accounting impact of the related financial guarantee in respect of a loan granted to the Debtor as a key audit matter due to the significant judgements involved in estimating the timing and 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 20(e) and 36 to the consolidated financial statements, the Group has outstanding receivables of HK$469 million from the Debtor and remained as a guarantor for a loan granted to the Debtor of HK$619 million plus related interest amounting to HK$549 million at 31 December 2018. 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$469 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"), and therefore no loss allowance for ECL is recognised. In addition, the financial guarantee in respect of the outstanding principal amount of the loan and the related interest will be fully released upon completion of the Auction or the Sale of Equity Interest.	 Our procedures in relation to estimated provision of ECL of the receivables due from the Debtor and the accounting impact of the related financial guarantee included: • Obtaining an understanding of the management's process of reviewing the estimated provision of ECL of the receivables and the accounting impact of the related financial guarantee and reading internal reports prepared by the dedicated 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 estimated provision of ECL 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
Recognition of contract revenue and contract assets for construction contracts	
We identified construction contract revenue and contract assets 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 progress towards complete satisfaction of the performance obligation and the amount of contract revenue recognised. As disclosed in notes 6 and 22 to the consolidated financial statements, the construction contracts revenue and contract assets amounted to HK$4,914 million and HK$650 million respectively for the year ended 31 December 2018. As set out in note 4 to the consolidated financial statements, the Group recognised contract revenue by reference to the progress of satisfying the performance obligation at the reporting date.	Our procedures in relation to the contract revenue and contract assets for construction contracts included: • Testing the Group's internal controls over the recognition of contract revenue; • Discussing with project managers, internal quantity surveying managers and the management of the Group and checking on a sample basis, the supporting documents such as contracts and variation orders to evaluate the reasonableness of their bases of estimation of the budget revenue recognised; • Checking the basis of the budgeted revenue to underlying construction contracts entered into with the customers and other relevant correspondences and supporting documents in respect of variations in construction works or price adjustments; and • Assessing the management's estimate of revenue from construction contracts by comparing, on a sample basis, with the latest certificates issued by the independent quantity surveyors before and after year end.

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 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 the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 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

22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 HK$ million	2017 HK$ million
Turnover			
The Company and its subsidiaries		**6,128**	6,472
Share of joint ventures/associates		**34**	481
		6,162	6,953
Group turnover	6	**6,128**	6,472
Other income, other gains and losses	7	**(62)**	254
Changes in contract work in progress and cost of properties sold		**(809)**	(566)
Raw materials and consumables used		**(357)**	(472)
Staff costs		**(678)**	(690)
Depreciation		**(13)**	(8)
Subcontracting, external labour costs and other expenses		**(4,112)**	(4,868)
Fair value changes on investment properties	14	**72**	(59)
Gain on transfer of property inventories to investment properties	14	**51**	64
Dividend income from equity investments		**3**	2
Finance costs	8	**(234)**	(234)
Loss on disposal of interest in an associate		**–**	(127)
Share of loss of joint ventures	6	**(8)**	(299)
Share of loss of associates	6	**–**	(5)
Loss before taxation		**(19)**	(536)
Taxation	9	**(64)**	(34)
Loss for the year		**(83)**	(570)
Attributable to:			
Owners of the Company		**(139)**	(613)
Non-controlling interests		**56**	43
		(83)	(570)
Loss per share	12		
Basic		**HK$(0.31)**	HK$(1.27)
Diluted		**HK$(0.31)**	HK$(1.27)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$ million	2017 HK$ million
Loss for the year	**(83)**	(570)
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss:		
Fair value changes of available-for-sale investments	**–**	15
Exchange differences arising on translation of financial statements of foreign operations	**(198)**	291
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)
Item that will not be reclassified to profit or loss:		
Fair value changes of equity investments at fair value through other comprehensive income	**(13)**	–
Recognition of actuarial (loss) gain	**(42)**	77
Other comprehensive (expense) income for the year	**(253)**	344
Total comprehensive expenses for the year	**(336)**	(226)
Total comprehensive (expenses) income attributable to:		
Owners of the Company	**(392)**	(269)
Non-controlling interests	**56**	43
	(336)	(226)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$ million	2017 HK$ million
Non-current Assets			
Investment properties	14	**5,069**	4,538
Property, plant and equipment	15	**36**	37
Interests in joint ventures	16	**98**	107
Financial assets at fair value through other comprehensive income	17	**52**	–
Available-for-sale investments	17	**–**	65
Club memberships		**1**	1
Restricted bank deposits	21	**139**	137
		5,395	4,885
Current Assets			
Properties held for sale	19	**450**	925
Properties under development for sale	19	**1,066**	1,343
Debtors, deposits and prepayments	20	**1,582**	3,074
Contract assets	22	**650**	–
Amounts due from customers for contract work		**–**	163
Amounts due from joint ventures	18	**176**	74
Amounts due from related companies	23	**5**	8
Restricted bank deposits	21	**41**	66
Bank balances, deposits and cash	20	**1,237**	1,486
		5,207	7,139
Current Liabilities			
Creditors and accrued charges	25	**2,615**	2,578
Sales deposits received		**–**	528
Contract liabilities	22	**413**	–
Derivative financial instruments	24	**–**	102
Amounts due to customers for contract work		**–**	531
Amounts due to joint ventures	18	**117**	116
Amounts due to related companies	23	**46**	281
Amounts due to non-controlling shareholders of subsidiaries	23	**4**	5
Taxation payable		**91**	127
Bank borrowings due within one year	26	**978**	500
		4,264	4,768
Net Current Assets		**943**	2,371
Total Assets Less Current Liabilities		**6,338**	7,256

	Notes	**2018** **HK$ million**	2017 HK$ million
Capital and Reserves			
Share capital	28	**384**	484
Reserves		**2,505**	3,082
Equity attributable to owners of the Company		**2,889**	3,566
Non-controlling interests		**127**	136
		3,016	3,702
Non-current Liabilities			
Bank borrowings	26	**870**	945
Senior notes	27	**2,023**	2,157
Other financial liabilities		**28**	28
Defined benefit liabilities	29	**66**	18
Deferred tax liabilities	30	**335**	406
		3,322	3,554
		6,338	7,256

The consolidated financial statements on pages 100 to 186 were approved and authorised for issue by the Board of Directors on 22 March 2019 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 2018

	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	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 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**
Impact on initial application of HKFRS 9	**–**	**–**	**–**	**–**	**–**	**(5)**	**–**	**–**	**–**	**–**	**(5)**	**–**	**(5)**
Adjusted balance at 1 January 2018	**484**	**3,172**	**383**	**197**	**(3)**	**(999)**	**14**	**11**	**15**	**287**	**3,561**	**136**	**3,697**
Fair value changes of equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13)**	**–**	**(13)**	**–**	**(13)**
Exchange differences arising on translation of financial statements of foreign operations	**–**	**–**	**(198)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(198)**	**–**	**(198)**
Recognition of actuarial loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(42)**	**–**	**–**	**(42)**	**–**	**(42)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(139)**	**–**	**–**	**–**	**–**	**(139)**	**56**	**(83)**
Total comprehensive (expense) income for the year	**–**	**–**	**(198)**	**–**	**–**	**(139)**	**–**	**(42)**	**(13)**	**–**	**(392)**	**56**	**(336)**
Acquisition of interest in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**	**(17)**	**(20)**
Buy-back of shares	**(100)**	**(177)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(277)**	**–**	**(277)**
Transfer upon lapse of share options	**–**	**–**	**–**	**–**	**–**	**9**	**(9)**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends payable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(48)**	**(48)**
At 31 December 2018	**384**	**2,995**	**185**	**197**	**(3)**	**(1,129)**	**5**	**(31)**	**2**	**284**	**2,889**	**127**	**3,016**

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 (2017: 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 (2017: 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 (2017: 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 2018

	2018 HK$ million	2017 HK$ million
Operating Activities		
Loss before taxation	**(19)**	(536)
Adjustments for:		
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	**–**	(141)
Share of loss of joint ventures	**8**	299
Share of loss of associates	**–**	5
Interest income	**(58)**	(184)
Finance costs	**234**	234
Dividend income from equity investments	**(3)**	(2)
Fair value loss on derivative financial instruments	**57**	174
Fair value changes on investment properties	**(72)**	59
Gain on transfer of property inventories to investment properties	**(51)**	(64)
Depreciation of property, plant and equipment	**13**	8
Waiver of the fees payable to a related company	**(32)**	–
Discount on buy-back of senior notes	**(4)**	–
Loss (gain) on disposal of property, plant and equipment	**2**	(1)
Unrealised effect on income from associates/joint ventures	**–**	12
Expense recognised in respect to defined benefit scheme	**13**	16
Operating cash flows before movements in working capital	**88**	(1)
Decrease in properties held for sale	**668**	3
Increase in properties under development for sale	**(224)**	(67)
Decrease in debtors, deposits and prepayments	**462**	16
Increase in contract assets	**(150)**	–
Decrease in amounts due from customers for contract work	**–**	211
Decrease in amounts due from related companies	**3**	–
Decrease in amounts due from associates	**–**	11
Decrease in amounts due from joint ventures	**1**	10
(Decrease) increase in creditors and accrued charges	**(461)**	350
Increase in sales deposits received in respect of properties for sale	**–**	19
Decrease in contract liabilities	**(88)**	–
Increase in amounts due to customers for contract work	**–**	308
Increase in amounts due to joint ventures	**4**	5
Decrease in amounts due to related companies	**(120)**	(20)
Settlement for derivative financial instruments	**(159)**	(72)
Contribution to defined benefit scheme	**(7)**	(33)
Cash from operations	**17**	740
Hong Kong Profits Tax paid	**(23)**	(26)
Hong Kong Profits Tax refunded	**–**	3
Income taxes of other regions in the People’s Republic of China (“PRC”) paid	**(125)**	(8)
Net cash (used in) from operating activities	**(131)**	709

	2018 HK$ million	2017 HK$ million
Investing Activities		
Advance to joint ventures	**(103)**	(978)
Repayment from joint ventures	**–**	168
Additions in property, plant and equipment	**(22)**	(18)
Payment for construction of investment properties	**(55)**	(150)
Acquisition of investment properties and other assets and liabilities through acquisition of a subsidiary (note 34)	**(182)**	–
Interest received	**41**	34
Proceeds from disposal of property, plant and equipment	**3**	3
Dividends received from equity investments	**3**	2
Dividend received from a joint venture	**–**	6
Net proceeds from disposal of a joint venture	**1**	–
Net cash outflow on acquisition of remaining interests in joint ventures as subsidiaries	**–**	(84)
Net proceeds from disposal of interest in an associate in previous year	**668**	351
Restricted bank deposits placed	**(279)**	(183)
Restricted bank deposits refunded	**299**	466
Net cash from (used in) investing activities	**374**	(383)
Financing Activities		
New bank borrowings raised	**881**	785
Repayment to related companies	**(56)**	(100)
Repayment of bank borrowings	**(587)**	(2,127)
Issue of senior notes	**–**	2,186
Expenditure incurred on issue of senior notes	**–**	(40)
Payment for buy-back of shares	**(277)**	–
Payment for buy-back of senior notes	**(149)**	–
Interest paid	**(211)**	(180)
Payment for acquisition of partial interest in a subsidiary	**(21)**	–
Other borrowing costs paid	**(6)**	(12)
Proceeds from partial disposal of interest in a subsidiary	**–**	75
Dividends paid to non-controlling shareholders of subsidiaries	**(48)**	(30)
Net cash (used in) from financing activities	**(474)**	557
Net (decrease) increase in cash and cash equivalents	**(231)**	883
Cash and cash equivalents at the beginning of the year	**1,486**	587
Effect of foreign exchange rate changes	**(18)**	16
Cash and cash equivalents at the end of the year	**1,237**	1,486
Analysis of the balances of cash and cash equivalents		
Bank balances, deposits and cash	**1,237**	1,486

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 Directors of the Company consider that the Company's parent and ultimate holding company is Shui On Company Limited ("SOCL"), a private limited company incorporated in the British Virgin Islands and its ultimate controlling party is Mr. Lo Hong Sui, Vincent, who is also the Chairman and Executive Director of the Company, following completion of the share buy-back during the year. 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 and joint ventures 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 New and Amendments to Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following new and 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 2018.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Except as described below, the application of these new and 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.

(a) HKFRS 9 Financial Instruments and related amendments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the classification and measurement of financial assets and financial liabilities, general hedge accounting and expected credit losses for financial assets and other items. The Group has elected to apply the limited exemption in HKFRS 9 paragraph 7.2.15 relating to transition for classification, measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As such, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade debtors, other receivables, amounts due from joint ventures and related companies, contract assets, restricted bank deposits, bank balances, deposits and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (Continued)

(a) HKFRS 9 Financial Instruments and related amendments (Continued)

At 1 January 2018, certain trade debtors and contract assets are determined as low credit risk at the date of initial application since the counterparties are mainly government bodies and reputable companies, with high credit rating of "investment grade", and a good history of repayment. The Directors of the Company also reviewed and assessed the Group's remaining trade debtors and contract assets, and other financial assets for impairment using reasonable and supportable information that is available without undue cost and effort. As a result, no significant loss allowance for financial assets was recognised on transition of HKFRS 9 when applying the expected credit risk model.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 4.

Effects arising from initial application of HKFRS 9

The Group previously designated the listed equity securities classified as available-for-sale investments carried at fair value. The Group has measured these investments at fair value through other comprehensive income under HKFRS 9. As a result, financial assets with a fair value of HK$65 million were reclassified from available-for-sale investments to financial assets at fair value through other comprehensive income on 1 January 2018 and the accumulated fair value gains of HK$15 million in the investment revaluation reserve at 1 January 2018 will no longer be subsequently reclassified to profit or loss.

The Group performed a detailed assessment of ECL on the date of initial application of HKFRS 9. Additional expected credit losses on trade debtors and contract assets of HK$5 million were recognised at 1 January 2018.

(b) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 "Construction Contracts", HKAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The Group has elected to adopt HKFRS 15 using the modified retrospective method and applied only to contracts that were not completed at the date of initial application. Any difference of the change in accounting policy was reflected at the date of initial application, 1 January 2018. Hence, the comparative information was presented based on the requirements of HKAS 11, HKAS 18 and related interpretations. The application of this standard has had no material impact on the timing and amounts of revenue recognised in the current or prior accounting periods.

Revenue from contracts with customers 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 and fees from asset management for the year.

Information about the Group's accounting policies and the performance obligations resulting from application of HKFRS 15 are disclosed in notes 4 and 6.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (Continued)

(b) HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 HK$ million	Reclassification HK$ million	Carrying amounts under HKFRS 15 at 1 January 2018 HK$ million
Current assets				
Contract assets	(a)	–	500	500
Amounts due from customers for contract work	(a)	163	(163)	–
Debtors, deposits and prepayments				
– Retention receivable	(a)	337	(337)	–
Current liabilities				
Contract liabilities	(b)	–	528	528
Creditors and accrued charges				
– Provision for contract work/construction cost	(a)	1,069	531	1,600
Amounts due to customers for contract work	(a)	531	(531)	–
Sales deposits received	(b)	528	(528)	–

Notes:

(a) In relation to construction contracts previously accounted for under HKAS 11, the Group estimates the performance obligations satisfied up to date of initial application of HKFRS 15. Amounts due from customers for contract work of HK$163 million and retention receivable of HK$337 million were reclassified to contract assets, while amounts due to customers for contract work of HK$531 million were reclassified to provision for contract work under creditors and accrued charges.

(b) At 1 January 2018, sales deposits received from customers of HK$528 million were reclassified to contract liabilities.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (Continued)

(b) HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported	**Adjustments**	**Amounts without application of HKFRS 15**
	HK$ million	HK$ million	HK$ million
Current assets			
Contract assets	650	(650)	–
Amounts due from customers for contract work	–	313	313
Debtors, deposits and prepayments			
– Retention receivable	–	337	337
Current liabilities			
Contract liabilities	413	(413)	–
Creditors and accrued charges			
– Provision for contract work/construction cost	1,493	(444)	1,049
Amounts due to customers for contract work	–	444	444
Sales deposits received	–	413	413

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of cash flows for the year ended 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported	**Adjustments**	**Amounts without application of HKFRS 15**
	HK$ million	HK$ million	HK$ million
Operating activities			
Increase in contract assets	(150)	150	–
Increase in amounts due from customers for contract work	–	(150)	(150)
Decrease in creditors and accrued charges	(461)	87	(374)
Decrease in contract liabilities	(88)	88	–
Decrease in amounts due to customers for contract work	–	(87)	(87)
Decrease in sales deposits received in respect of properties for sale	–	(88)	(88)

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

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HKFRS 3 (Amendments)	Definition of a Business[5]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKAS 1 and HKAS 8 (Amendments)	Definition of Material[2]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015–2017 Cycle[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]

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

2 Effective for annual periods beginning on or after 1 January 2020

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

5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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.

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 of 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.

Other than certain requirements which are also applicable to lessor, 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.

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

HKFRS 16 Leases (Continued)

At 31 December 2018, the Group as lessee has non-cancellable operating lease commitments of HK$25 million as disclosed in note 31. 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.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. In addition, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

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 other new and amendments to HKFRSs and an interpretation.

4. Significant Accounting Policies

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

Basis of preparation

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

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

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

4. Significant Accounting Policies (Continued)

Basis of preparation (Continued)

For financial instruments and investment properties (the highest and best use of the properties is the current use) 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.

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 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.

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.

4. Significant Accounting Policies (Continued)

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 values, 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 or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

When the Group acquires an asset or a group of assets that does not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price to the individual identifiable assets and liabilities on the basis of their respective fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

4. Significant Accounting Policies (Continued)

Investments in joint ventures

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.

The profit or loss and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of 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 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 joint ventures, less any identified impairment loss. Changes in net assets of 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 joint venture (which includes any long-term interest that, in substance, form part of the Group's net investment in 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 joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in 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 Group assesses whether there is an objective evidence that the interest in a joint venture maybe impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 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 a joint venture of the Group, profits or losses are eliminated to the extent of the Group's interest in 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;
- 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.

4. Significant Accounting Policies (Continued)

Investments in joint operations (Continued)

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.

Revenue from contracts with customers (upon application of HKFRS 15)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a promise in a contract with a customer to transfer to the customer either a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group unconditional right to consideration.

A contract liability represents the Group's obligation to transfer goods and services to a customer for which the Group has received consideration from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods and services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

4. Significant Accounting Policies (Continued)

Revenue from contracts with customers (upon application of HKFRS 15) (Continued)

Details of the Group's performance obligation in contracts with customers are as follows:

Sales of properties

Revenue from properties sales is recognised at a point in time when the completed property is delivered and transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

The Group receives 30%–100% of the contract value as deposits from customers or receipts in advance from customers when they sign the sale and purchase agreement.

Deposits and instalments received on properties sold prior to the date of revenue recognition are recorded as contract liabilities under current liabilities.

Construction contracts

Revenue from construction contracts is recognised over time when the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised based on the stage of completion of the contract using output method.

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached.

A contract asset is recognised over the period in which the construction services are performed representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade debtors when the rights become unconditional.

Revenue recognition (prior to 1 January 2018)

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, returns and sales related taxes.

Sales of properties, services, dividends and others

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.

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

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

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

Service income is recognised when services are provided.

4. Significant Accounting Policies (Continued)

Revenue recognition (prior to 1 January 2018) (Continued)

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.

Club memberships

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

4. Significant Accounting Policies (Continued)

Club memberships (Continued)

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 and other direct costs attributable to such properties, 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 and other direct 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 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 profit or 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. Contingent rentals arising from operating leases are recognised as income in the period in which they are earned.

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 consolidated 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 accumulated losses 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);

– net interest expense or income; and

– remeasurement.

4. Significant Accounting Policies (Continued)

Retirement benefits costs (Continued)

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 when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade debtors arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. 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 or 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9) (Continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

(i) *Amortised cost and interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) *Financial assets at FVTOCI*

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated losses.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "dividend income from equity investments" line item in profit or loss.

Impairment of financial assets (upon application of HKFRS 9)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade debtors, other receivables, amounts due from joint ventures and related companies, contract assets, restricted bank deposits, bank balances, deposits and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9) (Continued)

The Group always recognises lifetime ECL for trade debtors and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors. For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due. However, in certain cases, the Group may also consider the instrument to be in default when internal and external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is credit-impaired when one or more events of default that have a detrimental impact the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9) (Continued)

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade debtors, other receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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.

(i) 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 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.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(ii) 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.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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 assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated losses.

On derecognition of an available-for-sale investment, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

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.

Buy-back of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at fair value through profit or loss.

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, related companies and non-controlling shareholders of subsidiaries) are subsequently measured at amortised cost, using the effective interest method.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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. Financial guarantee contract liabilities are initially at their fair values. Subsequent to initial recognition, the Group measures the financial guarantee contract liabilities at the higher of: (i) the amount of loss allowance determined in accordance with HKFRS 9 (since 1 January 2018)/HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (before application of HKFRS 9 on 1 January 2018); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

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.

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.

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 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.

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$5,069 million (2017: HK$4,538 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.

Estimation of expected credit losses of receivables due from a former subsidiary and the accounting impact of the related financial guarantee

As disclosed in notes 20(e) and 36, CCP disposed of a former subsidiary group (the "Debtor") in prior years. With respect to the disposal, the Group had outstanding receivables of HK$469 million at 31 December 2018 and remained as a guarantor for a loan granted to the Debtor at a principal amount of HK$619 million plus related interest. The receivables of HK$469 million (2017: HK$449 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"). In addition, the financial guarantee in respect of the outstanding principal amount of the loan amounting to HK$619 million (2017: HK$648 million) and the related interest amounting to HK$549 million (2017: HK$494 million) will be fully released upon completion of the Auction or the Sale of Equity Interest. With certain positive events as mentioned in note 20(e) and the fact that the Company has put in place a dedicated team, 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. Therefore, no loss allowance for ECL is recognised.

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.

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

Deferred tax 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$4,709 million at 31 December 2018 (2017: HK$4,538 million) are held to earn rental income and they are considered to be held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on these investment properties at fair value is measured based on the tax consequences of recovering the carrying amounts of the investment properties through use.

The remaining investment properties of the Group with fair value of HK$360 million (2017: nil), in the opinion of the Directors of the Company, are held under a business model whose objective is to recover through sale. The deferred tax in relation to these investment properties is measured based on the tax consequences of recovering the carrying amounts entirely through sale.

6. Turnover and Segment Information

Revenue of the Group represents the contract revenue arising on construction and building maintenance contracts, amounts received and receivable for goods sold by the Group (net of discounts, returns and sales related tax), revenue from sale of properties, fees from asset management and rental and leasing income.

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 in Hong Kong and the PRC
2. Construction and building maintenance – construction, interior fit-out, renovation and maintenance of building premises mainly in Hong Kong
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 2018

	Property HK$ million	Construction and building maintenance HK$ million	Other businesses HK$ million	Total HK$ million
REVENUE				
Revenue from property sales	**1,129**	**–**	**–**	**1,129**
Construction contract revenue	**–**	**4,914**	**–**	**4,914**
Revenue from contracts with customers	**1,129**	**4,914**	**–**	**6,043**
Revenue from property leasing	**85**	**–**	**–**	**85**
Group's revenue from external customers	**1,214**	**4,914**	**–**	**6,128**
Share of joint ventures' revenue	**–**	**7**	**27**	**34**
Total segment revenue	**1,214**	**4,921**	**27**	**6,162**
Timing of revenue recognition				
– At a point of time	**1,129**	**–**	**–**	**1,129**
– Over time	**–**	**4,914**	**–**	**4,914**
Revenue from contracts with customers	**1,129**	**4,914**	**–**	**6,043**
Reportable segment results	**113**	**210**	**(26)**	**297**
Segment results have been arrived at after crediting (charging):				
Depreciation	**(7)**	**(4)**	**–**	**(11)**
Interest income	**45**	**9**	**–**	**54**
Fair value changes on investment properties	**72**	**–**	**–**	**72**
Gain on transfer of property inventories to investment properties	**51**	**–**	**–**	**51**
Dividend income from equity investments	**–**	**–**	**3**	**3**
Finance costs	**(15)**	**–**	**–**	**(15)**
Share of (loss) profit of joint ventures				
Property development	**(4)**	**–**	**–**	**(4)**
Other operations in Guizhou	**–**	**–**	**7**	**7**
Venture capital investments	**–**	**–**	**(12)**	**(12)**
Others	**–**	**1**	**–**	**1**
				(8)

6. Turnover and Segment Information (Continued)

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

For the year ended 31 December 2017

	Property HK$ million	Construction and building maintenance HK$ million	Other businesses HK$ million	Total HK$ million
REVENUE				
Revenue from property sales	24	–	–	24
Revenue from property leasing	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 (loss) profit of joint ventures				
Property development	(298)	–	–	(298)
Other operations in Guizhou	–	–	7	7
Venture capital investments	–	–	(8)	(8)
				(299)
Share of loss of associates	(5)	–	–	(5)

6. Turnover and Segment Information (Continued)

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

Details of the Group's performance obligation in contracts with customers are described in note 4.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Properties sales HK$ million	Construction contracts HK$ million
Within one year	**464**	4,791
More than one year but less than two years	**–**	2,133
More than two years	**–**	336
	464	7,260

(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 2018

	Property HK$ million	**Construction and building maintenance HK$ million**	**Other businesses HK$ million**	**Total HK$ million**
Reportable segment assets	**8,062**	**2,053**	**1,109**	**11,224**
Reportable segment liabilities	**1,610**	**2,230**	**376**	**4,216**

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

6. Turnover and Segment Information (Continued)

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

	Year ended 31 December	
	2018	2017
	HK$ million	HK$ million
Revenue		
Reportable segment revenue	**6,162**	6,953
Elimination of share of revenue of joint ventures/associates	**(34)**	(481)
Consolidated turnover	**6,128**	6,472

	Year ended 31 December	
	2018	2017
	HK$ million	HK$ million
Loss before taxation		
Reportable segment results	**297**	(94)
Unallocated other income	**4**	3
Unallocated finance costs	**(219)**	(234)
Fair value loss on derivative financial instruments	**(57)**	(174)
Other unallocated corporate expenses	**(44)**	(37)
Consolidated loss before taxation	**(19)**	(536)

	At 31 December	
	2018	2017
	HK$ million	HK$ million
Assets		
Reportable segment assets	**11,224**	12,870
Elimination of inter-segment receivables	**(622)**	(846)
Consolidated total assets	**10,602**	12,024

6. Turnover and Segment Information (Continued)

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

	At 31 December	
	2018	2017
	HK$ million	HK$ million
Liabilities		
Reportable segment liabilities	**4,216**	5,182
Elimination of inter-segment payables	**(622)**	(846)
Unallocated liabilities		
– Bank borrowings	**1,477**	1,176
– Senior notes	**2,023**	2,157
– Derivative financial instruments	**–**	102
– Taxation and others	**492**	551
Consolidated total liabilities	**7,586**	8,322

(d) Other segment information

At 31 December 2018

	Property	**Construction and building maintenance**	**Other businesses**	**Total**
	HK$ million	**HK$ million**	**HK$ million**	**HK$ million**
Interests in joint ventures	**38**	**4**	**56**	**98**
Capital expenditure (excluding assets acquired on acquisition of subsidiaries)	**69**	**2**	**–**	**71**
Tax charges	**35**	**29**	**–**	**64**

At 31 December 2017

	Property	Construction and building maintenance	Other businesses	Total
	HK$ million	HK$ million	HK$ million	HK$ million
Interests in joint ventures	41	2	64	107
Capital expenditure (excluding assets acquired on acquisition of subsidiaries)	165	7	–	172
Tax charges	7	23	4	34

6. Turnover and Segment Information (Continued)

(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**	
	2018	2017	**2018**	2017
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**4,503**	6,072	**372**	13
PRC (excluding Hong Kong)	**1,625**	400	**4,734**	4,563
	6,128	6,472	**5,106**	4,576

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

** Non-current assets exclude financial assets at fair value through other comprehensive income, interests in joint ventures and restricted bank deposits.

(f) Information about major customers

Included in external revenue arising from construction and building maintenance of HK$4,914 million (2017: HK$6,403 million) is revenue of HK$2,263 million and HK$1,128 million, which arose from services provided to the Group's largest and second largest customers respectively (2017: HK$2,937 million and HK$1,971 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

	2018	2017
	HK$ million	HK$ million
Included in other income, other gains and losses are:		
Interest income	**58**	184
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)
Gain on deregistration of a subsidiary	**–**	7
Discount on buy-back of senior notes	**4**	–
Waiver of fees payable to a related company (note 37(a))	**32**	–
Exchange (loss) gain	**(111)**	92
Fair value loss on derivative financial instruments	**(57)**	(174)
(Loss) gain on disposal of property, plant and equipment	**(2)**	1

8. Finance Costs

	2018 **HK$ million**	2017 HK$ million
Interest on bank and other loans	**80**	129
Interest on senior notes	**148**	93
Other borrowing costs	**6**	12
	234	234

9. Taxation

	2018 **HK$ million**	2017 HK$ million
The tax charge comprises:		
Current taxation		
Hong Kong Profits Tax	**29**	22
PRC Enterprise Income Tax	**9**	9
PRC Land Appreciation Tax	**81**	2
	119	33
Deferred taxation (note 30)	**(55)**	1
	64	34

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the year.

PRC Enterprise Income Tax is calculated at 25% (2017: 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 30.

9. Taxation (Continued)

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

	2018 HK$ million	2017 HK$ million
Loss before taxation	**(19)**	(536)
Tax at Hong Kong Profits Tax rate of 16.5% (2017: 16.5%)	**(3)**	(88)
Effect of share of loss of joint ventures	**1**	49
Effect of share of loss of associates	**–**	1
Effect of different tax rates on operations in other jurisdictions	**8**	3
PRC Land Appreciation Tax	**81**	1
Tax effect of PRC Land Appreciation Tax	**(13)**	–
Tax effect of expenses not deductible for tax purposes	**75**	110
Tax effect of income not taxable for tax purposes	**(42)**	(77)
Tax effect of tax losses not recognised	**32**	31
Tax effect of utilisation of tax losses previously not recognised	**(16)**	(4)
Recognition of deferred tax assets for unused tax losses	**(59)**	–
Underprovision of current taxation in prior year	**1**	9
Others	**(1)**	(1)
Tax charge for the year	**64**	34

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 five (2017: seven) Directors were as follows:

For the year ended 31 December 2018

Name of Director	**Notes**	**Fees HK$'000**	**Salaries and other benefits HK$'000**	**Retirement benefit scheme contributions HK$'000**	**Share-based payments HK$'000**	**2018 Total HK$'000**
Mr. Lo Hong Sui, Vincent		**10**	**–**	**–**	**–**	**10**
Mr. Wong Yuet Leung, Frankie		**10**	**7,015**	**–**	**–**	**7,025**
Ms. Li Hoi Lun, Helen	(a)	**523**	**–**	**–**	**–**	**523**
Mr. Chan Kay Cheung	(a)	**595**	**–**	**–**	**–**	**595**
Mr. William Timothy Addison	(a)	**455**	**–**	**–**	**–**	**455**
Total		**1,593**	**7,015**	**–**	**–**	**8,608**

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

Directors and Chief Executives (Continued)

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		10	6,792	–	–	6,802
Ms. Li Hoi Lun, Helen	(a)	485	–	–	–	485
Mr. Chan Kay Cheung	(a)	595	–	–	–	595
Mr. William Timothy Addison	(a)	443	–	–	–	443
Mr. Tsang Kwok Tai, Moses	(b)	216	–	–	–	216
Mr. Gerrit Jan de Nys	(c)	70	–	–	–	70
Total		1,829	6,792	–	–	8,621

Notes:

(a) Independent Non-executive Directors.

(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.

(d) Neither the chief executives nor any of the directors waived any emolument in the year ended 31 December 2018 and 2017.

(e) 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 independent non-executive directors' emoluments were for their services as directors of the Company.

Of the five highest paid individuals in the Group, one (2017: one) is Director of the Company whose emoluments are set out above. The emoluments of the remaining four (2017: four) highest paid employees were as follows:

	2018 **HK$ million**	2017 HK$ million
Salaries, bonuses and allowances	**16**	16
Retirement benefits scheme contributions	**1**	1
	17	17

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

Directors and Chief Executives (Continued)

The emoluments were within the following band:

	2018 **No. of employees**	2017 No. of employees
HK$3,500,001 to HK$4,000,000	**2**	2
HK$4,000,001 to HK$4,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$5,500,000	**1**	1

11. Loss for the Year

	2018 **HK$ million**	2017 HK$ million
Loss for the year has been arrived at after charging (crediting):		
Cost of sales (note):		
Cost of construction	**4,587**	6,113
Cost of properties sold	**809**	17
Cost of rendering services	**–**	20
Direct rental outgoings arising from investment properties	**102**	40
	5,498	6,190
Staff costs (including directors' emoluments) (note):		
Salaries, bonuses and allowances	**656**	654
Retirement benefits cost	**38**	36
Less: amounts capitalised	**(16)**	–
	678	690
Depreciation of property, plant and equipment	**13**	8
Auditors' remuneration	**4**	4
Operating lease payments in respect of rented premises	**20**	20
Impairment loss on amount due from a joint venture	**–**	7

Note:

Cost of sales includes HK$469 million (2017: HK$539 million) relating to staff costs, which is also included in the staff costs as separately disclosed above.

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:

	2018 HK$ million	2017 HK$ million
Loss for the year attributable to owners of the Company:		
Loss for the purpose of basic and diluted loss per share	**(139)**	(613)

Number of shares:	**Million**	Million
Weighted average number of ordinary shares for the purpose of basic loss per share	**449**	484
Effect of dilutive potential ordinary shares:		
Share options	**–**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**449**	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 2018 (2017: Nil).

14. Investment properties

	2018 HK$ million	2017 HK$ million
FAIR VALUE		
At the beginning of the year	**4,538**	1,752
Exchange adjustments	**(210)**	176
Acquired on acquisition of subsidiaries	**303**	2,346
Additions	**55**	150
Transfer from properties held for sale	**313**	173
Disposal	**(2)**	–
Increase (decrease) in fair value recognised	**72**	(59)
At the end of the year	**5,069**	4,538
Analysed into:		
Completed investment properties in the PRC	**4,709**	4,538
Completed investment properties in Hong Kong	**360**	–
	5,069	4,538

14. Investment properties (Continued)

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties at date of transfer, 31 December 2018 and 31 December 2017 have been arrived at on the basis of valuations carried out on that date by Jones Lang LaSalle Limited and Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected to the Group, which have appropriate qualifications and recent experience in the valuation of similar properties in relevant locations.

In determining the fair value of the relevant properties, the Group engages the qualified external valuers to perform the valuation. The management of the Company works closely with the external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Company reports the findings of the valuation to the Directors of the Company periodically to explain the cause of fluctuations in the fair value of the investment properties.

The valuations have been arrived by reference to direct comparison method as available in the market and where appropriate, on the basis of capitalisation of net income. In the valuation, the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for the similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to the respective properties.

During the year, the Group has transferred certain properties inventories with carrying amount of HK$262 million to investment properties at fair value of HK$313 million upon change in use, which was evidenced by inception of operating leases. A gain on transfer from properties held for sale to investment properties amounted to HK$51 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2018.

During the year ended 31 December 2017, the Group had 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 had 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.

14. Investment properties (Continued)

The major inputs used in the fair value measurement of investment properties and information about the fair value hierarchy at 31 December 2018 and 31 December 2017 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
Completed properties in the PRC					
Property 1 – Shenyang Project Phase I retail portion and car parking spaces	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% (2017: 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 of retail portion, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB71–178 (2017: RMB65–185) 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 1, and vice versa
		Direct Comparison Approach The key input is market price	Market price of car parking spaces, taking into account the time and location between the comparables and the property, of RMB260,000 (2017: n/a) 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 1 and vice versa
Property 2 – Chongqing Creative Concepts Center retail portion and car parking spaces	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 5.5% (2017: 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 RMB115–230 (2017: RMB120–239) 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
		Direct Comparison Approach The key input is market price	Market price of car parking spaces, taking into account the time and location between the comparables and the property, of RMB170,000 (2017: 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

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
Completed properties in the PRC (Continued)					
Property 3 – 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 RMB330,000 (2017: 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 3 and vice versa
Property 4 – Chengdu Centropolitan retail portion, office, kindergarten and car parking spaces	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 5.0%–5.5% (2017: 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 4, and vice versa
			Monthly market rent of properties other than car parking spaces, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB50–199 (2017: 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 4, and vice versa
		Direct Comparison Approach The key input is market price	Market price of car parking spaces, taking into account the time and location between the comparables and the property, of RMB160,000 (2017: n/a) 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 4 and vice versa
Property 5 – Tianjin Veneto Phase 1	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% (2017: 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 5, 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 RMB39–97 (2017: 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 5, 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
Completed properties in Hong Kong					
Property 6 – Commercial building in Hong Kong	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 2.1%	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 6, 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 HK$32–59 per sqft per month	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 6, and vice versa

15. Properties, 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 2017	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
Additions	**–**	**–**	**2**	**16**	**18**
Disposals	**–**	**(5)**	**(4)**	**(11)**	**(20)**
Exchange adjustments	**–**	**–**	**–**	**(2)**	**(2)**
At 31 December 2018	**1**	**2**	**23**	**110**	**136**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2017	–	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
Charge for the year	**–**	**–**	**3**	**10**	**13**
Eliminated on disposals	**–**	**(3)**	**(2)**	**(9)**	**(14)**
Exchange adjustments	**–**	**–**	**–**	**(2)**	**(2)**
At 31 December 2018	**–**	**2**	**16**	**82**	**100**
CARRYING VALUES					
At 31 December 2018	**1**	**–**	**7**	**28**	**36**
At 31 December 2017	1	2	10	24	37

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

	2018 HK$ million	2017 HK$ million
Cost of unlisted investments in joint ventures, net of impairment	**383**	588
Share of post-acquisition losses and other comprehensive income	**(285)**	(481)
	98	107

Particulars of the principal joint ventures are set out in note 42.

Notes:

(a) During the year ended 31 December 2017, 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 became an indirect wholly-owned subsidiary of the Company. Details of the transaction were set out in note 35(a).

(b) During the year ended 31 December 2017, 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 were set out in note 35(b). Following completion of the acquisition, this joint venture became an indirect wholly-owned subsidiary of the Company. Details of the transaction were set out in an announcement and a circular of the Company dated 7 September 2017 and 24 October 2017 respectively.

(c) During the year ended 31 December 2017, 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 were set out in note 35(c). Following completion of the acquisition, this joint venture became an indirect wholly-owned subsidiary of the Company. Details of the transaction were set out in an announcement and a circular of the Company dated 7 September 2017 and 24 October 2017 respectively.

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 2018 and 31 December 2017 attributable to the Group's interest is as follows:

	2018 HK$ million	2017 HK$ million
Loss after tax	**(8)**	(13)
Total comprehensive expense	**(8)**	(13)

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:

	2018 HK$ million	2017 HK$ million
Unrecognised share of losses of the joint venture for the year	**(12)**	(14)
Accumulated unrecognised share of losses of the joint venture	**(118)**	(106)

16. Interests in Joint Ventures (Continued)

(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 was set up and operating in Hong Kong.

17. Financial Assets at Fair Value Through Other Comprehensive Income/ Available-for-sale Investments

	2018 **HK$ million**	2017 HK$ million
Financial assets at fair value through other comprehensive income		
Listed equity securities in Hong Kong	**52**	–
Available-for-sale Investments		
Listed equity securities in Hong Kong	**–**	65

Notes:

(a) The Directors of the Company have elected to designate these listed equity securities in financial assets at fair value through other comprehensive income as they are held for long-term strategic purposes. Accordingly, available-for-sale investments were reclassified to financial assets at fair value through other comprehensive income upon the initial application of HKFRS 9 at 1 January 2018.

(b) The above listed equity securities represent the Group's equity interest in Shui On Land Limited ("SOL") and they are classified as level 1 fair value measurement and is derived from quoted market price. At 31 December 2018, the Group held a 0.4% (2017: 0.4%) equity interest in SOL.

18. Amount due from/to Joint Ventures

	2018 **HK$ million**	2017 HK$ million
Amounts due from joint ventures (note a)	**176**	74
Amounts due to joint ventures (note b)	**117**	116

Notes:

(a) 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.

(b) The balances are unsecured and repayable on demand. Out of the total balance, a total of HK$56 million bear interest at 4.35% per annum (2017: 4.35%) and the rest is interest-free.

19. 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:

	2018 **HK$ million**	2017 HK$ million
Properties held for sale		
In other regions of the PRC	**450**	925
Properties under development for sale		
In other regions of the PRC (note)	**1,066**	1,343

Note:

Properties under development for sale of HK$420 million at 31 December 2018 (2017: HK$986 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.

20. Other Current Assets

Debtors, deposits and prepayments

	2018 **HK$ million**	2017 HK$ million
Trade debtors (note b)		
– Construction contract	**400**	707
– Sales of goods	**6**	8
– Operating lease receivables	**6**	3
	412	718
Less: Allowance for credit losses	**(5)**	(7)
	407	711
Retention receivable (note c)	**–**	337
Consideration receivable in respect of disposal of an associate (note d)	**411**	1,102
Prepayments, deposits and other receivables (note e)	**764**	924
	1,582	3,074

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) At 31 December 2018 and 1 January 2018, trade debtors from contracts with customers amounted to HK$406 million and HK$715 million respectively.

(c) At 31 December 2017, the balances included retention receivable of HK$174 million, which was due after one year from the end of the reporting period. Upon application of HKFRS 15, the retention receivable was reclassified to contract assets.

(d) The balance carries interest at 5% per annum.

(e) Included in prepayments, deposits and other receivables are receivables of HK$469 million (2017: HK$449 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$137 million (2017: HK$144 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$160 million) (2017: RMB140 million (approximately HK$167 million)) and its related interest. In addition to these receivables, the Company has provided a guarantee in relation to a loan granted to the Debtor (see note 36). Given that there have been continued positive outcomes in the legal disputes in relation to the property interest and recovery of the outstanding receivables, including the successful registration of title deed of the property under the name of the Debtor in May 2015, 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.

20. 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, as appropriate) net of allowance for credit losses at the end of the reporting period:

	2018 **HK$ million**	2017 HK$ million
Trade debtors aged analysis:		
Not yet due or within 90 days	**388**	702
Amounts past due but not impaired:		
91 days to 180 days	**17**	7
181 days to 360 days	**–**	–
Over 360 days	**2**	2
	19	9
	407	711

Movement in the allowance for credit losses under life time ECL:

	2018 **HK$ million**	2017 HK$ million
Balance at the beginning of the year under HKAS 39	**7**	7
Adjustment upon application of HKFRS 9	**2**	
Amounts recovered during the year	**(1)**	–
Reversed for the year	**(3)**	–
Balance at the end of the year	**5**	7

Included in the trade debtors are receivables of HK$2 million (2017: HK$2 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.

Details of impairment assessment of trade debtors and other receivables for the year ended 31 December 2018 are set out in note 38.

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.

21. Restricted Bank Deposits

Balances at 31 December 2018 represent custody deposits amounting to HK$180 million (2017: HK$203 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 1.80% (2017: 0.35% to 0.46%) per annum.

22. Contract Assets and Contract Liabilities

(i) Contract assets

	31 December 2018 HK$ million	1 January 2018 HK$ million (note a)
Relating to construction contracts (note b)	**650**	497

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on construction. The contract assets are transferred to trade debtors when the rights become unconditional.

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group also typically agrees to one to two years retention period for 1% to 10% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment become unconditional upon expiration of the defects liability period.

Notes:

(a) The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018. Upon the adoption of HKFRS 15, amounts due from customers for contract work of HK$163 million and retention receivable of HK$337 million were reclassified to contract assets. Upon the adoption of HKFRS 9, opening adjustments were made at 1 January 2018 to recognise additional expected credit losses of HK$3 million on contract assets.

(b) At 31 December 2018, the amount of contract assets that is expected to be recovered after more than one year is HK$111 million, all of which relates to retention receivable.

(ii) Contract liabilities

	31 December 2018 HK$ million	1 January 2018 HK$ million (note)
Deposits received for property sales	**413**	528

Note:

The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018. Upon the adoption of HKFRS 15, sales deposits received from customers of HK$528 million were reclassified to contract liabilities.

The Group receives a fixed sum as deposits from customers when they sign the sale and purchase agreement. These deposits are recognised as contract liabilities until the customers obtain control of the completed properties.

22. Contract Assets and Contract Liabilities (Continued)

(ii) Contract liabilities (Continued)

Movements in contract liabilities:

	2018 HK$ million
Balance at the beginning of the year	528
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(521)
Increase in contract liabilities as a result of receiving sales deposits in respect of property sales	413
Exchange adjustments	(7)
Balance at the end of the year	413

23. Amounts due from/to Related Companies/Non-controlling Shareholders of Subsidiaries

	2018 HK$ million	2017 HK$ million
Amounts due from related companies	5	8
Amounts due to related companies	46	281
Amounts due to non-controlling shareholders of subsidiaries	4	5

The related companies are subsidiaries of SOCL.

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

24. Derivative Financial Instruments

	2018 HK$ million	2017 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 ended 31 December 2017, the Group entered into certain short-term foreign currency forward contracts in a total notional amount of US$369 million, of which notional amount of US$225 million was outstanding at 31 December 2017, to reduce the risk of currency exchange fluctuation of the Group’s foreign currency denominated assets. During the current year, all of these outstanding foreign currency forward contracts were matured and fair value losses totalled HK$57 million (2017: HK$174 million) was recognised in the consolidated statement of profit or loss.

25. Creditors and Accrued Charges

The aged analysis of creditors (based on invoice date) of HK$435 million (2017: HK$604 million), which are included in the Group's creditors and accrued charges, is as follows:

	2018 HK$ million	2017 HK$ million
Trade creditors aged analysis:		
Not yet due or within 30 days	**386**	409
31 days to 90 days	**23**	31
91 days to 180 days	**8**	32
Over 180 days	**18**	132
	435	604
Retention payable (note b)	**453**	430
Provision for contract work/construction cost	**1,493**	1,069
Other accruals and payables	**234**	475
	2,615	2,578

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$84 million (2017: HK$77 million), which is due after one year from the end of the reporting period.

26. Bank Borrowings

	2018 HK$ million	2017 HK$ million
Secured bank borrowings	**1,169**	840
Unsecured bank borrowings	**679**	605
	1,848	1,445
Less: Amounts due within 12 months	**(978)**	(500)
Amounts due for settlement after 12 months	**870**	945
Carrying amount repayable:		
Within one year	**978**	500
More than one year but not exceeding two years	**362**	443
More than two years but not exceeding five years	**387**	422
More than five years	**121**	80
	1,848	1,445

26. Bank Borrowings (Continued)

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

Denominated in	Interest rate (per annum)	2018 HK$ million	2017 HK$ million
At variable rates			
Renminbi	6.11% to 6.89% (2017: 6.15% to 6.89%)	**249**	269
Hong Kong dollars	2.38% to 5.49% (2017: 3.99% to 4.44%)	**1,599**	1,176
		1,848	1,445

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$3,328 million and HK$354 million respectively (2017: HK$3,147 million and HK$299 million 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$41 million (2017: HK$66 million) at 31 December 2018 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.

27. Senior Notes

	2018 HK$ million	2017 HK$ million
At the beginning of the year	**2,157**	–
Issue of new senior notes	**–**	2,186
Less: Transaction costs directly attributable to issue	**–**	(40)
Interests charged during the year	**148**	93
Less: Discount on buy-back of senior notes	**(4)**	–
Less: Interest payable reclassified under other payables	**(134)**	(88)
Less: Buy-back of senior notes	**(149)**	–
Exchange adjustments	**5**	6
At the end of the year	**2,023**	2,157

The senior notes with a maturity of three years are due on 8 May 2020. During the year, the Company has been soliciting consents from the holders of the senior notes to modify certain provisions of the indenture relating to the covenant entitled "Limitation on Restricted Payments". Such change in terms is not an extinguishment of the original senior notes.

In addition, the Group bought-back US$19.5 million (HK$153 million) senior notes at a price ranged from 97.2% to 97.9% to its face value. The difference between the buy-back consideration paid and the carrying amount of senior notes derecognised, amounting to approximately HK$4 million, is included in "other income, other gains and losses".

28. Share Capital

	2018 **Number of shares**	2017 Number of shares	**2018** **HK$ million**	2017 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 of the year	**484,410,164**	484,410,164	**484**	484
Buy-back of shares	**(100,000,000)**	–	**(100)**	–
At the end of the year	**384,410,164**	484,410,164	**384**	484

On 2 August 2018, the Company passed an ordinary resolution on a cash offer to the shareholders of the Company to buy-back up to 100,000,000 shares of the Company at an offer price of HK$2.50 per share. On 24 August 2018, the Company completed the buy-back of 100,000,000 of its own shares at an aggregate amount of approximately HK$277 million, including transaction costs of approximately HK$27 million. The 100 million shares were cancelled upon buy-back and the issued share capital of the Company was reduced by the nominal value of the bought-back shares. Premium over the par value of the share of approximately HK$177 million paid on the bought-back shares was debited to the share premium account.

The buy-back was effected by the Directors with a view to benefiting the shareholders as a whole by accreting the Group's net asset value per share.

No new shares were issued during the year.

29. 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"), which is a defined contribution scheme and 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 (2017: HK$16 million). The amount of employer's voluntary contributions to the MPF Scheme forfeited for the years ended 31 December 2018 and 31 December 2017 was immaterial and was used to reduce the existing level of contributions.

29. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

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 5.8% (2017: 7.3%) 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.

- 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 2018 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:

	2018	2017
Discount rate	**1.9%**	1.7%
Expected rate of salary increase	**4.5% 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 2018 was HK$343 million (2017: HK$401 million), representing 84% (2017: 96%) of the benefits that has accrued to members.

29. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

Defined Benefit Scheme (Continued)

Amounts recognised in the consolidated statement of profit or loss and other comprehensive income for the year in respect of the Scheme are as follows:

	Year ended 31 December	
	2018	2017
	HK$ million	HK$ million
Current service cost	**11**	13
Net interest on net defined benefit liabilities	**–**	2
Administrative expenses paid from scheme assets	**2**	1
Defined benefit cost recognised in the consolidated statement of profit or loss	**13**	16
Actuarial loss due to experience adjustment	**4**	2
Actuarial gain due to financial assumption changes	**(4)**	–
Return on Scheme assets greater than discount rate	**42**	(79)
Remeasurement effects recognised in the consolidated statement of other comprehensive income	**42**	(77)
Total	**55**	(61)

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

	2018	2017
	HK$ million	HK$ million
Present value of defined benefit obligation	**(409)**	(419)
Fair value of Scheme assets	**343**	401
Defined benefit liabilities included in the consolidated statement of financial position	**(66)**	(18)

The Scheme assets do not include any shares in the Company (2017: Nil).

29. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

Defined Benefit Scheme (Continued)

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

	2018 HK$ million	2017 HK$ million
At the beginning of the year	**419**	478
Current service cost	**11**	13
Interest cost	**7**	7
Employees' contributions	**5**	5
Actuarial loss – experience adjustment	**4**	2
Actuarial gain – financial assumptions	**(4)**	–
Benefits paid	**(33)**	(86)
At the end of the year	**409**	419

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

	2018 HK$ million	2017 HK$ million
At the beginning of the year	**401**	366
Interest income on Scheme assets	**7**	6
Return on scheme assets (lesser) greater than discount rate	**(42)**	79
Employers' contributions	**7**	33
Employees' contributions	**5**	5
Benefits paid	**(33)**	(86)
Administrative expenses paid from scheme assets	**(2)**	(2)
At the end of the year	**343**	401

The major categories of Scheme assets of total Scheme assets are as follows:

	2018 HK$ million	2017 HK$ million
Equities	**226**	290
Hedge funds	**45**	43
Bonds and cash	**72**	68
	343	401

The fair value of the Scheme assets are determined based on quoted market price in active market.

29. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

Defined Benefit Scheme (Continued)

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	Effect on DBO
				HK$ million	%
At 31 December 2018					
Discount rate	**1.9%**	**+0.25%**	**2.15%**	**(6)**	**(1.3%)**
		-0.25%	**1.65%**	**6**	**1.4%**
Expected rate of salary increase	**4.5%**	**+0.25%**	**4.75%**	**6**	**1.4%**
		-0.25%	**4.25%**	**(6)**	**(1.4%)**
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%)

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.

The expected contributions to the Scheme during the next financial year are as follows:

	2018	2017
	HK$ million	HK$ million
Expected employer contributions	**5**	7
Expected member contributions	**5**	5

The weighted average duration of the defined benefit obligation at 31 December 2018 is 5.4 years (2017: 5.9 years).

29. Retirement Benefit Plans (Continued)

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$9 million (2017: HK$5 million).

No other post-retirement benefits are provided to the employees of the Group.

30. 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 2017	(1)	(136)	23	(114)
Exchange adjustments	–	(15)	1	(14)
Acquisition of subsidiaries (note 35)	–	(277)	–	(277)
(Charge) credit to consolidated statement of profit or loss	–	(17)	16	(1)
At 31 December 2017	(1)	(445)	40	(406)
Exchange adjustments	**–**	**18**	**(3)**	**15**
Acquisition of a subsidiary (note 34)	**–**	**–**	**1**	**1**
(Charge) credit to consolidated statement of profit or loss	**–**	**(4)**	**59**	**55**
At 31 December 2018	**(1)**	**(431)**	**97**	**(335)**

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 2018, the Group had unused tax losses of HK$1,762 million (2017: HK$1,794 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to HK$384 million (2017: HK$163 million). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$1,378 million (2017: HK$1,631 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2018 are tax losses of approximately HK$372 million (2017: HK$505 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$567 million at 31 December 2018 (2017: HK$547 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.

31. Lease Arrangements

As lessor

Rental income from the Group's investment properties during the year ended 31 December 2018 was HK$85 million (2017: HK$31 million), of which contingent rental income was HK$12 million (2017: HK$2 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:

	2018 **HK$ million**	2017 HK$ million
Within one year	**59**	39
In the second to fifth years inclusive	**168**	105
After five years	**159**	38
	386	182

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:

	2018 **HK$ million**	2017 HK$ million
Within one year	**18**	12
In the second to fifth years inclusive	**7**	5
	25	17

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.

32. Capital Commitments

At 31 December 2018, the Group had no significant capital commitments (2017: nil).

33. 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 12.6% of the issued shares of the Company as of 31 December 2018.

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.

33. 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

1,442,000 shares, representing approximately 0.38% of the issued shares of the Company as of 31 December 2018.

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.

33. Share-based Payments (Continued)

The following tables disclose details of the Company's share options held by employees (including the Directors of the Company) and movements in such holdings during the year.

Date of grant	Grant	Subscription price per share HK$	Number of shares subject to options: At 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2018	Period during which share options outstanding are exercisable	Average closing reference price for exercise of options HK$ (Note)
12 April 2010	1	12.22	**700,000**	**–**	**–**	**(700,000)**	**–**	12 April 2013 to 11 April 2020	–
28 July 2011	2	10.00	**1,442,000**	**–**	**–**	**–**	**1,442,000**	1 May 2015 to 27 July 2021	–
14 June 2013	4	9.93	**3,130,000**	**–**	**–**	**(3,130,000)**	**–**	14 December 2013 to 13 June 2018	–
			5,272,000	**–**	**–**	**(3,830,000)**	**1,442,000**		
Number of shares subject to options exercisable at the end of the year							**1,442,000**		

Date of grant	Grant	Subscription price per share HK$	Number of shares subject to options: 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	1	12.22	700,000	–	–	–	700,000	12 April 2013 to 11 April 2020	–
28 July 2011	2	10.00	2,318,000	–	–	(876,000)	1,442,000	1 May 2015 to 27 July 2021	–
26 November 2012	3	8.18	3,044,000	–	–	(3,044,000)	–	26 May 2013 to 25 November 2017	–
14 June 2013	4	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		

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 2018 and 2017.

33. Share-based Payments (Continued)

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

For Grant 1:

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.

For Grant 2:

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%

33. Share-based Payments (Continued)

For Grant 3 and 4:

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

No share options were granted by the Company pursuant to the Existing Scheme during the years ended 31 December 2018 and 2017. Therefore, no considerations were received by the Company for taking up any share option during both years.

No expense was recognised for the year ended 31 December 2018 (2017: HK$0.1 million) in relation to share options granted by the Company.

34. Acquisition of Investment Property and Other Assets and Liabilities Through Acquisition of a Subsidiary

In December 2018, the Group acquired the entire issued share capital of Profit Point Development Limited, which solely owns a property in Kwun Tong, Hong Kong. Following the completion of the acquisition, Profit Point Development Limited became a wholly-owned subsidiary of the Company. The assets acquired and liabilities assumed did not constitute a business combination as defined in HKFRS 3 (Revised) "Business Combinations" and therefore, the acquisition was accounted for as assets acquisition.

The assets acquired and liabilities assumed in the transaction were as follows:

	HK$ million
Investment property	**303**
Deferred tax assets	**1**
Debtors, deposits and prepayments	**1**
Creditors and accrued charges	**(1)**
Bank borrowings	**(122)**
Consideration	**182**
Total consideration satisfied by and net cash outflow arising on acquisition:	
Cash consideration paid	**182**

35. 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 became an indirect wholly-owned subsidiary of the Company. Details of the transaction were set out in an announcement of the Company dated 24 July 2017.

The following table summarised 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 were 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 was 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.

35. Business Combinations (Continued)

(a) (Continued)

Had the acquisition been completed on 1 January 2017, total group turnover and loss for the year ended 31 December 2017 would had been HK$6,572 million and HK$625 million respectively. The pro forma information was for illustrative purposes only and was not necessarily an indication of turnover and results of operations of the Group that actually would had been achieved had the acquisition been completed on 1 January 2017, nor was 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 became an indirect wholly-owned subsidiary of the Company. Details of the transaction were set out in an announcement and a circular of the Company dated 7 September 2017 and 24 October 2017 respectively.

The following table summarised 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)

35. 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 were 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 was 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 had assessed whether the amount of goodwill may be impaired in accordance with HKAS 36 "Impairment of Assets". The Directors of the Company concluded that there was a full impairment of goodwill based on the estimation of the recoverable amount which was 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 ended 31 December 2017 would had been HK$6,486 million and HK$653 million respectively. The pro forma information was for illustrative purposes only and was not necessarily an indication of turnover and results of operations of the Group that actually would had been achieved had the acquisition been completed on 1 January 2017, nor was 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 became an indirect wholly-owned subsidiary of the Company. Details of the transaction were set out in an announcement and a circular of the Company dated 7 September 2017 and 24 October 2017 respectively.

35. Business Combinations (Continued)

(c) (Continued)

The following table summarised 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 were 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 was 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.

35. 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 for the year ended 31 December 2017.

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 ended 31 December 2017 would had been HK$6,906 million and HK$589 million respectively. The pro forma information was for illustrative purposes only and was not necessarily an indication of turnover and results of operations of the Group that actually would had been achieved had the acquisition been completed on 1 January 2017, nor was it intended to be a projection of future results.

36. Contingent Liabilities

At 31 December 2018, 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 20(e) 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 2019, subject to extension after further discussions. The outstanding principal amount of the loan under the Guarantee amounting to RMB542 million (HK$619 million) (2017: RMB542 million (HK$648 million)) and the related interest amounting to RMB481 million (HK$549 million) (2017: RMB413 million (HK$494 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 and the collateral of the loan. Accordingly, no value has been recognised in the consolidated statement of financial position.

37. 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	**2018** **HK$ million**	2017 HK$ million
Dividend income	**3**	2
Management and information system services	**1**	1
Waiver of the fee payments by the Group	**32**	–
Interest expenses	**–**	22
Rental expenses	**1**	2

The outstanding balances with SOCL Private Group at the end of the reporting period are disclosed in note 23.

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

Nature of transactions	**2018** **HK$ million**	2017 HK$ million
Interest income	**–**	162
Imputed interest income	**–**	11
Management fee income	**–**	14
Interest expenses	**11**	18
Subcontracting work expenses	**14**	8

The outstanding balances with joint ventures at the end of the reporting period are disclosed in note 18.

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

Nature of transactions	**2018** **HK$ million**	2017 HK$ million
Interest income	**–**	32
Imputed interest income	**–**	23

(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$56 million to a subsidiary of SOL.

(f) During the year ended 31 December 2017, the Group repaid unsecured non-interest bearing short-term loan of HK$100 million to a subsidiary of SOL.

37. Material Related Party Transactions (Continued)

(g) During the year ended 31 December 2017, 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 were set out in an announcement of the Company dated 4 August 2017.

(h) During the year ended 31 December 2017, the Group received dividend income amounting to HK$6 million from a joint venture.

(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:

	2018 **HK$ million**	2017 HK$ million
Fees	**1**	2
Salaries and other benefits	**24**	24
Performance bonuses	**3**	3
Retirement benefit scheme contributions	**1**	2
	29	31

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.

38. 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 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.

38. Financial Instruments (Continued)

(b) Categories of financial instruments

	2018 HK$ million	2017 HK$ million
Financial assets		
At fair value through other comprehensive income	**52**	–
At amortised cost	**3,803**	–
Loans and receivables (including cash and cash equivalent)	**–**	4,804
Available-for-sale investments	**–**	65
Financial liabilities		
Derivative financial instruments	**–**	102
At amortised cost	**5,060**	5,272

(c) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, debtors, amounts due from joint ventures and related companies, restricted bank deposits, bank balances, deposits and cash, creditors, amounts due to joint ventures, 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 is also exposed to fair value interest rate risk in relation to the fixed-rate senior notes and interest-bearing financial assets.

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.

38. 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 (2017: 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 (2017: 100 basis points) and all other variables were held constant, the Group's loss for the year would increase/decrease by approximately HK$19 million for the year ended 31 December 2018 (2017: HK$15 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:

	2018 **HK$ million**	2017 HK$ million
Assets		
United States dollars	**95**	95
Hong Kong dollars	**11**	9
Liabilities		
United States dollars	**2,041**	2,188
Hong Kong dollars	**554**	578

38. 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% (2017: 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% (2017: 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% (2017: 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	**2018** **HK$ million**	2017 HK$ million
United States dollars	**7**	7
Hong Kong dollars	**(38)**	(40)

(iii) Other price risk

The Group is exposed to equity price risk through its investments in equity instruments at fair value through other comprehensive income (2017: available-for-sale investments). If the market price of the investments had been increased/decreased by 20% (2017: 20%), the Group's reserve at 31 December 2018 would increase/decrease by approximately HK$10 million (2017: HK$13 million).

Credit risk and impairment assessment

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 36.

Trade debtors and contract assets arising from contracts with customers

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 actions are taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances. In this regard, the Directors of the Company consider that the credit risk is significantly reduced.

38. Financial Instruments (Continued)

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

Credit risk and impairment assessment (Continued)

Trade debtors and contract assets arising from contracts with customers (Continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its trade debtors and contract assets. The following table provides information about the exposure to credit risk for trade debtors and contract assets, which are assessed individually for debtors.

Gross carrying amount

Internal credit rating	Average loss rates	Trade debtors HK$ million	Contract assets HK$ million
Low risk (note a)	0.31%	386	640
Watch risk (note b)	0.96%	16	12
Loss (note c)	100%	4	–

The estimated loss rates are estimated based on actual loss experience over the past three years and are adjusted for forward-looking information that is available without undue cost or effort.

Notes:

(a) The counterparty has a low risk of default and does not have any past-due amounts.

(b) Debtor frequently repays after due dates but usually settle after due date.

(c) There is evidence indicating the asset is credit-impaired.

Lease and other receivables

In order to reduce credit risk, the Group has procedures in place to monitor the credit standing of the counterparty and to ensure that follow-up action is taken to recover these receivables. The Group reviews the recoverable amount of the other receivable of HK$469 million due from a counterparty and the probability of default by this counterparty and the loss given default 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.

The Group has certain concentration of credit risk in respect of amounts due from other receivables. At 31 December 2018, 55% (2017: 50%) of total trade debtors and other receivables was due from two counterparties. At 31 December 2018, other receivables of HK$469 million (2017: HK$449 million) were due from a counterparty and a guarantee on outstanding loan principal amounting to RMB542 million (HK$619 million) (2017: RMB542 million (HK$648 million)) and related interest amounting to RMB481 million (HK$549 million) (2017: RMB413 million (HK$494 million)) was issued by the Company in respect of a loan advanced to this counterparty. Except for the above, the Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

38. Financial Instruments (Continued)

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

Credit risk and impairment assessment (Continued)

Bank balances and deposits

The credit risk on bank balances and deposits are limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies or state-owned banks in the PRC.

Amounts due from joint ventures and related companies

With respect to credit risk arising from amounts due from joint ventures and related companies, the Group's exposure to credit risk arising from default of the counterparty is limited as the counterparties have sufficient future cash flows 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 related companies.

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.

38. 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 2018							
Bank deposits	**1.30%**	**25**	**148**	**–**	**–**	**173**	**170**
Non-derivative financial liabilities							
Trade and other payables (note a)	**–**	**(1,077)**	**(112)**	**–**	**–**	**(1,189)**	**(1,189)**
Bank borrowings							
– variable rate	**5.18%**	**(1,052)**	**(405)**	**(425)**	**(134)**	**(2,016)**	**(1,848)**
Senior notes	**6.25%**	**(114)**	**(2,081)**	**–**	**–**	**(2,195)**	**(2,023)**
		(2,218)	**(2,450)**	**(425)**	**(134)**	**(5,227)**	**(4,890)**
Financial guarantee contracts (note b)	**–**	**(1,168)**	**–**	**–**	**–**	**(1,168)**	**–**
At 31 December 2017							
Bank deposits	0.56%	–	28	139	–	167	164
Non-derivative financial liabilities							
Trade and other payables (note a)	–	(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 b)	–	(1,142)	–	–	–	(1,142)	–

Notes:

(a) Trade and other payables represent trade creditors, amounts due to joint ventures, related companies and non-controlling shareholders of subsidiaries, and other payables.

(b) At the end of the reporting period, the Group has provided a financial guarantee to an independent third party (note 36). In the event of the failure of this party to meet his obligation under this facility, the Group may be required to pay up to the guaranteed amount upon demand. Management does not consider that it is probable for this party to claim the Group under this guarantee.

38. Financial Instruments (Continued)

(d) Fair value measurements of financial instruments

At 31 December 2018, the only financial instrument of the Group that was measured subsequent to initial recognition at fair value was financial assets at fair value through other comprehensive income, of which the fair value was classified as level 1 fair value measurement and was derived from unadjusted quoted prices available on the Stock Exchange (active market).

At 31 December 2017, 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.

39. 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 HK$ million	Bank borrowings HK$ million	Senior notes HK$ million	Interest payable (included in other payables and amounts due to related companies) HK$ million	Dividends payable to non-controlling interests HK$ million	Total HK$ million
At 1 January 2017	200	2,354	–	19	11	2,584
Financing cash flows	(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
Financing cash flows	**(56)**	**294**	**(149)**	**(217)**	**(48)**	**(176)**
Acquisition of a subsidiary	**–**	**122**	**–**	**–**	**–**	**122**
Finance costs	**–**	**–**	**148**	**86**	**–**	**234**
Interest payable reclassified to other payables	**–**	**–**	**(134)**	**134**	**–**	**–**
Discount on buy-back of senior notes	**–**	**–**	**(4)**	**–**	**–**	**(4)**
Waiver of the fees payable to a related company	**–**	**–**	**–**	**(32)**	**–**	**(32)**
Dividends payable to non-controlling interests	**–**	**–**	**–**	**–**	**48**	**48**
Exchange adjustments	**–**	**(13)**	**5**	**–**	**–**	**(8)**
At 31 December 2018	**44**	**1,848**	**2,023**	**27**	**–**	**3,942**

40. Statement of Financial Position of the Company

	2018 HK$ million	2017 HK$ million
Non-current Assets		
Property, plant and equipment	**3**	3
Interests in subsidiaries	**7,382**	6,858
Club memberships	**1**	1
Restricted bank deposits	**139**	137
	7,525	6,999
Current Assets		
Debtors, deposits and prepayments	**243**	210
Amounts due from subsidiaries	**421**	792
Amounts due from joint ventures	**2**	1
Amounts due from related companies	**–**	118
Restricted bank deposits	**9**	6
Bank balances, deposits and cash	**93**	273
	768	1,400
Current Liabilities		
Creditors and accrued charges	**395**	428
Derivative financial instruments	**–**	102
Amounts due to joint ventures	**78**	75
Amounts due to related companies	**58**	1
Bank borrowings	**498**	140
	1,029	746
Net Current (Liabilities) Assets	**(261)**	654
Total Assets Less Current Liabilities	**7,264**	7,653
Capital and Reserves		
Share capital (note 28)	**384**	484
Reserves (note)	**2,298**	2,870
	2,682	3,354
Non-current Liabilities		
Bank borrowings	**247**	–
Amounts due to subsidiaries	**2,140**	2,124
Senior notes	**2,129**	2,157
Defined benefit liabilities	**66**	18
	4,582	4,299
	7,264	7,653

40. 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	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 2017	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
Loss for the year	**–**	**–**	**(353)**	**–**	**–**	**–**	**(353)**
Recognition of actuarial loss	**–**	**–**	**–**	**–**	**(42)**	**–**	**(42)**
Total comprehensive expense for the year	**–**	**–**	**(353)**	**–**	**(42)**	**–**	**(395)**
Buy-back of shares	**(177)**	**–**	**–**	**–**	**–**	**–**	**(177)**
Transfer upon lapse of share options	**–**	**–**	**9**	**(9)**	**–**	**–**	**–**
At 31 December 2018	**2,995**	**89**	**(984)**	**5**	**(38)**	**231**	**2,298**

41. Particulars of Principal Subsidiaries

The Directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the following list contains only the particulars of subsidiaries at 31 December 2018 and 31 December 2017, 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%		Investment holding
P.D. (Contractors) Limited	1,000,000 ordinary shares (HK$1,000,000)	–	69.70%	Renovation work
Pacific Extend Limited	10,000 ordinary shares (HK$10,000) 6,000 special shares (HK$6,000)	–	65.45% (note 1)	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%	Interior decoration, fitting out, design and contracting
Pat Davie (Macau) Limited##	Two quotas of total face value of MOP1,000,000	–	69.70%	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%	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%	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%	Owning and leasing of plant and machinery and structural steel construction work

41. 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%	–	Inactive
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
Honest Joy Investments Limited*	100 shares of US$1 each	–	100%	Investment holding
Pacific Hill Limited	1 ordinary share (HK$1)	–	100%	Investment holding
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
Cosy Rich Limited*	2 shares of US$1 each	–	100%	Investment holding
Win Lead Holdings Limited*	100 shares of US$1 each	–	100%	Investment holding
Talent Reach Group Limited*	1 share of US$1	–	100%	Investment holding
Profit Point Development Limited*	1 share of US$1	–	100% (note 2)	Property development
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
Chongqing Hui Zheng Properties Co., Ltd.**+	Registered and paid up capital of US$75,000,000	–	100%	Property development
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
Beijing SOCAM Real Estate Consulting Co., Ltd.**+	Registered and paid up capital of RMB800,000	–	100%	Provision of consultancy services

41. Particulars of Principal Subsidiaries (Continued)

Subsidiaries	Issued and fully paid share capital/ registered and paid up capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
Property business (Continued)				
Chengdu Xianglong Real Estate Co., Ltd.***+	Registered and paid up capital of RMB450,000,000	–	100%	Property development
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%	Property development
天津市聖偉房地產開發有限公司***+ (Summer Great (Tianjin) Co., Ltd.)	Registered and paid up capital of US$5,000,000	–	90%	Property development and property investment
嘉傑(天津)置業投資有限公司***+	Registered and paid up capital of RMB330,000,000	–	90%	Property development and property investment
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
Shui On Materials Limited*	1 share of US$1	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
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 2018 or at any time during the year.

Notes:

1. The share interest held by the Group in Pacific Extend Limited was increased from 56.95% to 65.45% during the year ended 31 December 2018.
2. Profit Point Development Limited was acquired during the year ended 31 December 2018 (see note 34).

42. Particulars of Principal Joint Ventures

The Directors are of the opinion that a complete list of the particulars of all joint ventures will be of excessive length and therefore the following list contains only the particulars of principal joint ventures of the Group at 31 December 2018 and 31 December 2017. 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
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 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

** 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. The share interest held by the Group in On Capital China Fund Series A was fully redeemed during the year ended 31 December 2018.

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				
	2014 HK$ million	2015 HK$ million	2016 HK$ million	2017 HK$ million	**2018** **HK$ million**
Turnover	6,102	5,916	5,345	6,472	**6,128**
Loss before taxation	(1,345)	(1,041)	(1,362)	(536)	**(19)**
Taxation	(14)	(68)	6	(34)	**(64)**
Loss for the year	(1,359)	(1,109)	(1,356)	(570)	**(83)**
Attributable to:					
Owners of the Company	(1,374)	(1,126)	(1,382)	(613)	**(139)**
Non-controlling interests	15	17	26	43	**56**
	(1,359)	(1,109)	(1,356)	(570)	**(83)**

2. Assets and Liabilities

	At 31 December				
	2014 HK$ million	2015 HK$ million	2016 HK$ million	2017 HK$ million	**2018** **HK$ million**
Total assets	18,520	12,339	9,210	12,024	**10,602**
Total liabilities	(10,650)	(6,759)	(5,338)	(8,322)	**(7,586)**
	7,870	5,580	3,872	3,702	**3,016**
Equity attributable to:					
Owners of the Company	7,833	5,542	3,835	3,566	**2,889**
Non-controlling interests	37	38	37	136	**127**
	7,870	5,580	3,872	3,702	**3,016**

CORPORATE INFORMATION

BOARD

Executive Directors

Mr. Lo Hong Sui, Vincent (Chairman)
Mr. Wong Yuet Leung, Frankie
(Chief Executive Officer and Chief Financial Officer)

Non-executive Director

Ms. Lo Bo Yue, Stephanie

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
Ms. Lo Bo Yue, Stephanie*
Mr. Chan Kay Cheung
Mr. William Timothy Addison*

NOMINATION COMMITTEE

Mr. Lo Hong Sui, Vincent (Chairman)
Ms. Lo Bo Yue, Stephanie*
Ms. Li Hoi Lun, Helen
Mr. Chan Kay Cheung
Mr. William Timothy Addison*

FINANCE COMMITTEE

Mr. Wong Yuet Leung, Frankie (Chairman)
Ms. Li Hoi Lun, Helen
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

WEBSITE

www.socam.com

* Appointed as members of the Committees with effect from 1 April 2019

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