瑞安建業
SOCAM DEVELOPMENT
Stock Code: 983

Building on Strengths

Annual Report 2019

SUSTAINABILITY
PROFITABILITY
INNOVATION

ABOUT SOCAM

Listed on the Hong Kong Stock Exchange in 1997, SOCAM Development Limited is principally engaged in construction and property 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.

OUR BUSINESS

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.

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.

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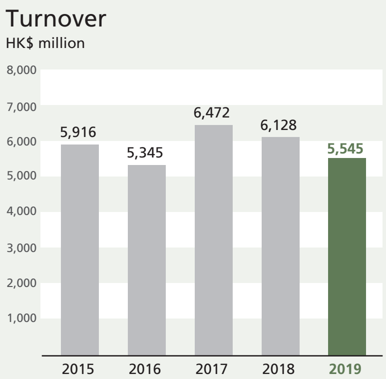
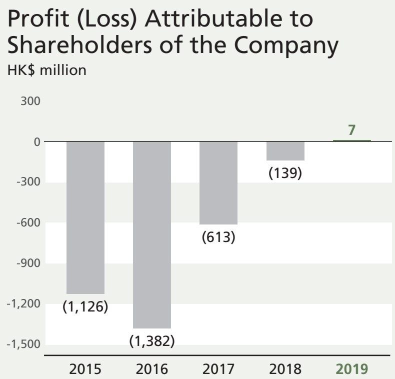
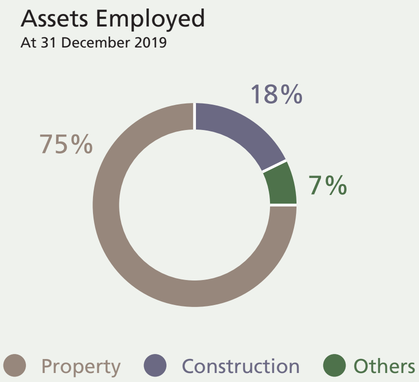
2019 HIGHLIGHTS

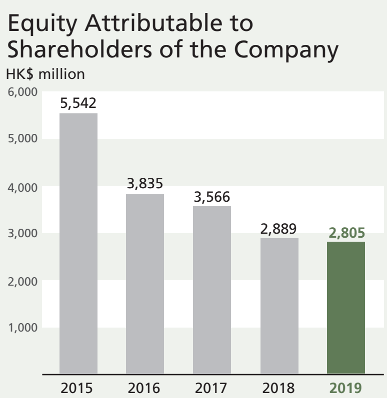
FINANCIAL HIGHLIGHTS

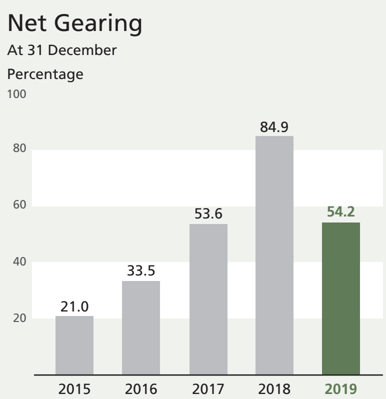
	Year ended 31 December				
HK$ million	**2019**	2018	2017	2016	2015
Turnover					
SOCAM and subsidiaries	**5,545**	6,128	6,472	5,345	5,916
Share of joint ventures and associates	**22**	34	481	1,572	363
Total	**5,567**	6,162	6,953	6,917	6,279
Profit (loss) attributable to shareholders	**7**	(139)	(613)	(1,382)	(1,126)
Basic earnings (loss) per share (HK$)	**0.02**	(0.31)	(1.27)	(2.86)	(2.33)
At 31 December					
Total assets (HK$ billion)	**9.4**	10.6	12.0	9.2	12.3
Net assets (HK$ billion)	**2.8**	2.9	3.6	3.8	5.5
Net asset value per share (HK$)	**7.49**	7.52	7.36	7.92	11.44
Net gearing	**54.2%**	84.9%	53.6%	33.5%	21.0%

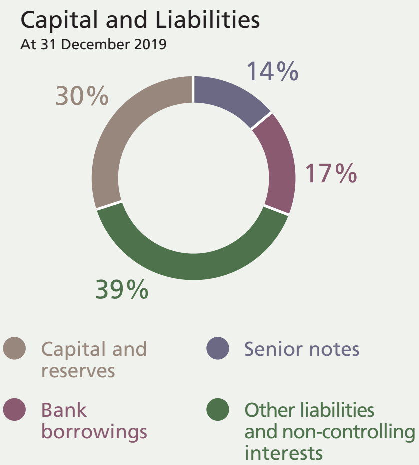












CONSTRUCTION

Profit
HK$393 million
▲ 96%

Profit Margin
8.7%
▲ 4.6%

New Contracts
HK$11.5 billion
▲ 475%

Turnover
HK$4.5 billion
▼ 9%

Gross Value of Contracts on Hand
HK$22.1 billion
▲ 57%

PROPERTY

Turnover
HK$1,052 million
▼ 13%

Profit
HK$160 million
▼ 20%

Rental Income
RMB68 million
▲ 36%

Attributable GFA
420,300 sq.m.
▼ 14%

Total Assets
HK$7,090 million
▼ 7%

ENVIRONMENTAL AND SOCIAL

Environmental

Carbon emissions
60,719 tCO_2e
70,677 tCO_2e in 2018

People

Accident rate
(per 1,000 workers)
5.3 cases
8.0 cases in 2018

Training hours
15,941
▲ 42%

Community

Corporate donation
HK$1.71 million
▲ 14%

Volunteering hours
1,319
▼ 44%

No. of volunteers
343
▼ 11%

CHAIRMAN'S STATEMENT

SOCAM is now in an improved position to capitalise on the strong order book of its construction business in Hong Kong, and upcoming opportunities in the public sector construction market.

Vincent H. S. Lo
Chairman

Dear Shareholders,

2019 can be seen as a watershed year in SOCAM's plan for revitalising our businesses. Our divestment of non-core assets was all but completed and phased alignment to core competencies made significant progress. SOCAM is now in an improved position to capitalise on the strong order book of its construction business in Hong Kong, and upcoming opportunities in the public sector construction market. The increased yield and value of our property portfolio in Mainland China showed an encouraging trend.

The global economy was looking towards a mild recovery in 2020, mainly driven by the emerging markets, but quickly overshadowed by the coronavirus (Covid-19) outbreak in January. Vulnerabilities around the world continued to accumulate after a decade of low interest rates and mounting geopolitical pressure. Increasing tensions on trade and technology fronts will likely dent business sentiment.

Against the background of decelerated global economic growth and the social unrest in Hong Kong in the second half of 2019, SOCAM was able to improve its business performance. During the year, the Group turned around from the loss attributable to shareholders of HK$139 million in 2018, to the profit of HK$7 million in 2019. The Group's construction business reported a profit of HK$393 million, a 95.5% increase over the HK$201 million in 2018. Profit of our property business was HK$160 million, compared to the HK$199 million recorded in 2018. The Group's revenue for 2019 was slightly below that of 2018, at HK$5.5 billion, compared to HK$6.1 billion.

Restructuring Debt; Strengthening Our Income Streams

The Group made satisfactory progress over the years in implementing our deleveraging strategy. We continued to divest non-core assets, including the sale of a commercial building in Kwun Tong for an attractive return, and the disposal of 34.8% equity interest in Nanjing Jiangnan Cement, generating total proceeds of approximately HK$560 million. The Group retains a 25.2% effective equity share in Nanjing Jiangnan Cement to participate in the potential land redevelopment on decommission of the plant.

In January 2020, SOCAM issued 6.25% 2-year senior notes in the principal amount of US$180 million, allowing the Group to manage its balance sheet liabilities, optimise its debt structure and improve liquidity. This has also strengthened SOCAM's financial position to act on opportunities in our core business areas as they arise.

Managing Priorities in the Near Future

With the primary goal to restore profitability, the Group further sharpened its focus on areas from which we expect a sustainable income stream in the years ahead.

The pressing community need for the construction of housing and provision of hospital facilities in Hong Kong presents a unique opportunity for the Group. The HKSAR Government has targeted to provide a total of 301,000 public housing units for the 10-year period from 2020-21 to 2029-30, and has earmarked HK$200 billion for the first 10-year hospital development plan (2016-26). SOCAM has extensive experience and expertise in this area, witnessed by its solid track record of on-time delivery of public housing, hospitals and other public facilities. As we pursue tendering opportunities, the Group is marshalling its human, financial and technological resources into enhancing our competitiveness, empowered by our competence in meeting stringent standards of design, quality, safety and environmental performance.

In Mainland China, the Group sees steadily improving results in our retail portfolio of four shopping malls. In 2019 that momentum continued. Yet, the retail environment remains dynamic and complex in terms of providing innovative attractions to bolster rental and footfall in the face of remarkable e-commerce growth. SOCAM adopts a proactive stance in offering unique lifestyle shopping experiences tailored to the diverse needs of the local community.

Embracing the Future of Construction

2019 was a promising year for SOCAM's construction business. New construction, maintenance and fit-out contracts in Hong Kong and Macau were secured, worth a total of HK$11.5 billion compared to HK$2.0 billion in 2018. The Group entered 2020 with an exceptionally strong order book.

Sustained profitability in public sector construction works is beset by a number of industry concerns. This market segment has become highly competitive, while private sector construction continues to slow down as the business and investment sentiment has been hard hit by months of local social unrest. The cost of labour is high and the workforce is ageing. Attracting and retaining talents is an ever-present concern. There is also increasing emphasis on sustainability challenges.

To cope with these sector-wide challenges, the Group is determined to remain at the forefront of adopting innovative methodologies such as Modular Integrated Construction to help promote the sustainable development of the construction sector. We have also expanded the use of Building Information Management (BIM), a digital technology that provides a platform for 4D virtual visualisation to bridge communications between the architecture, engineering and construction teams. It also allows us to reduce construction waste and enhance worker safety.

The Group's proficiency in embracing new technology, including robotics, will not only raise productivity, build quality and environmental performance, but also position SOCAM as a pioneer in the industry well-placed to capture the opportunities that lie ahead.

2019 was a promising year for SOCAM's construction business. New construction, maintenance and fit-out contracts in Hong Kong and Macau were secured, worth a total of HK$11.5 billion compared to HK$2.0 billion in 2018. The Group entered 2020 with an exceptionally strong order book.

Managing External Uncertainties

With the Covid-19 outbreak in early 2020, wide-reaching economic setbacks look certain to assail the global economy. In Mainland China, the travel restrictions and the loss of factory output from extended closures after the Lunar New Year will likely impede China's GDP growth prospects for 2020. Since then, the epidemic has gone global, seriously afflicting trade and travel. The Group is already experiencing a dramatic decrease in consumer spending and footfall in its retail malls. Hong Kong too has entered economic contraction, aggravated by the unresolved socio-political situation.

SOCAM's ambitions for accelerated business growth in 2020 are likely to be stalled, at least in the first half of the year. However, our positive operating and balance sheet performance in 2019 will enable us to meet external headwinds in the year ahead. We share the hope that the outbreak will be contained in the near future.

Overall, the Group will adopt a prudent approach to business expansion. Yet we are buoyed by the fact that substantial government funds are set aside for the provision of public housing and healthcare facilities, and our expertise in this construction segment is acknowledged. We take into the immediate years ahead the largest order book in recent years as testament to our strengths and partnership with clients and subcontractors. SOCAM will continue to unlock value from our property assets through managing and optimising our portfolio of retail properties to provide solid income stream to the Group. We will also remain cautious in the timing of asset disposals.

A Note of Appreciation

I would like to thank the management team, as well as our front-line colleagues, for their hard work and dedication over the past years of corporate realignment. I would also like to thank all of my fellow Directors for their support in guiding your Company to the more positive position we now occupy. My special thanks to Frankie Wong, who stepped down from the Board, Chief Executive Officer and Chief Financial Officer in October, for the important contribution he has made over his long career at Shui On.

I am very grateful to Freddy Lee for his rejoining Shui On Group in May, and for taking over as Executive Director and Chief Executive Officer of SOCAM in October. Freddy is a valued member of the Shui On Group, and has a profound knowledge of construction management and property development in China. I have every confidence that he will lead the team to re-invigorate for the future. As we now look to deliver sustained profitability, we will continue to be vigilant as to possible market changes, and remain unwavering in our commitment to our shareholders.

Vincent H.S. Lo
Chairman

Hong Kong, 31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

SOCAM's turnaround strategy to restore shareholder value, improve cash flow and revitalise its businesses saw further progress in 2019.

Freddy C. K. Lee
Chief Executive Officer

BUSINESS REVIEW

Amidst the headwinds of economic contraction, SOCAM's turnaround strategy to restore shareholder value, improve cash flow and revitalise its businesses saw further progress in 2019. During the year, the Group restored profitability in its operations and successfully completed a number of acquisition and disposals, together with repurchases of senior notes, thereby strengthening the balance sheet and improving cash flow. The construction business also expanded its order book, with new contract value hitting record high in recent years.

Market Environment

The Group's principal markets, namely Mainland China, Hong Kong and Macau, suffered from varying degrees of a slowing economy in 2019. In the Mainland, GDP grew at 6.1% in 2019, the slowest since 1990, though still within the Central Government's target of 6 – 6.5%. Faced with the sluggish demand both at home and abroad and tensions in US-China trade, the Chinese authorities have been rolling out various growth stimulus measures while attempting to contain the financial and debt risks. Domestic demand has been slow to respond.

The challenging external environment had no visible impact on the Mainland's property sector during the year. The Central and local governments continued to tighten control measures and restrictions over the housing market across China, adhering to the principle that houses are "for living in, not for speculation". Consumer spending remained robust, providing support to retail sales and hence the leasing demand for mall spaces, amid the growing challenges from online platforms.

2019 was a turbulent year for Hong Kong. Technically it has entered a recession. GDP saw consecutive quarters of year-on-year contraction in 2019 and decreased by 1.2% in real terms against 2018, the first annual decline since 2009. The social unrest since June 2019 took a heavy toll on the local economic sentiment as well as consumption, and particularly tourism-related activities. Overall investment spending plummeted due to pessimistic business sentiment and subdued economic conditions. Nonetheless, the HKSAR Government has been proceeding with its long-term housing strategy and 10-year hospital development plan to address the critical housing and healthcare issues of the community. Our construction business stands to benefit from the significant tendering opportunities thereby arising.

Macau's GDP in real terms shrank by 4.7% for 2019 as a whole, compared with the 4.7% growth in 2018. Private investment weakened, and government spending on public works decreased. Free-spending visitors from the Mainland declined as a result of the deceleration of the Mainland economy. The gaming sector remained subdued and saw a fall in gaming revenues.

Improved Results

During the year, net profit attributable to shareholders was HK$7 million (or a profit of HK$57 million if foreign exchange losses of HK$50 million was excluded), a turnaround from the HK$139 million loss for 2018. The improvement was achieved despite an operating environment that was in many aspects unfavourable. The construction business reported considerably higher profit margins, while the property business recorded lower disposal gains but substantial reduction in net rental expenses.

The Group restored profitability in its operations and successfully completed a number of acquisition and disposals, together with repurchases of senior notes, thereby strengthening the balance sheet and improving cash flow.

The Group's turnover for 2019 amounted to HK$5.5 billion, a 9.8% decrease as compared to HK$6.1 billion for 2018, largely attributable to relatively few new construction contracts secured in 2018 and the low level of outstanding workload at the end of 2018. The property business generated relatively lower turnover from property sales and rentals. In 2019, the construction business significantly expanded its order book with HK$11.5 billion new contracts secured, sustaining further business and profit growth in the next few years.

Key Corporate Developments

Disposal of Partial Interests in Nanjing Jiangnan Cement

In May, the Group entered into a sale and purchase agreement with a subsidiary of Shui On Land (SOL) for the disposal of the Group's 58% equity interest in Great Market Limited for an adjusted consideration of approximately RMB148.5 million, which was duly completed in June.

Great Market Limited holds a 60% equity interest in Nanjing Jiangnan Cement Co., Ltd. (NJC), a joint venture that operates a cement grinding mill in Nanjing. In recent years, the Nanjing Municipal Government has planned to redevelop Qixia District, in which the cement grinding mill is located. The disposal will enable the Group to leverage SOL's expertise in land conversion and master planning for redevelopment of the plant site, while retaining a 25.2% effective equity interest in NJC to participate in the potential upside resulting from the land redevelopment.

Disposal of Commercial Property in Kwun Tong

In October, the Group realised its investment in the commercial building situated at No. 93 Wai Yip Street in Kwun Tong, Hong Kong, and sold it for a consideration of approximately HK$387 million.

Resumption Compensation for Kaili Cement Plant

SOCAM's subsidiary, Guizhou Kaili Shui On Cement Limited, entered into the resumption compensation agreement in July with the Kaili Municipal Government of Guizhou, pursuant to which the latter has agreed to compensate the subsidiary an amount of approximately RMB171 million to resume the cement plant and its site, and to reimburse the costs and expenses incurred by the Group in having closed the operation of the cement plant since 2010 as a result of the Central Government's policy of phasing out energy-inefficient cement production capacity.

It is expected that the Kaili Government will redesignate the cement plant site for commercial and residential use, and put this cement plant site up for sale by way of a tender, auction or a listing for sale (Public Auction) after the land redesignation. The Kaili Government is currently proceeding with the requisite arrangement for the Public Auction, and the Group is prepared to participate in the Public Auction.

Repurchases and New Issuance of Senior Notes

In May and September, SOCAM announced tender offers to purchase for cash the 6.25% senior notes due 2020 issued by the Company up to the maximum aggregate principal amounts of US$80 million and US$100 million respectively. The offers aim to allow the Group to manage its balance sheet liabilities, optimise its debt structure and debt maturity profile, and reduce its financing costs. As a result of these tender offers, the Company accepted for purchase all the senior notes in an aggregate principal amounts of approximately US$76.7 million and US$8.4 million respectively. The total purchase consideration for the senior notes accepted for purchase, plus accrued interest, amounted to approximately US$85.7 million.

In January 2020, SOCAM issued 6.25% senior notes due 2022 in an aggregate principal amount of US$180 million primarily to refinance the Group's existing indebtedness with near term maturities, including the existing 6.25% senior notes due 2020, and for general corporate purposes. The estimated net proceeds of the new issuance of senior notes, after deduction of fees, commissions and expenses, amounted to approximately US$177 million.

Acquisition of Property Management Business in Hong Kong

SOCAM has been actively exploring investment opportunities that are beneficial to its long-term development. In April, the Group acquired the property management business of the Shui On Private Group in Hong Kong for a cash consideration of HK$35 million.

Shui On Properties Management Limited (SOPM) has been providing quality property management services in Hong Kong for over 30 years, with a diversified portfolio comprising residential estates, grade-A office building, shopping centres and carparks. SOPM will contribute stable income and cash flow to the Group, and is well poised to expand its property management portfolio.

FEATURE STORY

DESIGN & BUILD

In recent years, the design-and-build approach to construction has gained increasing popularity around the world. SOCAM has unrivalled capabilities and experience in this area, as demonstrated by our proven track record of success and market recognition.

Our construction teams collaborate with suitable design consultants from initial concept through project completion, and join hands with selected sub-contractors, in undertaking design-and-build projects, raising efficiency with seamless interface, minimising risk for clients and reducing the overall delivery time and cost.

We have undertaken a number of design-and-build projects, primarily in the public sector, in Hong Kong for over 30 years, from public housing estates under the "Private Sector Participation Scheme" (PSPS) of the Housing Authority to institutional buildings and facilities of the HKSAR Government.

Looking ahead

We expect an increase in tender opportunities for design-and-build projects in the public sector construction market in Hong Kong. Our strong capabilities and track record of timely delivery, safety and environmental management will earn us an edge over competition in securing these contracts.

NORTH POINT GOVERNMENT OFFICES (1998)

Completion of this first design-and-build contract awarded by the Architectural Services Department demonstrated our capability to deliver superior quality institutional building on schedule and at competitive prices. It took 23 months only to complete this 26-storey office building, with a contract sum of HK$968 million, in 1998.

HONG KONG CHILDREN'S HOSPITAL (2017)

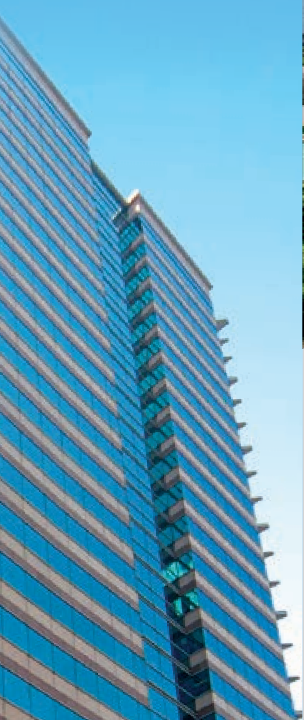
The first children's hospital in Hong Kong's public healthcare system, comprising two connected towers and rehabilitation park surroundings, was completed, in a joint venture with China State Construction, with a contract value of HK$9 billion, in 2017.

It 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.

WEST KOWLOON LAW COURTS BUILDING (2016)

Completed in 2016, this HK$2.2 billion law courts complex project comprises two towers, connected by link bridges and decks at various levels while maintaining a breezeway and solar access for the surrounding space.

It received the BEAM Plus – Gold certification from the Hong Kong Green Building Council in recognition of its energy-efficiency and sustainability performance.



ICAC HEADQUARTERS BUILDING (2007)

The 25-storey headquarters building of the Independent Commission Against Corruption, with a contract value of HK$685 million, was completed in 2007, within the tight schedule of 31 months.

CONSTRUCTION

The Group's construction business reported a remarkable increase in profit in 2019. Riding on its solid presence in the market, the Group has also expanded its order book notably during the year.

Technology and safety culture are integral to our sustainable development.

MARKET REVIEW

The contraction of the Hong Kong economy in 2019 was mainly attributable to the weak performance in both domestic and external demand. From the US-China trade disputes to the social protests carried over into 2020, not only business investment and private consumption, but overall economic activity will continue to be negatively impacted. The outbreak of coronavirus in January 2020 further casts a shadow over the economic sentiment and social life of the city.

While the scarcity of developable land for affordable housing and community facilities continues to be a major community concern, significant delays in approving funding in the Legislative Council (Legco) of the HKSAR has led to a slowdown in the tendering and award of government projects. In the fiscal year 2018-19, the Legco's Finance Committee only approved funding for public works projects in a total amount of HK$69 billion, which fell far short of the funding amount of HK$143 billion submitted for approval by the HKSAR Government. The delays have severely affected the business and development of the local construction industry, which accounts for nearly 10% of the working population.

In a bid to deal with the shortage of suitable land needed to meet the public housing supply target, the HKSAR Government has pledged to adopt a multi-pronged approach to secure more housing land, auguring well for a steady flow of public housing contracts from the Hong Kong Housing Authority (HKHA) in the coming years, and will also set aside HK$5 billion to provide a total of 10,000 transitional housing units within the next three years. Under the revised long-term housing strategy, the HKSAR Government raised the target for the proportion of public housing in the overall housing supply from 60% to 70% to address strong housing demand, and also updated its target to provide a total of 315,000 public housing units during the ten-year period from 2019-20 to 2028-29. In December 2019, the latter target was scaled down slightly to 301,000 public housing units for the said period.

Apart from land and housing, another issue of utmost concern to the community is healthcare. The Government's HK$200 billion 10-year hospital development plan has already commenced, but filibustering over funding at Legco has led to serious delays of major redevelopment projects.

The Macau economy continued to shrink while the gaming industry remained weighed down. However, visitor arrivals recorded a healthy growth during the year, and the revamps and rolling refurbishments of the casino hotels proceeded as planned.

The ageing population has led to a shortfall in skilled and unskilled construction workers, and the situation is expected to deteriorate further, potentially raising the risk profile of Hong Kong construction projects through uncertainty around project scheduling and delivery. The tight conditions of the labour market, coupled with high construction materials prices and operating costs, have contributed Hong Kong having the third highest construction costs in the world.

In view of the challenges of labour shortage and an ageing workforce, the HKSAR Government allocates HK$200 million in this fiscal year to expand the apprenticeship scheme for the construction industry, and increase the allowances for new trainees to encourage and attract in-service workers to pursue continuing education, while Macau has sought to address the issue by importing labour. As the industry works with the government to attract more talents, SOCAM is also exploring possible alleviation measures of our own by developing our people and grooming young talents.

Shek Kip Mei Estate Phase 6

Adoption of New Technology and Safety

The construction industry is recognised as a large contributor to the city's development. In a drive to enhance the industry's competitiveness, the HKSAR Government has set up a HK$1 billion Construction Innovation and Technology Fund to help industry players to harness automation and encourage wider adoption of innovative technologies. Increasing number of government construction contracts now require the tenderers to specify their technical capability, with the use of BIM technology becoming mandatory. SOCAM continues to place utmost importance on technological advancement, and has stepped up adoption of new technologies to raise operational efficiency and reduce cost.

During the year, we have worked closely with the Building and Construction Authority of Singapore, and initiated a number of innovations to examine the implementation of new construction technologies and Modular Integrated Construction (MiC) in the new construction projects, the first one being the multi-welfare services complex in Kwu Tung North. We believe the Group's first project with full MiC application will position SOCAM as an industry pioneer in implementing sustainable construction. We are also exploring the adoption of Design for Manufacturing and Assembly (DfMA), Prefabricated Prefinished Volumetric Construction (PPVC), as well as use of suitable robots in selected construction processes. These technology advances are expected not only to uplift the productivity, build quality, site safety and environmental performance of our construction jobs, but also cope with new contract requirements of government projects and reduce the labour component.

Significant progress has been made on the application of Building Information Modelling (BIM) during the year, with the establishment of an office in Zhuhai to, among others, strengthen the Group's in-house design and technical capabilities, in a strategic move to enhance its competitiveness in tendering for the growing number of design-and-construction jobs from the HKSAR Government and other clients. The BIM team in the Zhuhai office plays a pivotal role in facilitating the wider adoption of BIM technology in our building and interior fit-out projects going forward.

Safety has always been a top priority for SOCAM. With our continued efforts in promoting and strengthening safety at worksites, our performance further improved in 2019 as we recorded an accident rate of only 5.32 per 1,000 workers, which hit the lowest on our records and is well below the industry average.

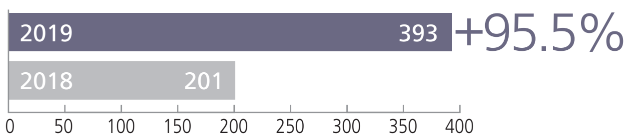
Our efforts have earned us recognition from a number of organisations during the year. The Junior Police Officers Married Quarters in Fan Garden, Fanling, our design and build project, garnered the Gold Award in Building Sites (Public Sector) and Certificate of Good Performance (Safety Teams Award) in the Construction Industry Safety Award Scheme 2018/2019 organised by the Labour Department. Shui On Building Contractors Limited (SOBC) won two Gold Awards in the Best Refurbishment & Maintenance Contractor in Occupational Safety and Health and Best Safety Enhancement Program for Working at Height categories in the Construction Safety Promotional Campaign 2019 organised by the Occupational Safety & Health Council, and the Proactive Safety Contractor Award from the Hong Kong Construction Association in the HKCA Construction Safety Awards 2018.

OPERATING PERFORMANCE

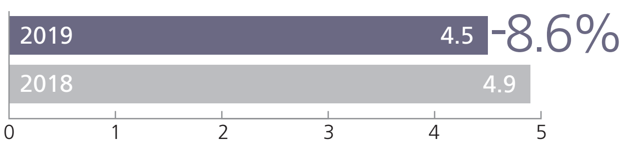
The Group's construction business reported a remarkable increase in profit in 2019. Riding on SOCAM's solid presence in the market, the Group has also expanded its order book notably during the year, and is well set to go from strength to strength.

The business posted a profit of HK$393 million for 2019, a 95.5% increase over the profit of HK$201 million for 2018. Turnover for 2019 amounted to HK$4.5 billion, down

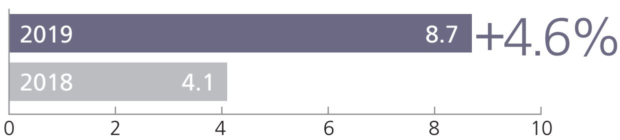
Profit (HK$ million)



Turnover (HK$ billion)



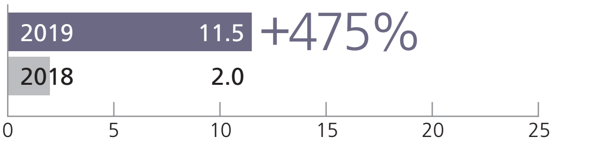
Profit Margin (%)



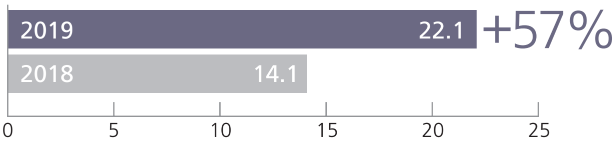
slightly from HK$4.9 billion for 2018. The lower turnover recorded in 2019 was largely attributable to completion of some major construction projects during 2018, coupled with a relatively low level of HK$2 billion new contracts secured in 2018. Nevertheless, profit margin rose considerably to 8.7% in 2019, from 4.1% in 2018.

New Contracts and Workload

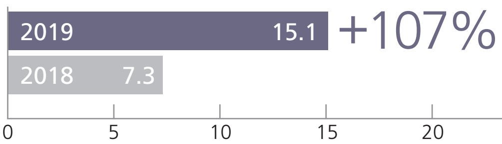
New contracts (HK$ billion)



Gross value of contracts on hand
(as of 31 December) (HK$ billion)



Gross value of contracts to be completed
(as of 31 December) (HK$ billion)



During 2019, the business secured a number of new construction, maintenance, fit-out and renovation contracts in Hong Kong and Macau worth a total of HK$11.5 billion, which hit record high in recent years and was significantly above the HK$2.0 billion new contracts won in 2018. Shui On Construction Company Limited (SOC) and SOBC secured HK$10.4 billion new contracts in total, while Pat Davie Limited (PDL) was awarded HK$1.1 billion of new projects in Hong Kong and Macau. More details of the new contracts will be provided under the respective companies below.

Driven by the very substantial value of new contracts won, the gross value of contracts on hand as at 31 December 2019 reached HK$22.1 billion, and the value of outstanding contracts to be completed upsurged to HK$15.1 billion, considerably higher than the HK$14.1 billion and HK$7.3 billion respectively as at 31 December 2018. The expanded order book will help ensure healthy growth in turnover, profit and cash flow in the next few years.

Progress on Existing Projects

During the year, the Group's construction projects continued apace and on schedule, including the design and construction project at the Junior Police Officers Married Quarters at Fan Garden, the Central Market Revitalisation Project for the Urban Renewal Authority (URA), and a number of maintenance works term contracts for the Architectural Services Department (ASD), HKHA, Education Bureau, MTR Corporation and CLP Power, as well as fitting out, renovation and refurbishment contracts in Hong Kong and Macau.

Projects Completed

A number of construction projects were completed during the year, which included, among others:

- Construction of the public housing project at Shek Kip Mei Estate Phases 3, 6 and 7;
- Design and construction of the Hong Kong Garden at the Beijing International Horticultural Exhibition 2019; and
- Fitting out/refurbishment works on the Skycity Marriott Hotel, Tsz Wan Shan Shopping Centre and a new commercial building in Kwun Tong in Hong Kong, and for Altira and Wynn Palace in Macau.

Shui On Building Contractors Limited

SOBC is a leading building contractor in public housing construction in Hong Kong. Since 1981, it has completed numerous public housing units as well as shopping centres and public amenities in government estates, often pioneering new town developments. Its subsidiary, Pacific Extend Limited, established in 2000, principally undertakes maintenance and minor works for government organisations, public utility and transport companies, and other institutions.

Redevelopment of Kwai Chung Hospital (Phase 2)

New Contracts

New contracts secured by SOBC during 2019 totalled HK$3,605 million, which included:

- Construction of a public housing development in Chai Wan for the HKHA (HK$574 million) which will provide 828 public rental housing units and ancillary facilities;
- A 3-year term contract for minor works for Kowloon West Cluster, awarded by the Hospital Authority in Hong Kong (HK$846 million);
- A 2-year term contract for minor works at various premises in Shatin Racecourses for the Hong Kong Jockey Club (HK$122 million);
- A 3-year term contract for alterations, additions, maintenance and repair of aided schools, buildings and lands, and other properties in Sham Shui Po, Tsuen Wan and Kwai Tsing, awarded by the Education Bureau (HK$1,024 million); and
- A 3-year term contract for alterations, additions, maintenance and repair of aided schools, buildings and lands, and other properties in Sha Tin, Tai Po and North, awarded by the Education Bureau (HK$1,039 million).

During the year, apart from the new construction and maintenance contracts, SOBC continued to make progress on its existing contracts, which included the term contract for the design and construction of fitting out works for the ASD, the minor works term contract for the Education Bureau, the architectural and building works term contract for MTR Corporation, and the term contract for design and construction of minor building and civil engineering works for the CLP Group.

SOBC completed the construction contract for the public housing project at Shek Kip Mei Estate Phases 3, 6 and 7, which provide 1,543 public rental housing units and ancillary facilities, during the year.

Multi-welfare services complex in Kwu Tung North

Shui On Construction Company Limited

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

In 2019, SOC teamed up with SOBC and formed a joint venture to undertake major construction projects, in a strategy to leverage respective parties' construction expertise and experience. This joint venture secured new contracts in an aggregate contract sum of HK$6,744 million from the ASD during the year.

In addition, the joint venture submitted a few tenders to the ASD for the design and construction contracts, worth over HK$7.7 billion. The Group remains cautiously optimistic about its chance of securing some of these contracts, capitalising on its competency in design and build.

During the year, SOC continued to progress well on its contract from the ASD for the design and construction of the Junior Police Officers Married Quarters at Fan Garden, which will provide 1,184 flats upon completion in 2020, as well as the Central Market Revitalisation Project for the URA.

SOC completed the contract for the design and construction of the Hong Kong Garden at the Beijing International Horticultural Exposition 2019.

New Contracts

- Design and construction of redevelopment of Kwai Chung Hospital (Phase 2) which, upon completion in 2023, will accommodate full range of psychiatric services in a new hospital campus, with a total GFA of 134,000 square metres, at the existing Kwai Chung Hospital compound (HK$4,856 million); and
- Design and construction of a purpose-built multi-welfare services complex at Kwu Tung North, which will provide a total of 1,750 residential care places for the elderly upon completion in 2022 (HK$1,888 million).

Pat Davie Limited

PDL is recognised as a market leader in fast-track, high quality interior fitting out for large clients, including corporate offices, hotels, banks, clubs, retail outlets and shopping arcades. It provides a full range of services, including design-and-build tailored to meet individual client's needs.

Major New Contracts

- Fitting out of the new Incubation Centre and SME Offices in the Hong Kong Science Park;
- Builder's works on the data centre of PCCW in Fotan;
- Fit-out works on the Food Bazaar and revamp and expansion works on lavatories for the Airport Authority at the Hong Kong International Airport;
- Refurbishment works for Hong Kong Land Property on the Alexandra House in Central;
- Alteration and addition works at Hongkong Electric Centre;
- Fit-out works on Club Lusitano and the Client Centre of HSBC in Hong Kong; and
- Fit-out works on the shopping arcade and entry lobby in The Londoner Macao of Venetian in Macau.

PDL continues to be very active in the fit-out and refurbishment markets of both Hong Kong and Macau. In 2019, it secured a total of 46 new contracts with an aggregate value of HK$1,106 million primarily in the commercial and institutional sectors in Hong Kong.

PDL has executed well on the projects it secured. During 2019, contracts worth a total of HK$779 million and HK$85 million were completed in Hong Kong and Macau respectively. Major ones included the fitting out and refurbishment works on the Skycity Marriott Hotel, SME Offices in the Hong Kong Science Park, a new commercial building in Kwun Tong, food court in Hong Kong International Airport, Tsz Wan Shan Shopping Centre of Link Asset and Club Lusitano in Hong Kong, as well as the fit-out works on the Meg-star VIP Club in Altira Hotel and Buns & Bubbles in Wynn Palace in Macau.

To better serve clients' needs, PDL has stepped up efforts to strengthen its in-house design and technical capabilities by expanding its office in Zhuhai and nurture the BIM professional team.

Subsequent to the year-end, PDL secured a number of new contracts worth a total of HK$370 million, which included the interior fit-out works on The Hong Kong Palace Museum for the West Kowloon Cultural District Authority, an anchor government project to build a world-class exhibition centre to promote Chinese aesthetics and culture, and the Digital Training Centre for the Airport Authority in Hong Kong.

Interior fitting-out for Club Lusitano

MAJOR PROJECTS AT A GLANCE

Interior fitting-out for Club Lusitano

Public housing development at Fung Shing Street, Wong Tai Sin

Redevelopment of Kwai Chung Hospital (Phase 2)

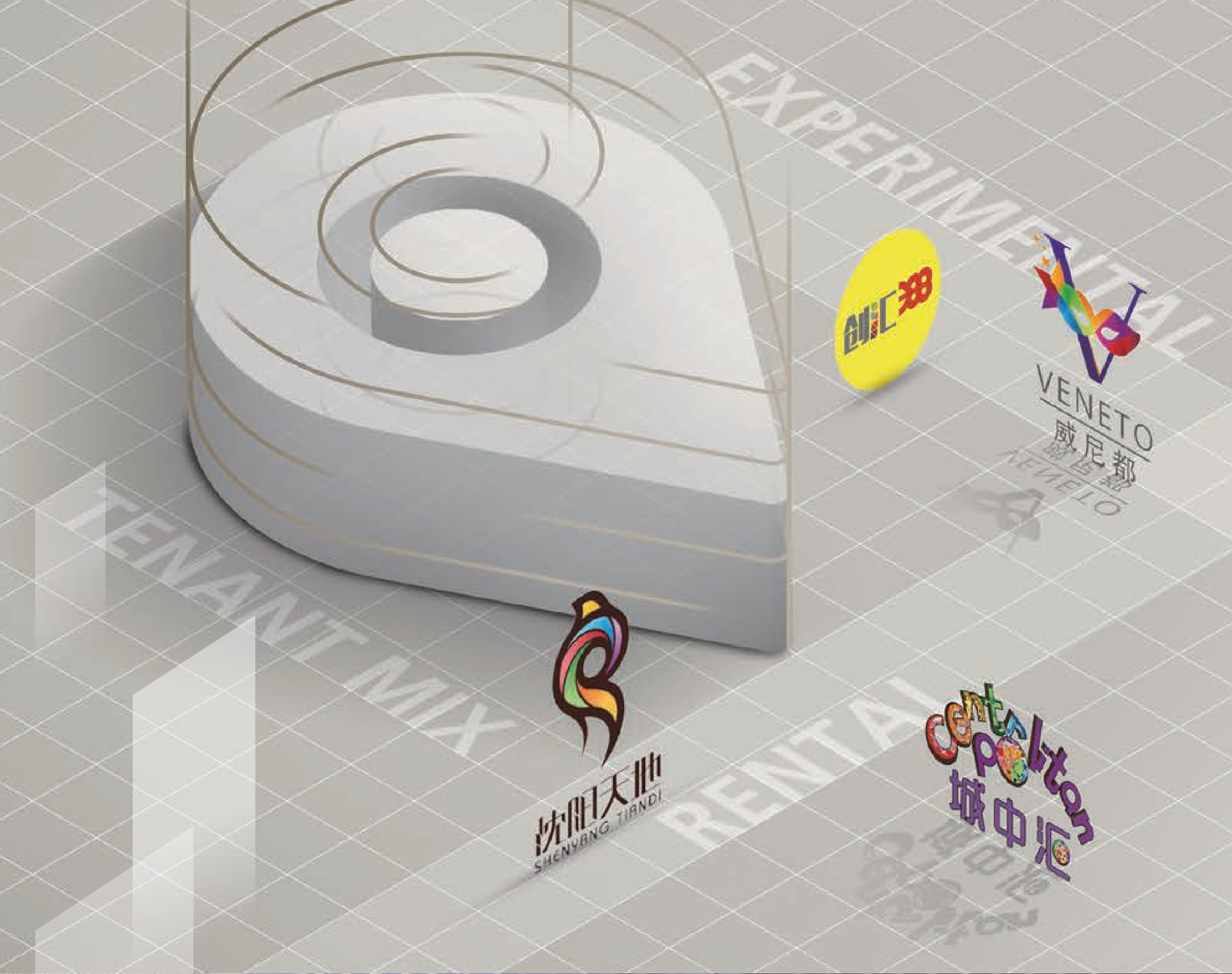
Refurbishment works of CLP Power station

Shek Kip Mei Estate Phases 3, 6 and 7


Multi-welfare services complex in Kwu Tung North


Junior Police Officers Married Quarters at Fan Garden, Fanling


Revitalisation of Central Market



Shenyang Tiandi

PROPERTY

The Group strove to revamp, re-position and refurbish its retail properties to enhance turnover, footfall and rentals to provide an all-round shopping, dining and entertainment experience.

Chengdu Centropolitan

MARKET REVIEW

In Mainland China, retail sales of consumer goods went up by 8% year-on-year to RMB41.2 trillion in 2019, while online retail sales reached RMB10.6 trillion after a 16.5% year-on-year growth. Further rapid expansion of e-commerce and the spending habits of the millennial consumers continued to pose challenges to traditional retail environments. New technologies such as big data, artificial intelligence and mobile internet, as well as mature logistics systems, are contributing to better integration of traditional retail stores and online platforms, while operators are also repositioning and revitalising their malls to offer shoppers a lifestyle experience.

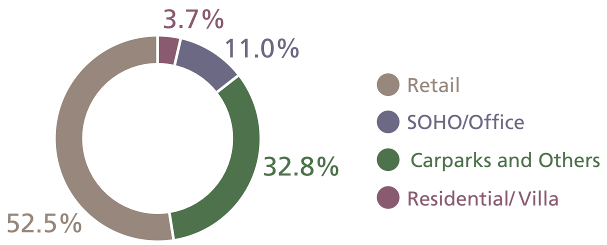
The Group's four shopping malls occupy a combined developable GFA of 189,800 square metres. Over these few years, the Group strove to revamp, re-position and refurbish its retail properties to enhance turnover, footfall and rentals and compete in the current market, in which consumers value family-focused outlets that provide an all-round shopping, dining and entertainment experience.

OPERATING PERFORMANCE

The Group's property business reported a profit of HK$160 million for 2019, compared with the profit of HK$199 million for 2018. Total turnover for 2019 amounted to HK$1,052 million, comprising sales revenue of HK$869 million, gross leasing income of HK$113 million and Hong Kong property management services income of HK$70 million, as compared with total turnover of HK$1,214 million for 2018.

Property Portfolio

Since 2013, SOCAM has been implementing a monetisation strategy to unlock asset value, improve its balance sheet and rationalise its operations. The Group has significantly reduced its property portfolio in Mainland China from an attributable gross floor area (GFA) of 2.1 million square metres at the end of 2012 to 0.4 million square metres at the end of 2019. Within the portfolio, 364,800 square metres GFA were completed properties, and 67,100 square metres GFA were currently under development.



As of 31 December, the Group owned six projects in Mainland China. They are summarised in the table 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	-	33,300	43,000	90,700	167,000	167,000	Completed
Chongqing	Creative Concepts Center	-	-	21,000	9,900	30,900	30,900	Completed
Guangzhou	Parc Oasis	-	-	300	4,700	5,000	5,000	Completed
Nanjing	Scenic Villa	15,800	-	-	10,600	26,400	26,400	2020
Shenyang	Shenyang Project Phase I	-	1,600	62,200	22,500	86,300	86,300	Completed
Tianjin	Veneto Phase 1**	-	-	63,600	2,500	66,100	59,500	Completed
	Veneto Phase 2**	-	12,800	36,600	800	50,200	45,200	2020
Total		**15,800**	**47,700**	**226,700**	**141,700**	**431,900**	**420,300**	

* The GFA shown excludes sold and delivered areas.

** SOCAM has 90% interest in this project.

Property Sales and Disposals

In 2019, the Group recognised revenue of HK$869 million (2018: HK$1,129 million) and profit of HK$124 million (2018: HK$215 million) from property sales, which were mainly contributed by the Nanjing Scenic Villa and Chengdu Centropolitan projects. During the year, the Group handed over to buyers 125 villas, with a total GFA of 35,720 square metres, and 33 car parking spaces in Nanjing Scenic Villa, as well as three SOHO units and 466 car parking spaces at Chengdu Centropolitan.

In October, the Group disposed of the commercial building en-bloc in Kwun Tong, Hong Kong, with a total GFA of approximately 2,600 square metres, for a consideration of approximately HK$387 million to realise its investment in this property. The gain from this investment was reflected through the fair value uplift of investment properties in 2018 and 2019. In July, the Group entered into an agreement to dispose of the kindergarten premises in Chengdu Centropolitan, with approximately 3,600 square metres GFA, for a consideration of approximately RMB45.5 million.

In addition, the Group contracted sales of 190 retail shops and 36 SOHO units, with a total GFA of 9,680 square metres, in Phase 2 of Tianjin Veneto for an aggregate sales amount of approximately RMB 280 million, following the sales launches in January and August respectively. Handover of the pre-sold retail shops and SOHO units is expected to take place in 2020.

Major property sales by project during the year:

	2019			2018		
	Contracted sales		Handover	Contracted sales		Handover
Project	Contracted amount*	GFA sold/ carparks sold	GFA delivered/ carparks delivered	Contracted amount*	GFA sold/ carparks sold	GFA delivered/ carparks delivered
Mainland China	(RMB million)	(sq. m.)/(no.)	(sq. m.)/(no.)	(RMB million)	(sq. m.)/(no.)	(sq. m.)/(no.)
Nanjing Scenic Villa						
Residential/ Villa	392	18,820	35,720	432	21,970	29,210
Carparks	3	32 units	33 units	2	20 units	19 units
Tianjin Veneto Phase 2						
Retail	251	7,230	–	–	–	–
SOHO	29	2,450	–	–	–	–
Chengdu Centropolitan						
Kindergarten	46	3,560	–	–	–	–
Carparks	77	466 units	466 units	1	5 units	22 units
SOHO	–	–	200	458	31,460	31,490
Hong Kong	(HK$ million)	(sq. m.)	(sq. m.)	(HK$ million)	(sq. m.)	(sq. m.)
93 Wai Yip Street						
Commercial	387	2,600	2,600	–	–	–

* VAT inclusive

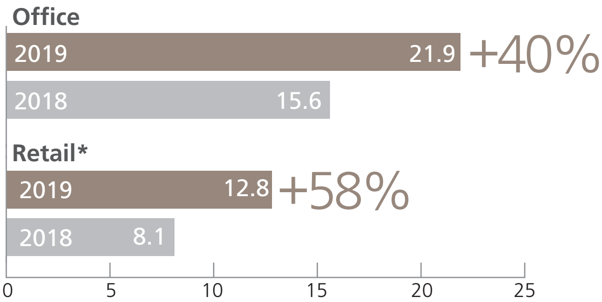
Rental Performance

Total gross rental income before deduction of applicable taxes from the Group's retail and office properties in the Mainland for 2019 increased to RMB68 million, up 36% from RMB50 million for 2018, mainly due to the leasing of the upper floors of the retail mall of Chengdu Centropolitan starting officially from August 2018, and improved leasing performance of the office and retail premises following revamping and refurbishment.

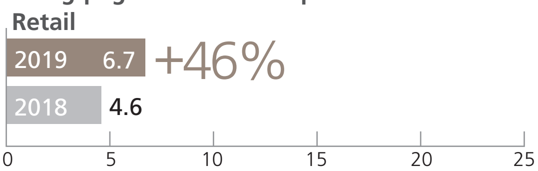
Gross rental income from retail and office properties in Mainland China (stated before deduction of applicable taxes):

Gross Rental Income (RMB million)

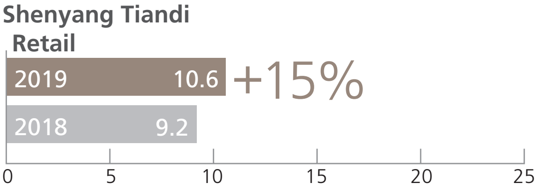
Chengdu Centropolitan



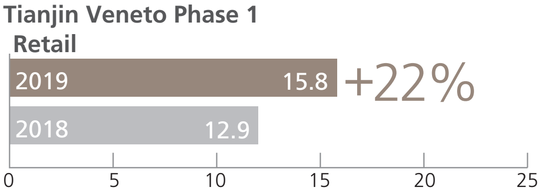
Chongqing Creative Concepts Center



Shenyang Tiandi



Tianjin Veneto Phase 1



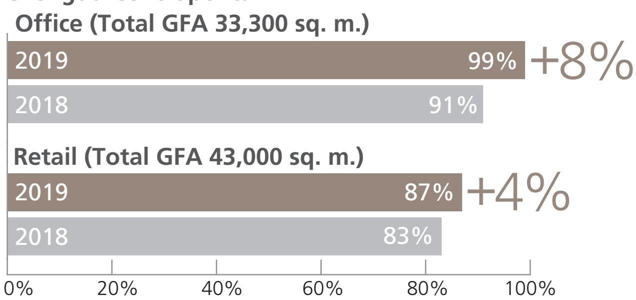
* Levels 2-6 were officially opened in August 2018.


Chengdu Centropolitan

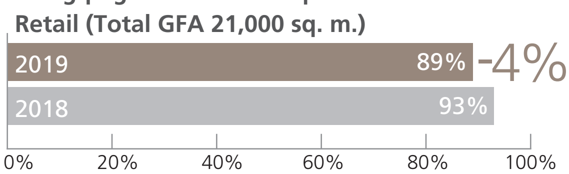
Occupancy rates of retail and office properties in Mainland China as of 31 December:

Occupancy Rate

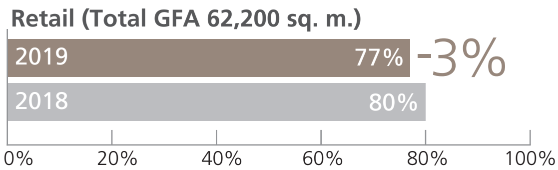
Chengdu Centropolitan



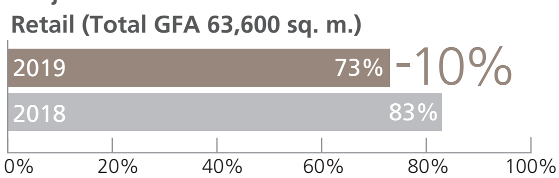
Chongqing Creative Concepts Center



Shenyang Tiandi



Tianjin Veneto Phase 1



Tianjin Veneto

Shenyang Tiandi

PROJECT UPDATES

Chengdu Centropolitan

Completed in 2017, Chengdu Centropolitan is a large-scale mixed-use development, comprising residential, SOHO and offices, retail space and car parks. All residential and SOHO units have been sold. The Group held the retail mall, office tower, and educational premises and 2,174 car parking spaces, with a total GFA of approximately 167,000 square metres, as at 31 December 2019.

In March 2019, the Group launched the first sales of the car parking spaces of the development after the title certificate for the basement was obtained. During the year, a total of 466 car parking spaces, generating sales revenue of approximately RMB77 million, were sold and handed over to buyers. The Group sold the kindergarten premises to EtonHouse Education Services for a consideration of approximately RMB45.5 million, which has been handed over in January 2020.

Leasing activity for the office tower progressed well, buoyed by demand for high quality office space in the district. As at 31 December 2019, the tower, with a total GFA of 33,300 square metres, was over 99% let, compared with 91% as at 31 December 2018. Major tenants primarily came from the insurance and finance sectors. During the year, the office tower saw an approximately 41% increment in the average monthly rental income against 2018.

The integrated shopping mall of the project currently houses, among others, fast food stalls and Hema Fresh (a new retail model of Alibaba offering online and offline integration and experimental consumption) in the basement, and a children's education centre, cinema, fitness centre and F&B outlets on upper floors, catering for the diverse needs of the local community. As at 31 December 2019, the occupancy rate of the mall was 87%, slightly higher than the 83% as at 31 December 2018. The average monthly rental income recorded approximately 57% increase during the year.

Chongqing Creative Concepts Center

This mixed-use development is located in Chongqing's CBD close to the busy Jiefangbei Square. The Group currently holds the 21,000 square metres GFA shopping mall and around 200 car parking spaces.

The shopping mall underwent a major revamp in 2018 and was re-positioned with a greater emphasis on lifestyle elements, including healthcare, hospitality and F&B. The boutique hotel taking up a net leasable area of approximately 2,300 square metres had commenced business in January 2019. The Group also rented out a net leasable area of approximately 2,900 square metres to a health clinic during the year.


Chengdu Centropolitan

The mall maintained a stable occupancy throughout 2019, but recorded an occupancy rate of 89% with a relatively low rental yield as at 31 December 2019, slightly below the 93% as at 31 December 2018, as a basement tenant vacated the leased premises upon lease expiry in late 2019. Discussions with potential tenants to lease the remaining leasable area of the mall are in progress.

Following the aforesaid major revamp, the mall saw a 44% increase in average monthly rental income in 2019, against 2018.

Shenyang Project Phase I

The Group currently holds Shenyang Tiandi, a 62,200 square metre GFA shopping mall, office units of 1,600 square metres GFA and 389 car parking spaces in this mixed-use development in the city's commercial hub.

The shopping mall has undergone an extensive revamp over the last two years to re-position it as a 'destination point'. Much efforts have been made to improve the tenant mix and raise occupancy and rental rates. Currently, the mall houses, among others, educational institutions, a book centre, health club, cinema, food court and F&B outlets.

The occupancy rate of the mall stood at 77% as at 31 December 2019, slightly lower than the 80% as at 31 December 2018, while average monthly rental income for 2019 achieved a 15% increase over 2018 through rental reversion and adjustments to tenant mix.

Tianjin Veneto

The Veneto is a European-style mall located in a prime location near Tianjin's Wuqing Station, which is on the Beijing-Tianjin intercity railway line.

The substantial revamp of Phase 1, covering 63,600 square metres GFA, which began in 2016, has improved the tenant mix and enhanced the visitor experience. As at 31 December 2019, Phase 1 registered an occupancy rate of 73%, compared with 83% as at 31 December 2018, mainly due to the termination of certain short-term leases and underperforming tenancies. Average monthly rental income for 2019 was 23% higher than that in 2018.

Construction work on the Phase 2 expansion, involving 49,400 square metres GFA of retail and SOHO spaces, is underway, with completion targeted for 2020. Strata-title sales of 348 retail shops and 116 SOHO units, out of a total of 486 retail shops and 184 SOHO units, were launched in stages since January and August 2019 respectively. As at 31 December 2019, sales of 190 retail shops and 36 SOHO units with respective total GFA of approximately 7,230 square metres and 2,450 square metres were contracted for total sales amounts of RMB251 million and RMB29 million respectively. The Group will step up marketing effort to push for the pre-sales of the remaining units.


Shenyang Tiandi

Tianjin Veneto

Nanjing Scenic Villa

Scenic Villa is a residential development located in Nanjing's Jiangning District, offering distinctive low-rise apartments with balconies in a garden and lakeside setting. As at 31 December 2019, this project had a developable GFA (after excluding sold and delivered areas) of approximately 26,400 square metres, comprising completed properties of approximately 9,500 square metres GFA and those under development of approximately 16,900 square metres GFA.

Construction works on Phase 2 were completed in June 2019. Construction of the basement structure of Phase 3, which will consist of six commercial blocks with a total developable GFA of approximately 16,900 square metres, was completed in May 2019, and superstructure works will commence according to the market situation.

Up to 31 December 2019, nearly all of the villas and around 43% of the car parking spaces in Phases 1 and 2 were sold, with four villas and 70 car parking spaces remaining unsold. The Group will continue to push for sales of the remaining stocks. Property sales revenue recognised in 2019 amounted to RMB726 million, contributed by the sales and handover of 125 villas with a total GFA of 35,720 square metres and 33 car parking spaces in Phases 1 and 2 to buyers.

Guangzhou Parc Oasis

Guangzhou Parc Oasis is a residential development located in North Tianhe. All the residential units and around 50% of the car parking spaces have been sold. In 2019, six car parking spaces were disposed of, generating revenue of RMB2.1 million. The remaining 381 car parking spaces are currently held for leasing.

93 Wai Yip Street

Acquired by SOCAM in December 2018, this commercial building in Kwun Tong, with a total GFA of approximately 2,600 square metres, was held for rental purposes. In October 2019, the Group captured an attractive divestment opportunity and disposed of the building en-bloc for a consideration of approximately HK$387 million. This property contributed total rental income of HK$2.1 million to the Group in 2019.

Property Management

SOPM has been managing a diversified portfolio of premises in Hong Kong, comprising residential estates, grade-A office building, industrial building, schools, shopping centres, cultural facilities and carparks, with over 25,000 housing flats/commercial and industrial units involving an aggregate GFA of over 500,000 square metres. SOPM contributed stable income and cash flow to the Group during the year.

ACTIVITIES AT A GLANCE

Chengdu Centropolitan

FEB
Spring Outing

MAY
Firefly Night Fair

JUL – AUG
Anniversary Ceremony

JUL – AUG
Dream Stage

Chongqing Creative Concepts Center

APR
Kicking King

JUN
Father's Day Party

OCT
Kids Market

Tianjin Veneto

FEB
Fruitful New Year

AUG
Dining Party

OCT
Happy Halloween

DEC
Cooking Competition

Shenyang Tiandi

JAN
Run Up!

JUN – SEP
Beach Carnival

SEP
Hip-hop Contest

OCT
Let's Plank

OUTLOOK

The year 2020 will present unprecedented challenges. Following the signing of the phase one trade deal in mid-January, putting a pause on the US-China trade conflict, the outbreak of the coronavirus in China in January delivers a severe blow to the Mainland economy initially, and then to the global economy after the disease has become a pandemic. The governments of various major countries have launched massive economic stimulus and fiscal aid packages to businesses and households, and the Federal Reserve made emergency rate cuts in March, taking interest rates back to the zero bound, in a concerted move to bolster their economies in the face of a potential worldwide recession.

While the Chinese authorities have taken the most rigorous and decisive measures to control the spread of the virus, China's already weakening economy is set to take another hit, particularly in the first quarter, with temporary city lockdown and production suspension, as well as a dent on retail, catering, tourism, hotels and transport, among others. There is no clarity over the possible impact of the epidemic on China's economy at this stage, depending mainly on its severity and duration.

Despite the coronavirus outbreak, the fundamentals sustaining continued growth of China's economy have not changed. The domestic economy is expected to remain solid. While the global economic uncertainty will exert further downward pressure on Chinese exports, the pent-up demand post-epidemic and policy support, if needed, will boost private consumption and government expenditures. For the property sector, changes in consumer behaviour, technological advances and further amalgamation of online and offline set to alter the retail market landscape.

Hong Kong economy will face mounting risks and challenges in 2020, after having been staggered by the local social turbulence and US-Mainland trade conflict. Now, the coronavirus outbreak further dampened the local consumption and business sentiments and aggravated the current recession of the city. As antipathy towards the HKSAR Government remains high, the deep-rooted conflicts in the society are unlikely to be resolved and public confidence re-built in the short term. Hong Kong will still be under a difficult situation for an extended period. The political wrangling in Legco over funding, causing unpredictable workload peaks and troughs for government projects, will continue.

We will further sharpen our competitive edges, notably design-and-build capabilities, to put us in a better position to respond to the new trends and harness these opportunities ahead.

The Group remains extremely cautious on the short-term economic outlook of Hong Kong. Looking forward, we foresee a contraction in the private sector construction projects in the next few years, while more contracts will come from the public sector to address the housing and healthcare needs and provide stimulus to shore up the economy. Unemployment rate is set to upsurge progressively, easing the shortage of construction labour. The global economic uncertainty tends to pull down building material prices. All these set the scene for more severe market competition for the public sector construction contracts.

As we pursue our plan to deliver greater value for our shareholders, we will continue to seek to grow those business areas where we are strongest. The Group believes that the construction industry will usher in a tide of opportunities in the coming few years. We will further sharpen our competitive edges, notably design-and-build capabilities, to put us in a better position to respond to the new trends and harness these opportunities ahead. Moreover, as we maintain and navigate close relationship with business partners, the increasing collaboration among the Group's building, maintenance and fitting out teams, leveraging one another's strengths, and extensive adoption of innovative new technologies in design and construction processes will give the Group the edge over the competition.

To cope with the increasing workload, SOCAM is committed to expanding its construction workforce. We shall attract more new and young entrants, strengthen training and investment in nurturing talents, which will also facilitate succession planning over the longer term.

With a leaner property portfolio, the Group will continue to improve rental performance and efficiency to generate higher returns. While SOCAM sharpens its focus on the booming public construction sector in Hong Kong, we will adopt a prudent strategy, and remain alert to acquisition and disposal opportunities to create value for shareholders.

Financial Review

Hong Kong Garden, Beijing International Horticultural Exhibition 2019

Financial Results

The Group's profitability returned to growth for the year ended 31 December 2019, and reported a profit attributable to shareholders of HK$7 million on a turnover of HK$5,545 million, comparing with the loss of HK$139 million and turnover of HK$6,128 million for 2018.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

An analysis of the total turnover is as follows

	Year ended 31 December 2019 HK$ million	Year ended 31 December 2018 HK$ million
Turnover		
SOCAM and subsidiaries		
Construction and building maintenance	**4,493**	4,914
Property	**1,052**	1,214
Total	**5,545**	6,128
Joint ventures		
Cement and others	**22**	34
Total	**22**	34
Total	**5,567**	6,162

Turnover from the construction business recorded an 8.6% decrease this year, compared to that of last year. The decrease was mainly attributable to the completion of a number of sizable contracts in the previous year, including the mega-sized contract for the construction of the Hong Kong Children's Hospital in a joint venture with China State Construction, the construction of the Public Rental Housing at So Uk Estate Phase 2 and the construction of Home Ownership Scheme at Kai Tak Site 1G1(B). This, coupled with the relatively lower value of new contracts secured in 2018, rendered the decrease in turnover recognised this year. On the other hand, major new contracts, including the design and construction of the redevelopment of Kwai Chung Hospital Phase 2, the design and construction of an elderly residential care home complex in Kwu Tung as well as two maintenance term contracts for the Education Bureau, with a total contract sum of approximately HK$8.8 billion awarded in December 2019, would start contributing to turnover from 2020.

Revenue from the property business decreased to HK$1,052 million, from HK$1,214 million in the prior year, as all the SOHO units of the Chengdu Centropolitan project had been sold during 2018. Such shortfall was substantially offset by the increased sales revenue recognised for more strata-title sales of villa units with higher average selling price achieved by the Nanjing Scenic Villa project, and the launch of car park sales by Chengdu Centropolitan and Nanjing Scenic Villa since the first half of 2019. In addition, the Group completed the acquisition of the Hong Kong property management business from Shui On Private Group in April 2019, which contributed HK$70 million revenue to the Group in 2019. Contrariwise, the disposal of the commercial property in Kwun Tong for a consideration of approximately HK$387 million, which was regarded as an investment property of the Group, has not been included in turnover according to applicable accounting standards.

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

	Year ended 31 December 2019 HK$ million	Year ended 31 December 2018 HK$ million
Construction	**393**	201
Property		
Profit on property sales	**124**	215
Net rental expenses	**(3)**	(76)
Fair value changes on investment properties, net of deferred tax provision	**39**	106
Gain on disposal of interest in a joint venture	**62**	–
Disposal of interest in Dalian Tiandi	**29**	74
Hong Kong property management	**4**	–
Net operating expenses	**(95)**	(120)
	160	199
Net finance costs		
– Senior notes	**(118)**	(145)
– Bank and other borrowings	**(85)**	(70)
Compensation for closure of a cement plant	**26**	–
Corporate overheads and others	**(83)**	(49)
Marked-to-market loss of currency hedging contracts	**–**	(57)
Foreign exchange losses	**(50)**	(115)
Taxation	**(164)**	(47)
Non-controlling interests	**(72)**	(56)
Total	**7**	(139)

Construction

Construction business posted considerably higher profit for the current year. Average net profit margin increased to 8.7% of turnover, from 4.1% margin in the previous year, largely due to (i) profit upward adjustments with respect to certain of the construction projects completed in the current year and prior year, being taken up in the current year; and (ii) write-back of certain provisions made in previous years.

Property

As mentioned above, all SOHO units of Chengdu Centropolitan had been sold in 2018 and profit from property sales decreased accordingly in the current year, which was mainly related to strata-title sales of Nanjing Scenic Villa. The performance of all of the shopping malls of the Group and the office tower of Chengdu Centropolitan showed significant improvement in 2019. While rental income from the Group's investment properties continued to increase, related direct rental expenses were reduced, which resulted in the decrease in net rental expenses incurred for the current year. As at 31 December 2019, the office tower of Chengdu Centropolitan was nearly 100% let, generating a positive net rental for 2019.

The disposal of the 34.8% effective interest out of the Group's 60% interest in the cement grinding mill in Nanjing, at a consideration of approximately RMB148 million, to Shui On Land Limited was completed in June 2019 and a disposal profit of HK$62 million was recognised.

In December 2017, the Group completed the disposal of its 22% interest in Dalian Tiandi for a consideration of RMB1.3 billion. As of 31 December 2019, the outstanding consideration receivable was approximately RMB32 million.

Interest income calculated at the rate of 15% per annum on the overdue outstanding amount payable to the Group, amounting to HK$29 million, was recognised in the current year. In the previous year, a one-off write-back of approximately HK$32 million for fees payable relating to the Dalian Tiandi project was included.

The Group achieved further saving in total operating expenses in the current year as the organisation continued to streamline to achieve a leaner operation.

Net finance costs

Total net finance costs of the Group remained relatively stable in both 2019 and 2018. Since September 2018, the Company has repurchased US$106.785 million of its 6.25% senior notes due May 2020, reducing the outstanding amount to US$173.215 million as at 31 December 2019. Increase in net finance costs on the Group's bank and other borrowings in 2019 was due to the increase in average bank and other borrowings balance in 2019 as compared to 2018.

Foreign exchange losses

During the current year, the Renminbi registered a 2.2% depreciation against the Hong Kong dollar, while the United States dollar registered a 0.6% depreciation against the Hong Kong dollar. These resulted in foreign exchange losses to the Group totalling HK$138 million, of which HK$50 million and HK$88 million were recognised in the consolidated statement of profit or loss and the consolidated statement of financial position respectively. This was compared to the foreign exchange losses of HK$115 million and HK$198 million respectively for the prior year, when the Renminbi depreciated 4.8% against the Hong Kong dollar.

Compensation for closure of a cement plant

In July 2019, the Group entered into a resumption compensation agreement with the Kaili Municipal People's Government of Guizhou Province of the PRC for resuming the cement plant owned by the Group and reimbursing the costs and expenses incurred for closing its operation for an amount of approximately RMB171 million, in aggregate. Compensation relating to expenses and costs previously incurred, net of estimated taxes, was recognised as income in 2019.

Assets Base

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

	Year ended 31 December 2019 HK$ million	Year ended 31 December 2018 HK$ million
Total assets	**9,436**	10,602
Net assets	**2,805**	2,889
	HK$	HK$
Net asset value per share	**7.5**	7.5

Total assets of the Group decreased to HK$9.4 billion at 31 December 2019, from HK$10.6 billion at 31 December 2018, which can be explained in the segment analysis below. The decrease in net assets of the Group was principally attributable to the decrease in the translation reserve of HK$88 million as a result of the depreciation of the Renminbi against the Hong Kong dollar.

During 2019, the Company bought back approximately 10 million of its own shares, which served to maintain the net asset value per share of the Company to HK$7.5 at both 31 December 2019 and 2018, notwithstanding the slight decrease in net assets of the Group.

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

	Year ended 31 December 2019 HK$ million	**%**	Year ended 31 December 2018 HK$ million	%
Construction	**1,710**	**18**	1,792	17
Property	**7,090**	**75**	7,642	72
Corporate and others	**636**	**7**	1,168	11
Total	**9,436**	**100**	10,602	100

The proportion of total assets of each business segment remained relatively stable at 31 December 2019, when compared with that at 31 December 2018. Decrease in property assets at 31 December 2019 was mainly due to strata-title sales of villa units of Nanjing Scenic Villa, as well as the disposal of the commercial property in Kwun Tong.

EQUITY, FINANCING AND GEARING

The shareholders' equity of the Company decreased to HK$2,805 million on 31 December 2019, from HK$2,889 million on 31 December 2018, for the reasons mentioned above.

Net bank and other borrowings of the Group, which represented the total of bank borrowings and senior notes, net of bank balances, deposits and cash, amounted to HK$1,520 million on 31 December 2019, as compared with HK$2,454 million on 31 December 2018.

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

	Year ended 31 December 2019 HK$ million	Year ended 31 December 2018 HK$ million
Bank borrowings repayable:		
Within one year	**1,019**	978
After one year but within two years	**288**	362
After two years but within five years	**239**	387
After five years	**93**	121
Total bank borrowings	**1,639**	1,848
US$ senior notes due 2020	**1,344**	2,023
Total bank and other borrowings	**2,983**	3,871
Bank balances, deposits and cash	**(1,463)**	(1,417)
Net bank and other borrowings	**1,520**	2,454

Since September 2018, the Company commenced to repurchase its 6.25% senior notes due May 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. The Company repurchased further US$87.285 million of its 6.25% senior notes in the current year, reducing the outstanding amount to US$173.215 million as at 31 December 2019. In January 2020, the Company issued 6.25% senior notes due January 2022 in a total amount of US$180 million to finance the repayment of the existing senior notes maturing in May 2020.

The net gearing ratio of the Group, calculated as net bank and other borrowings over shareholders' equity, decreased to 54.2% at 31 December 2019, from 84.9% at 31 December 2018, mainly attributable to the substantial reduction in net borrowings during the year.

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 the Renminbi in the short-term will affect the Group's business performance and financial status. Since the expiry of the currency hedging contracts took out in early 2017, 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 2019, the number of employees in the Group was approximately 1,500 (31 December 2018: 1,060) in Hong Kong and Macau, and 410 (31 December 2018: 480) 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.

MAJOR EVENTS

Jan

Strata-title sales of retail shops of Tianjin Veneto Phase 2 was launched.

Mar

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

SOC's design-and-build project, the Junior Police Officers Married Quarters in Fan Garden, Fanling, garnered the Gold Award in Building Sites (Public Sector) in the Construction Industry Safety Award Scheme 2018/2019 organised by the Labour Department.

Apr

SOCAM acquired SOPM from Shui On Private Group.

SOC completed the construction works of the design and construction of the Hong Kong Garden for the Beijing International Horticultural Exhibition 2019.

Jun

SOCAM completed the disposal of 34.8% partial interests in Nanjing Jiangnan Cement Co., Ltd.

Construction works of Nanjing Scenic Villa Phase 2 were completed.

SOBC won three Gold Awards in the Construction Safety Promotional Campaign 2019 organised by the Occupational Safety & Health Council (OSHC).

Central Point International Plaza in Chengdu Centropolitan was rated as the first Grade-A office in Jinniu District by the Chengdu Building Grade Rating Committee.

Jul

SOCAM reached an agreement with Kaili Municipal Government in which the latter agreed to compensate the Group an amount of RMB171 million regarding the closing of its cement plant.

SOC and SOBC became the first batch of construction companies in Hong Kong to obtain the ISO 45001 certification in occupational health and safety.

SOCAM repurchased the 6.25% senior notes due 2020 issued by the Company in an aggregate principal amount of US$76.7 million.

SOCAM completed the disposal of the commercial building 93WYS in Hong Kong for a consideration of approximately HK$387 million.

A new office in Zhuhai was officially opened, housing an operational team dedicated to Building Information Modeling (BIM) technology.

SOBC completed the construction works of the public housing project at Shek Kip Mei Estate Phases 3, 6 and 7.

SOC and SOBC were awarded four new contracts with a total value of HK$8.8 billion, including the design and construction of the redevelopment of Kwai Chung Hospital Phase 2, and an elderly residential care home complex in Area 29 of Kwu Tung North Development Area, and two three-year maintenance term contracts.

PDL obtained the interior fitting out contract of the Hong Kong Palace Museum for the West Kowloon Cultural District Authority.

Sep | **Oct** | **Nov** | **Dec**

SOC received the Safety Performance Award in the 18th Hong Kong Occupational Safety & Health Award organised by the OSHC.

SOCAM received the Good MPF Employer Award from the Mandatory Provident Fund Scheme Authority for the 2nd consecutive years.

SOCAM was awarded the Special Mention Award in the Non-Hang Seng Index (Small Market Capitalisation) category of the Best Corporate Governance Awards 2019.

Environmental, Social and Governance Report

SOCAM has a long-established corporate culture based around integrity, quality, innovation and excellence in everything we do. Caring for our people, the environment and the community are the goals of SOCAM's corporate social responsibility (CSR).

REFRESHING OUR SUSTAINABLE DEVELOPMENT STRATEGY

In 2019 SOCAM undertook an important initiative to refresh its sustainable development strategy, and conducted a stakeholder engagement exercise to gather the views of SOCAM's stakeholders on important trends and challenges facing SOCAM. We also stepped up efforts in improving our environmental and safety performance by adoption of innovative technology. Our continuous efforts earned us recognitions from a number of industry organisations, and achieved a record low accident rate during the year.

In this section, major results of the Group on our commitment to environmental and social performance through different initiatives are reported.

HOW WE MANAGE ESG

The Board, supported by ESG and CSR Steering Committees, is regularly briefed on performance on material CSR aspects including occupational health and safety, green building technology, training and development and issues in managing ESG related impacts.

Board of Directors

The Board oversees the execution of the Company's sustainability strategy as part of their oversight of business strategy and risk management

ESG Steering Committee

Responsible for managing ESG-related risks and opportunities:
- Occupational Health and Satety
- Sustainable Building Technology
- Training and Development
- Community Involvement

CSR Steering Committee

Responsible for coordinating different departments and divisions across SOCAM and implementing environmental and social initiatives

Caring for Our People

Enhancing health and safety of our employees, and providing an environment for them to excel and grow

Caring for The Environment

Strengthening our environmental management to bring about a measurable improvement in our performance

Caring for The Community

Investing time and resources caring for the needs of the underprivileged groups, particularly the young and elderly

STAKEHOLDER ENGAGEMENT

SOCAM cares about opinions of our stakeholders. To understand important areas of focus for SOCAM's sustainability development, we invited several internal and external stakeholders of different backgrounds to share their views. In December 2019 and January 2020, we conducted 33 in-depth interviews by phone or in person. Participants include

- board members, senior executives, managers in different functions,
- SOCAM's clients, partners, vendors, investors, regulators, media and NGO partners.

Overview Approach

The findings will be used to define the material topics and allow us to effectively formulate strategies, which shall address any current and emerging issues that matter most to our stakeholders and will have the most material impact on our business.

Important Sustainability Issues for SOCAM to Address

(Suggested by Stakeholders in the interviews)

Environmental

- Waste disposal/management
- Sustainable construction materials
- Water efficiency
- Energy efficiency
- Greenhouse gas emissions reduction
- Noise control
- Compliance with environmental regulations
- Environmental standard fulfilment (e.g. BEAM+, ISO)

Talent/Governance

- Employee attraction and retention
- Staff well-being
- On-site safety
- Training and education
- Transparency

Social

- Public engagement
- Supporting local communities (e.g. volunteerism, sponsorships)
- Youth engagement

Based on the interview findings, we are identifying sustainability issues that are important to society and environment and highly relevant to our business. Through building a strong relationship with our stakeholders, we can keep pace with the market and clients' needs, and understand their changing expectations, ensuring the Group operates its business in a sustainable way.

HOW WE ENGAGE

Stakeholders	How we engage	Progress made in 2019
Shareholders and investors	Directly communicate with shareholders at the annual general meeting, and maintain active dialogue with investors.	• Feedback was heard at the annual general meeting. Information was disseminated in a timely manner through annual report, announcement and circular publication. • We conducted an annual review of the Group's material risks and internal control that may impact the delivery of the Group's business objectives.
Clients, buyers and tenants	Proactively engage with clients through meetings, regular contacts and reports to ensure we offer the product and service quality they expect.	• We adopted advanced technology and upgraded to the ISO 45001 OHS management system to strengthen our safety system.
Sub-contractors and suppliers	Proactively build a socially responsible chain by setting out our business ethics and code of conduct, and stringent standards for assessing suppliers and monitoring performance.	• Ongoing dialogue was conducted through platforms including annual safety seminar, weekly environmental check, onsite audits and supplier performance review.
Employees	Strengthen employee engagement by "Shui On We Care" initiatives, and build up a team work culture.	• Undertook follow-up actions to our company-wide opinion survey conducted in 2018, and strengthened collaboration through two management retreats. • Organised more than 30 well-being activities in 2019.
Community	Engage with NGOs and participate in volunteering services to serve the community.	• Participated in 18 charity activities, worked together with 13 NGOs, and devoted 1,319 volunteering hours.

CARING FOR OUR PEOPLE

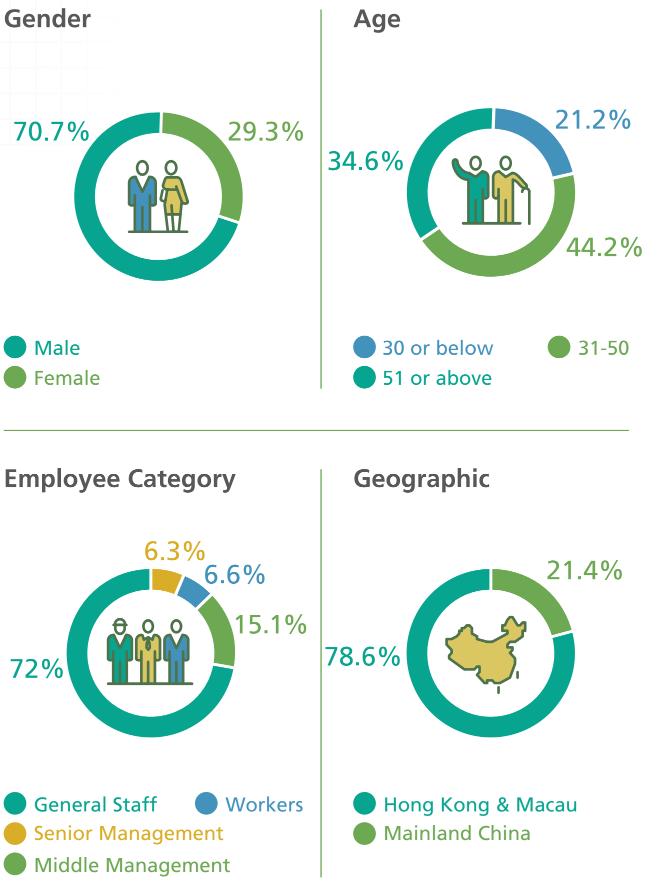
Workforce at a Glance

The Group's principal business covers construction in Hong Kong and property in Mainland China. In April 2019, SOCAM acquired the property management business in Hong Kong and therefore expanded the number of employees.

As at 31 December 2019, we employed 1,501 full-time staff and workers based in Hong Kong and Macau, and 409 staff based in our project offices in eight cities in Mainland China. Our construction division employed 1,002 people (2018: approx. 1,061) while the property and property management division employed 758 people (2018: 361 property staff only). 150 people were corporate staff and categorised in other functions.

We strive to keep our employees motivated and retain them with competitive remuneration and welfare. Our average voluntary attrition rate was 11.1%, which has fallen compared to 14.6% in the previous year. Our employment policy does not tolerate any forms of discrimination and harassment, while recruitment processes are undertaken with impartiality.

Competition for young talent is stiff. We continue to attract them through recruitment talks and internship programmes, enabling us to promote job openings and meet highly qualified personnel from diverse academic backgrounds.



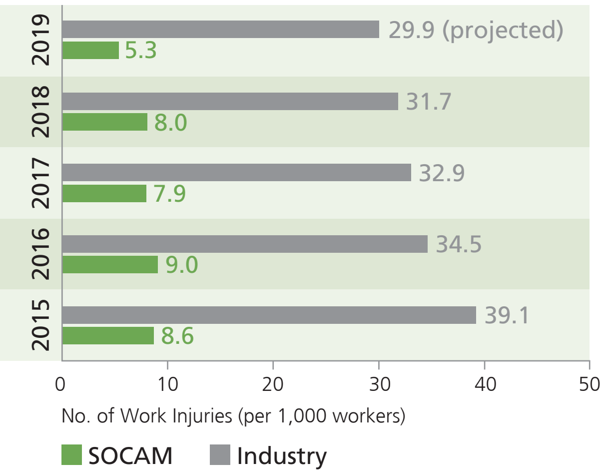
Chairman and CEO joined staff to celebrate opening of Zhuhai office.

Health and Safety

Achieving low accident rate

Upholding the highest standards in health and safety, it stands out in our CSR performance as we continue to cultivate a safety culture by raising awareness among our employees, workers and subcontractors. The determination to ensure work safety is reflected in recognition from the Labour Department and the Occupational Safety & Health Council over the years. As a result of our continuous efforts, our site accident rate in 2019 hit a record low, achieving a single digit rate of 5.32 cases per thousand workers, compared to 8 cases recorded in 2018. A total of 5,468 lost days were reported due to work injuries. 17 work-related injury cases were reported, compared to 35 in 2018, and there was no work-related fatalities.

Accident Rate



Cultivating safety culture

Safety culture comes down to individuals. We drive improvement of our performances by advocating accountability through the following actions:

- **Optimise safety management system**

  We strengthen governance in safety management by maintaining the leadership role of the dedicated Health Safety & Environment (HSE) Management Committee which is responsible for policy implementation. While the process of identifying, evaluating and rectifying safety hazards and risks is further optimised, we conduct quarterly internal audits to ensure effectiveness of the OHS management system.

- **Reinforce construction site monitoring**

  We require all sub-contractors to appoint safety representatives to ensure compliance with regulations on site safety. In addition to regular inspections at high-risk projects and weekly construction site housekeeping reports, site inspections are conducted to eliminate safety hazards.

- **Strengthen safety training**

  We provide training on the use of tools and equipment, HSE knowledge enhancement, etc., to equip the workforce of SOCAM and its sub-contractors with the ability to identify and stay away from safety hazards. The total number of participants in safety training in 2019 was 86,230.

Innovative devices to enhance worker safety

Committed to providing the best protection to our site workers, we embrace innovative technologies to improve the safety standard at construction sites. During the year, we collaborated with a leading mobile operator to develop a wireless Internet of Things (IoT) monitoring and alarm device that allows real-time transmission of safety alerts to site supervisors. It is adopted to manage the high risking lift shaft work and prevent lift shaft accidents involving falling from height.

Since its launch at our Chai Wan Wing Tai Road project, the device was bestowed with two safety awards presented by Occupational Safety & Health Council. Also, our Fanling Fan Garden Police Quarters Project was presented with the Building Sites (Public Sector) Gold Award at the Construction Industry Safety Award Scheme 2018/2019.

Wireless IoT monitoring and alarm device

Upgrading to ISO 45001

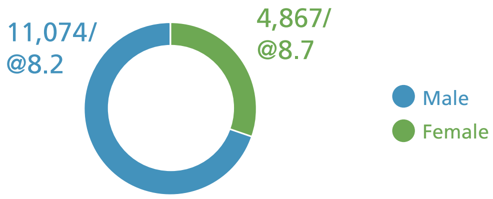
We are far from being complacent regarding our low accident rate. In fact, our HSE Management Committee continues to further strengthen the safety culture. The OHS management system of our two subsidiaries, Shui On Building Contractors and Shui On Construction, successfully migrated their certification to the ISO 45001 standard during the year, which is a new, more stringent international standard for occupational health and safety expecting to reduce workplace injuries and illness globally. We are the first batch of construction companies in Hong Kong to be certified with this latest international OHS standard.

The construction division has also been bestowed with a number of safety awards, recognising its continued efforts in building a safety culture.

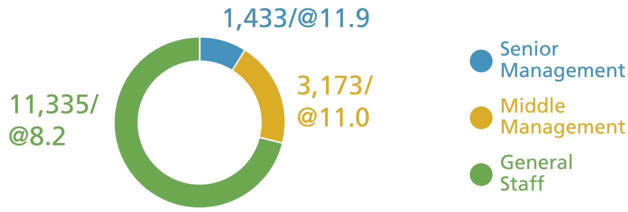
Developing People

The Group encourages lifelong learning, a pillar of our corporate culture, Shui On Spirit, upon which our employees stay competitive. Substantial resources are put into training and development of our employees, from new staff orientation to programmes which enrich employees' professional knowledge and enhance their performance. Employees can apply for sponsorship and study leave, when necessary. They are given opportunities to benefit from the professional development courses, in-house training programmes, and lifelong learning. During the year, SOCAM organised 207 in-house programmes, which amounts to 15,941 hours in total.

Number of Training Hours by Gender



Number of Training Hours by Employee Category



Employee Orientation	Professional Knowledge	Staff Development
529 hours (2018: 620 hours)	7,842 hours (2018: 4,941 hours)	2,210 hours (2018: 4,137 hours)

Personal Effectiveness	E-learning and IT Courses
1,788 hours (2018: 787 hours)	3,572 hours (2018: 743 hours)

Effective communication is crucial in building a motivated workforce.

Nurturing Young Talents

We place great emphasis on grooming young graduate engineers to become project management professionals. To fulfill the new training requirement of Hong Kong Institute of Engineers and the change in the training model from objective-based to competence-based, we launched a "connect everyone" campaign, facilitating collaboration among graduate engineers and engineering supervisors to encourage sharing of information on training details and feedback through diverse channels, such as trainee progress assessment, communication activities and regular gatherings.

Encourage sharing of information on training details and feedback through diverse channels

- Trainee Progress Assessment
- Communication Activities
- Regular Gatherings

Employee Engagement

Team spirit is the foundation of the Group's success. To communicate with employees, we hold ongoing dialogues, ensuring that their concerns are taken care of. Following up on the findings from last year's employee survey, we have consolidated feedback and undertaken corresponding remedial initiatives to optimise employees' current working experience, working environment and work quality and life.

To enhance team cohesion, we organised two management retreats for more than 60 middle to top management staff to encourage knowledge transfer and collaboration. Through conducting activities such as group discussions and presentations in the management retreats, we aim to promote in-depth and cross-regional exchanges of ideas and understandings between each division on improving our operational performance, as well as the direction of future business operations.

The Group also organised different types of employee activities, including outdoor excursions, health-related seminars, sports and festive events, encouraging employees to bring along their families to enrich their life beyond office work, strengthening internal communication and family relationships, and achieving work-life balance.

Commitment to Integrity

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

CARING FOR THE ENVIRONMENT

The construction industry is recognised as a large contributor to environmental impacts. As a major construction company, we are committed to reducing the environmental impact of our activities, covering the entire supply chain. Where possible we use low carbon materials to reduce greenhouse gases, design buildings that are energy efficient. The Group has been optimising its operating practices to raise energy efficiency and reduce overall consumption of resources by committing to its ISO 50001:2018 certified Energy Management System.

In 2019, our reporting boundary includes six construction projects in Hong Kong, two shopping malls in Mainland China, together with our Hong Kong headquarters. The change in the boundary is due to the completion of some construction projects which are replaced by major new projects. The table below presents our total resource consumption in 2019.

		2019				2018
Resource Consumption	Unit	Head Office	Construction	Shopping Mall	Total	
Electricity	kWh	655,633	1,653,177	5,507,801	**7,816,611**	8,427,520
Diesel	litre	2,464	81,606	0	**84,070**	751,029
Petrol	litre	20,488	0	6,243	**26,731**	25,942
Acetylene	m^3	0	4,852	0	**4,852**	7,893
Water	m^3	1,414	44,277	34,929	**80,620**	132,673

Carbon Emissions

Our carbon footprint for Scope 1, 2 and 3 amounted to 588.1, 10,909.1 and 49,221.9 tonnes of carbon dioxide equivalent respectively.

	2019				2018
Carbon Emissions (tCO_2e)	Head Office	Construction	Shopping Mall	Total	
Scope 1*	61.3	228.4	298.4	**588.1**	2,028.6
Scope 2**	334.4	1,126.9	9,447.8	**10,909.1**	8,561.8
Scope 3***	88.0	49,091.3	42.6	**49,221.9**	60,086.6
Total emissions	483.7	50,394.8	9,764.8	**60,719.1**	70,677.0

* Scope 1 comprise direct fuel consumption of generators, vehicles and work processes.
** Scope 2 covers the indirect carbon emissions from electricity and heating.
*** Scope 3 covers water and sewage processing, waste treatment, raw material usage, transportation and business travel.

Recognising the importance of resource conservation and carbon emission reduction during the construction phase, SOCAM prioritises the use of electricity saving devices. For example, we have replaced T8 florescent tubes with LED lighting and installed light sensors and time controllers to reduce unnecessary lighting and air-conditioning. Renewable energy has also been adopted in daily operations.

- **Prioritised the use of electricity saving devices**
- **Replaced T8 florescent tubes with LED lighting**
- **Installed light sensors and time controllers for lighting and air-conditioning**
- **Adopted renewable energy in daily operations**

Embracing Sustainable Construction

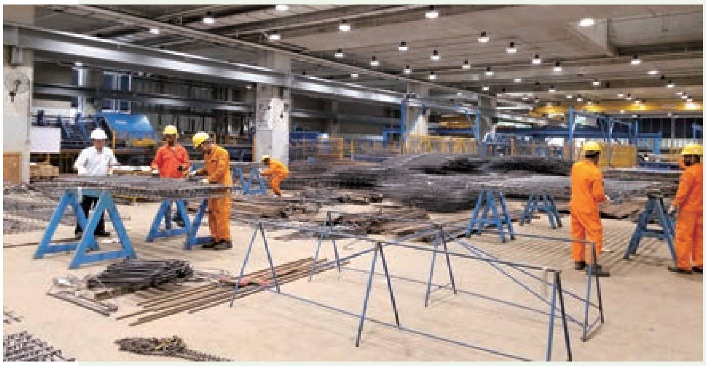
SOCAM continues to improve in managing its environmental impacts by exploring innovative new technologies in green building design and sustainable construction. We made significant progress this year on the application of Modular Integrated Construction and Building Information Modelling, as well as stepped up efforts in reducing resource consumption and emissions.

Piloting Modular Integrated Construction (MiC)

SOCAM focuses to improve on resource efficiency of its construction operations. During the year and in collaboration with the Building and Construction Authority of Singapore (BCA), our project management team visited Singapore to study the adoption of MiC for which we have acquired the technical know-how and valuable insights.

What is MiC?

MiC is an innovative construction method adopting the concept of "factory assembly followed by on-site installation". It is one of the signature funding items of the HK$1 billion Construction Innovation and Technology Fund in "The 2018-19 Budget", and has been proactively adopted by the HKSAR Government in various public works in recent years. Free-standing integrated modules completed with finishes, fixtures and fittings are produced in a prefabrication factory, then transported to site for installation in a building.



Our first MiC application – Our efforts for researching and studying MiC technology is obviously yielding results. We are pleased to have been awarded the project for design and construction of a custom-built multi-welfare complex in Kwu Tung North. This is the first project in which we shall be using the MiC technology, with integration of green building design.

By adopting the MiC technology, we can increase project efficiency and significantly reduce the total project construction time to about 28 months. Impacts on the surrounding environment, including noise and air pollution can thus be minimised. Errors in construction can also be minimised, reducing the amount of construction waste generated. Moreover, we can improve working environment and site safety by reducing the risk of fall of persons from height and slipping and tripping of site personnel.

Besides the introduction of the use of acoustic glass to reduce the noise levels from the construction site, and solar paneling and solar power electrical appliances to minimise the use of non-renewable energy sources, greening is an integral part of the project. We promote greening by provision of vegetation and planting areas, as well as parks and balconies to develop a greener and more sustainable environment in Hong Kong.

While we believe the Group's first project with full MiC application in Kwu Tung North will position SOCAM as an industry pioneer in implementing sustainable construction, significant preparations have to be made. First, the Group engaged actively with suppliers and contractors in search for a prefabrication factory with a capacity which can produce the required number of integrated modules for the construction project. Then, our on-site engineer is responsible for monitoring the production and ensuring the quality and accuracy. Finally, trial on the installation processes have to be done in advance to ensure the feasibility and the operational efficiency of on-site installation. Construction workers will also be provided with necessary technical knowledge and training on the installation methods.

We are keen to increasingly adopt MiC in upcoming projects which shall enable us to not only improve operational efficiency, but also generate less construction waste and raise energy efficiency. In total, there are four construction projects for which are examining the feasibility of MiC application.

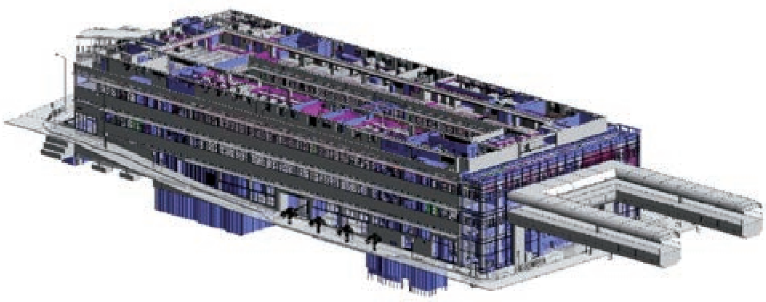
Improving Building Quality through Building Information Modelling (BIM)

During the year, significant progress has also been made on the application of BIM. The Group adopts BIM to identify any potential conflicts in advance, within a digitised environment, aiming to enhance not only the project delivery efficiency, but also safety and environmental performance of our construction projects.

Our early use of BIM technology was to address customers' needs. Since 2018, we have been playing a more active role in the adoption and development, due to the rising trends and adoption of the technology in the construction market.

The BIM team in the Zhuhai office plays a pivotal role in facilitating the increasing use of BIM technology at our construction and interior fit-out projects. At present, a total of 15 staff members have received BIM training provided by external institutions. It is our aim to provide capability building opportunities for employees and support the increasing adoption of BIM.

BIM is rightly considered by the Hong Kong Housing Authority (HKHA) as one of the most important tools and platforms in the development of public housing projects, and has been adopted by the HKSAR Government in the design and construction of major capital works projects since 2018. It is a process of generating and managing building data during its design, construction and the building's entire life cycle. The accurate and detailed building models produced can be used for advanced architectural visualisation, facilitating communication, design review, cost estimation, phase planning and site monitoring from design to operation stage.



BIM rendering of Central Market Revitalisation Project

By adopting MiC, we can achieve:

- Shorter construction time
- Reduced construction waste, dust and noise
- Improved site safety
- Improved construction quality

Reducing Waste and Conserving Resources

Waste

We are committed to minimising waste and, in particular, to avoiding sending waste to landfills. We appoint qualified waste disposal contractors to handle commercial and construction waste in compliance with relevant local laws and regulations, and prioritise waste reduction and re-use in waste management practices. For example, we use re-usable precast concrete slabs for hard paving, and facilitate inter-project materials transfer via an in-house materials platform.

In 2019, we generated
- 33,786 tonnes of inert construction waste
- 6,413 tonnes of non-inert construction waste
- 20 tonnes of paper waste

Air Pollutants and Noise

Reducing air pollution
- Use hybrid site vehicles
- Install dust suppression sprinklers around the project sites supplemented by manual water spraying
- Use approved or exempted Non-road Mobile Mahinery (NRMMs)

Noise Control
- Adopt quiet methods such as hydraulic cutting to replace percussive breaking
- Use generators with QPME label
- Arrange work scheduling to avoid multiple machines working at the same time

Water

To ensure compliance on wastewater discharge, wastewater is treated before it is discharged into the municipal sewage system. In addition, we collect and recycle grey water on-site for site and vehicle cleaning, dust suppression and toilet flushing, thus reducing the consumption of fresh water.

In 2019, we consumed 80,620 m^3 of water:
- Head office (2%)
- Construction (55%)
- Shopping Malls (43%)

Environmental responsibility rests with our HSE Management Committee which conducts internal audit on the Company's ISO 14001 environmental management systems on a regular basis, and ensures compliance. On a project level, monthly HSE onsite meetings are held by the Project Manager to address environmental issues. During the reporting year, we were not aware of using any material non-compliance relating to environmental aspects.

Practicing Sustainable Living

It is of vital importance that our sustainability philosophy filters down to all levels of our workforce and pervades all departments. The Group strengthens its corporate culture of environmental care through ongoing initiatives such as green office campaigns, ecotours and green workshops. This year, we continued to encourage our employees to participate in used clothes and mooncake containers recycling programmes.

Race for Water 2019

PRODUCT RESPONSIBILITY AND SUPPLY CHAIN

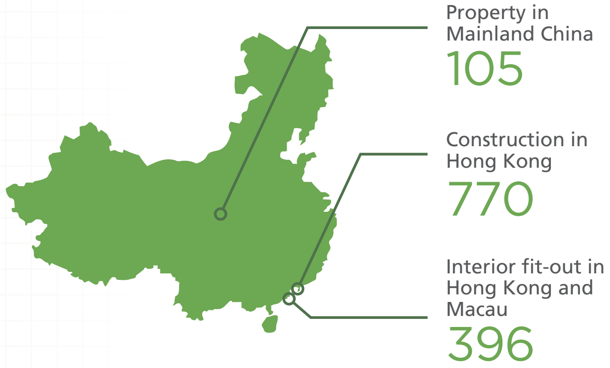
Sustainable Supply Chain

SOCAM has a large supply chain consisting of suppliers of materials and products, sub-contractors performing work on project sites, and property management agencies. We have been engaging with them closely so that they recognise their responsibilities to safeguard the environment and nurture positive relations with their workers and local communities.

The Group's Tendering Committee is responsible for full implementation of our policies regarding the supply chain by monitoring, assessing and reviewing the outline of operating processes. These include our dispute resolution policy, sub-contractor training policy, and green procurement guidelines. We perform annual reviews to ensure their products and services meet the requisite standards.

Specific to our shopping malls, SOCAM is committed to ensuring that property management agencies perform management responsibilities and emergency prevention and control to the highest standards. Our selection criteria focus on market reputation, competitive advantage, feasibility of operating plans, and the resources and commitment of the central team.

Number of Suppliers/Sub-contractors



Green Procurement

The Group adheres to a set of green procurement guidelines to help reduce carbon dioxide emissions and improve resource efficiency. Our Procurement Department prioritises purchasing products that have less packaging and a higher percentage of recycled materials, and appliances with Grade 1 energy efficiency labels. All procurement items must pass a risk assessment to ensure efficient use of resources.

During the year, the Group continued on green procurement of types of goods and services to support daily operations. These green procurement items include products certified for internationally recognised 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, etc.

Product Responsibility

SOCAM is committed to delivering quality construction and meet specifications consistently. In addition to adopting MiC and BIM, we apply various technological tools including mobile app and RFID for checking and tracking.

ISO 9001:2015
Certificate No.: CC 513

ISO 9001:2015
Certificate No.: CC 516

By adhering to requirements of the ISO 9001:2015 Quality Management System, we ensure our HSE 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 THE COMMUNITY

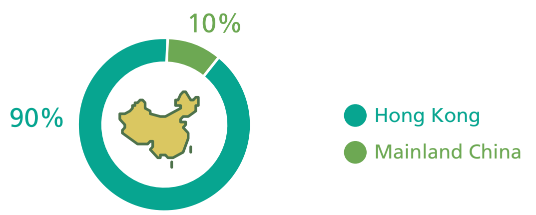
2019 has been a challenging year for Hong Kong, as ongoing protests carried over to 2020 adversely affected not only business and economic activities, but also social life. While it is hard to predict the future development of the movement, SOCAM is confident that Hong Kong, well proven by its history, is a resilient city. Rooted in Hong Kong for over 49 years, we will continue to stay with Hong Kong during this period of hardship.

While we continue to give back to society by means of charitable donations and volunteer services, predominantly focusing on youth development and elderly, a number of activities and community programmes were cancelled during the year in light of the special circumstances in Hong Kong.

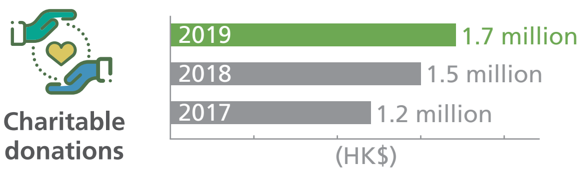
In 2019, we donated approximately HK$1.7 million to various non-governmental organisations and charities. In addition to monetary support, we actively encouraged our staff to participate in volunteer services through the Shui On Seagull Club.

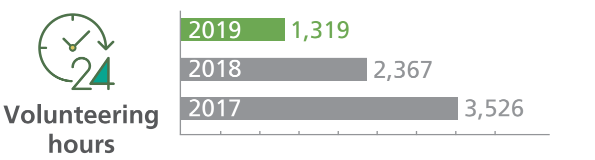
SOCAM has been designated as a "Caring Company" for 14 consecutive years, and the "5 years Plus" recognition was also bestowed on our major subsidiaries, including Shui On Construction Company Limited, Shui On Building Contractors Limited, Pat Davie Limited, Pacific Extend Limited, SOCAM Asset Management (HK) Limited and Shui On Properties Management Limited.

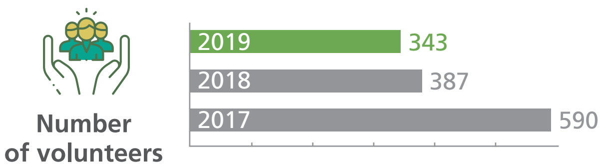
Breakdown of volunteering hours by region (2019)



Our contributions at a glance







Youth Empowerment through Education and Confidence Building

Investing in youth education empowers teenagers during their lifetime. Upholding this belief, we continued to sponsor the 'Future Stars – Upward Mobility Scholarship' scheme implemented by the Commission on Poverty, in order to support less-privileged youths in moving up the social ladder. We also sponsored Basic Law Foundation Limited to promote a better understanding of Basic Law among Hong Kong students through school talks, seminars and publication of relevant teaching materials.

Building up on our existing portfolio of youth development, this year we offered summer internship programmes for two teenagers under special education needs. By providing mentorship and career guidance, we equipped the trainees with better interpersonal and employability skills, as well as higher confidence and self-esteem. ONE TEN, a social enterprise offering dynamic fitness classes to the youth and students of Hong Kong, continued to be our partner this year for the cause of boosting teenager confidence.

Horizons Project Mingde

In August, Shui On Seagull Club partnered with the University of Hong Kong (HKU) in the 'Horizon Project Mingde' experiential learning programme. A nine person volunteer team, formed by six of our staff volunteers and three HKU representatives, paid a visit to a rural village in Wangdongxiang, Guangxi. During the visit, our volunteers built close rapport with the elderly, hoping to bring joy and laughter through accompanying and interaction. Site visits were also conducted for improving the living environment and prevention of fire safety.

What are "empty nesters"?

As the population is ageing, empty nest has become a common social problem in Mainland China, especially in suburban areas. An "empty nester" refers to a parent whose children have grown up and moved away from their home town for work, study or marriage.

Improving living environment in prevention of fire

Most houses in Wangdongxiang were constructed using ancient building methods, which is very dangerous once a fire occurs. Our volunteers aims to mobilise our professional knowledge in construction and property management to help improve the housing structure and fire safety in the long run. We are currently working on plans to educate local villagers on fire prevention, as well as installation of sprinkling system, smoke alarm and promat insulation. More in-depth visits to Wangdongxiang will be arranged in the future for this cause.

Engaging the Elderly through Volunteering

Social isolation and loneliness are most common among the older generation, which are being escalated by the aging population. In the recent years, SOCAM has prioritised the provision of support when it comes to caring for the elderly.

Since 2009, we have partnered with Young Women's Christian Association (YWCA) in organising an array of interactive activities for the solitary elderly who lack recreational opportunity. Throughout the year, we organised several gatherings and workshops, including the Mid-Autumn Karaoke Night, a mosquito-proof soap D.I.Y. workshop, and a charitable football fun day. We hope to strengthen the connection between the elderly and the society through regular volunteer visits and social interaction.

VOLUNTEERING ACTIVITIES IN 2019

Football Fun Day

We invited elderly from various districts to join us for a football fun day, in which veteran football players participated in a charitable game.

Charity Walk for the Disabled

Shui On Seagull Club experienced a series of wheelchair sports and participated in a charity walk to raise fund for the Hong Kong PHAB Association.

Dress Pink, Share Love!

A 'Pink Party' was held to raise fund for Hong Kong Cancer Fund, uplifting concern and awareness for breast cancer and health.

Walk & Carnival for AIDS Orphans

We participated in a charity walk to raise fund for supporting the education needs of AIDS orphans in Mainland China.

Parent-child Inclusion Carnival

Through a series of interactive parent-child games, we hoped to implant the concept of an inclusive society among the younger generation.

Barrier-free City Orienteering

We explored various barrier-free facilities in the city to experience daily lives from the perspective of the disabled.

Shenyang Vertical Marathon

Shenyang Tiandi held an annual vertical marathon for 300 people to promote a healthy and trendy lifestyle.

Mid-Autumn Karaoke Night

To celebrate the Mid-Autumn Festival, we enjoyed a festive dinner with the elderly during a karaoke night.

PERFORMANCE DATA SUMMARY

		Unit	2019	2018
Employees	**Head Count at Year End**			
	Group-wide	Person	1,910	1,540
	By Gender			
	Male	Person	1,350	1,086
	Female	Person	560	454
	By Business Lines			
	Construction Division	Person	1,002	1,061
	Property Division	Person	758	361
	Others	Person	150	163
	By Employee Category			
	Senior Management	Person	120	121
	Middle Management	Person	289	281
	General Staff	Person	1,375	1,029
	Workers	Person	126	109
	By Age group			
	Under 30	Person	404	397
	31-50	Person	845	770
	51 or above	Person	661	373
	By Geographical Region			
	Hong Kong and Macau	Person	1,501	1,062
	Mainland China	Person	409	478
	Turnover Rate			
	Group-wide	%	11.1	14.6
Training & Development	**Training Hours**			
	Group-wide (excluding HSE training)	Hour	15,941	11,228
	By Gender			
	Male	Hour	11,074	8,547
	Female	Hour	4,867	2,681
	By Employee Category			
	Senior Management	Hour	1,433	1,309
	Middle Management	Hour	3,173	1,620
	General Staff	Hour	11,335	8,299
	Average Training Hour			
	Group-wide	Hour	8.3	7.3
	By Gender			
	Male	Hour	8.2	7.9
	Female	Hour	8.7	5.9
	By Employee Category			
	Senior Management	Hour	11.9	10.8
	Middle Management	Hour	11.0	5.8
	General Staff	Hour	8.2	8.1
Health & Safety	Lost days due to work injury	Day	5,468	5,306
	Work-related injury rate	per 1,000 workers	5.32	8.00
	Work-related injury	Number	17	35
	Work-related fatalities	Number	0	0
	Number of participants in safety training	Person	86,230	136,136
Environment	**Total Resource Consumption**			
	Electricity	kWh	7,816,611	8,427,520
	Petrol	Litre	26,731	25,942
	Diesel	Litre	84,070	751,029
	Acetylene	m^3	4,852	7,893
	Water	m^3	80,620	132,673
	Greenhouse Gas Emission			
	Scope I	tCO_2e	588.1	2,028.6
	Scope II	tCO_2e	10,909.1	8,561.8
	Scope III	tCO_2e	49,221.9	60,086.6
	Total	tCO_2e	60,719.1	70,677.0
	Air Emissions			
	Sulphur oxides	kg	1.7	12.5
	Non-hazardous Waste			
	Inert construction waste	tonnes	33,786.3	122,907.4
	Non-inert construction waste	tonnes	6,412.6	14,010.9
	Paper waste	tonnes	20.2	19.3
Community	**Volunteer hours** (including non-staff)	hours	1,319	2,367
	Donations (including funds raised by staff)	HK$	1.7 million	1.5 million

ESG CONTENT INDEX

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
A. Environmental		
Aspect A1	**Emissions**	
General disclosure	Information on: (a) the policies; and (b) 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.	**PERFORMANCE DATA SUMMARY**
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	**CARING FOR THE ENVIRONMENT – Reducing Waste and Conserving Resources**
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	No significant generation of hazardous waste.
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	**CARING FOR THE ENVIRONMENT – Reducing Waste and Conserving Resources**
KPI A1.5	Description of measures to mitigate emissions and results achieved.	**CARING FOR THE ENVIRONMENT – Reducing Waste and Conserving Resources**
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	**CARING FOR THE ENVIRONMENT – 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 (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume per facility).	**CARING FOR THE ENVIRONMENT – Reducing Waste and Conserving Resources**
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	**CARING FOR THE ENVIRONMENT – Reducing Waste and Conserving Resources**
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	**CARING FOR THE ENVIRONMENT – Reducing Waste and Conserving Resources**
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	**CARING FOR THE ENVIRONMENT – Reducing Waste and Conserving Resources;** We source our 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 (in tonnes) and, if applicable, with reference to per unit produced.	No packaging materials used.
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 – Embracing Sustainable Construction**
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 – Embracing Sustainable Construction**
B. Social		
Aspect B1	**Employment**	
General disclosure	Information on: (a) the policies; and (b) 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 gender, employment type, age group and geographical region.	**CARING FOR OUR PEOPLE – Workforce at a Glance**
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	**CARING FOR OUR PEOPLE – Workforce at a Glance**
Aspect B2	**Health and Safety**	
General disclosure	Information on: (a) the policies; and (b) 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.	**CARING FOR OUR PEOPLE – Health and Safety**
KPI B2.1	Number and rate of work related fatalities.	**CARING FOR OUR PEOPLE – Health and Safety**

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
KPI B2.2	Lost days due to work injury.	**CARING FOR OUR PEOPLE – Health and Safety**
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	**CARING FOR OUR PEOPLE – Health and Safety**
Aspect B3	**Development and Training**	
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	**CARING FOR OUR PEOPLE – Developing People**
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Not available
KPI B3.2	The average training hours completed per employee by gender and employee category.	**CARING FOR OUR PEOPLE – Developing People**
Aspect B4	**Labour Standards**	
General disclosure	Information on: (a) the policies; and (b) 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 – Developing People**
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	We implement appropriate protocols in our recruitment process to ensure child and forced labour is absent in our operations.
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	
Aspect B5	**Supply Chain Management**	
General disclosure	Policies on managing environmental and social risks of the supply chain.	**PRODUCT RESPONSIBILITY AND SUPPLY CHAIN – Sustainable Supply Chain**
0KPI B5.1	Number of suppliers by geographical region.	**PRODUCT RESPONSIBILITY AND SUPPLY CHAIN – 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.	**PRODUCT RESPONSIBILITY AND SUPPLY CHAIN – Sustainable Supply Chain**
Aspect B6	**Product Responsibility**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	**PRODUCT RESPONSIBILITY AND SUPPLY CHAIN – Product Responsibility**
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable
KPI B6.2	Number of product and service-related complaints received and how they are dealt with.	**PRODUCT RESPONSIBILITY AND SUPPLY CHAIN – Product Responsibility**
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not applicable
KPI B6.4	Description of quality assurance process and recall procedures.	**PRODUCT RESPONSIBILITY AND SUPPLY CHAIN – Product Responsibility**
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	**PRODUCT RESPONSIBILITY AND SUPPLY CHAIN – Product Responsibility**
Aspect B7	**Anti-Corruption**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	**CARING FOR OUR PEOPLE – Developing People**
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	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.	**CARING FOR OUR PEOPLE – Developing People**
Aspect B8	**Community Investment**	
General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	**CARING FOR THE COMMUNITY**
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	**CARING FOR THE COMMUNITY**
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	**CARING FOR THE COMMUNITY**

This ESG report is prepared in compliance with the Environmental, Social and Governance (ESG) Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange. It discloses SOCAM's performance on environmental and social issues from 1 January 2019 to 31 December 2019. The social performance data in the report covers the entire Group while the environmental performance data focuses on Hong Kong headquarters, six construction projects in Hong Kong and two shopping malls in Mainland China. The change in the boundary is due to the exclusion of some completed construction projects while some new projects are included. For the governance section, please refer to the Corporate Governance Report in the Annual Report.

Directors and Senior Management

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

Mr. Lee Chun Kong, Freddy

EXECUTIVE DIRECTORS

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

aged 72, has been the Chairman of the Company since 1997. He is the Chairman of the Shui On Group, which he founded 49 years ago, and the Chairman of Shui On Land Limited ("SOL"), which he established in 2004 and became listed in Hong Kong in 2006. He is a director of Shui On Company Limited ("SOCL"), the controlling shareholder of the Company. He is also the Chairman of China Central Properties Limited, a subsidiary of the Company which was privatised in 2009, and a director of certain other subsidiaries of the Company. Mr. Lo is a Member of the 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. Lee Chun Kong, Freddy

aged 58, re-joined the Shui On Group in May 2019 as the Deputy Chief Executive Officer of the Company and was appointed as an Executive Director and the Chief Executive Officer of the Company with effect from 1 October 2019. Mr. Lee is also a director of certain subsidiaries of the Company. He joined the Shui On Group in 1986 and has nearly 15 years of experience in construction management in Hong Kong and 18 years of experience in property development in Mainland China. Mr. Lee was appointed as an Executive Director and a Managing Director of SOL, a company listed in Hong Kong, in June 2010 and was the Chief Executive Officer of SOL from March 2011 to January 2014. He left the Shui On Group in July 2014. Prior to joining the Company, Mr. Lee was the Senior Managing Director – Projects of the Chongbang Group, a real estate investment and development group in Shanghai.

He holds a Master's degree in Construction Management from the City University of Hong Kong and a Bachelor's degree in Quantity Surveying from Reading University, England. Mr. Lee is currently a Member of the Royal Institution of Chartered Surveyors in the United Kingdom and a Member of the Hong Kong Institute of Surveyors. He also serves as an Executive Member of the China Overseas Chinese Entrepreneurs Association and a Member of the Eleventh, Twelfth and Thirteen Wuhan Municipal Committee of the Chinese People's Political Consultative Conference.

NON-EXECUTIVE DIRECTOR

Ms. Lo Bo Yue, Stephanie

aged 37, was appointed as a Non-executive Director of the Company for a term of two years with effect from 1 January 2019. Ms. Lo is currently an Executive Director of SOL, a company listed in Hong Kong. She is also the Managing Director – Corporate Development 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 16 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 worked 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 the Chinese People's Political Consultative Conference and the Seventh Council Member of the Shanghai Chinese Overseas Friendship Association.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Li Hoi Lun, Helen

aged 64, has been an Independent Non-executive Director of the Company since August 2008 and was re-appointed to the office for a term of two years upon expiration of her service contract on 27 August 2019. 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 73, has been an Independent Non-executive Director of the Company since January 2010 and was re-appointed to the office for a term of two years upon expiration of his service contract on 31 December 2019. 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 and a Member of The China UnionPay International Advisory Group. He is also an Independent Non-executive Director of China Electronics Huada Technology Company Limited, Chu Kong Shipping Enterprises (Group) Company Limited and Hong Kong Food Investment Holdings Limited, all of which are listed in Hong Kong. Mr. Chan ceased to be an Independent Non-executive Director of Dah Chong Hong Holdings Limited, previously a listed company in Hong Kong, upon its privatisation in January 2020.

Mr. William Timothy Addison

aged 67, has been an Independent Non-executive Director of the Company since May 2016 and was re-appointed to the office for a term of two years upon expiration of his service contract on 24 May 2018. 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 66, 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 59, is a Director of SOCAM Asset Management (HK) Limited and certain other subsidiaries of the Company. Mr. Wong joined the Company in 2007 and has over 36 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 59, 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 65, 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 Bachelor's degree and a Master's degree in Civil Engineering from the McMaster University. He is a Fellow of The Hong Kong Institution of Engineers.

Mr. Lam Kwok Kong, Wilson

aged 49, 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

Nanjing Scenic Villa

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 2019, 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:

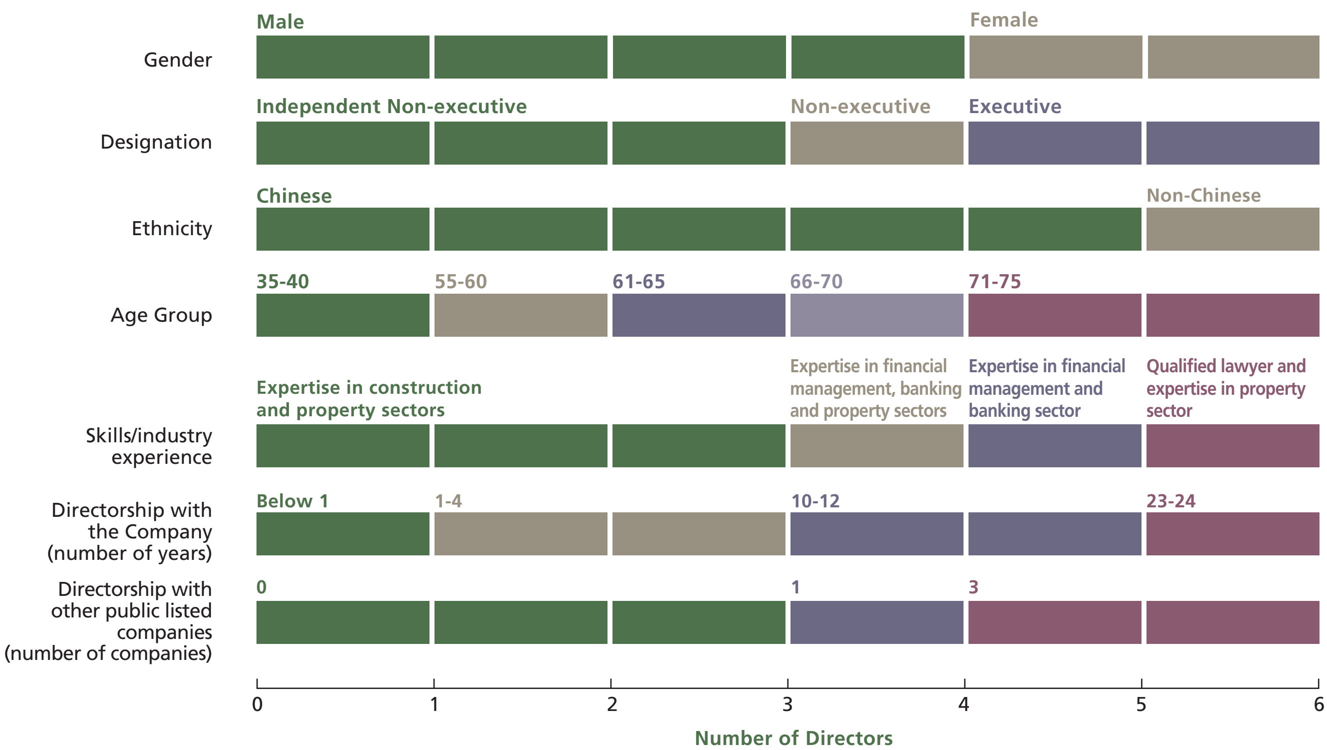
Executive Directors:
Mr. Lo Hong Sui, Vincent *(Chairman)*
Mr. Lee Chun Kong, Freddy *(Chief Executive Officer)*

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. In addition, with effect from 1 October 2019, Mr. Lee Chun Kong, Freddy, who joined the Company in May 2019 as the Deputy Chief Executive Officer, was appointed as an Executive Director and the Chief Executive Officer of the Company to succeed Mr. Wong Yuet Leung, Frankie. Mr. Wong formally retired on 1 January 2020.

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



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.

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.

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. Lo Hong Sui, Vincent, Mr. Lee Chun Kong, Freddy and Ms. Li Hoi Lun, Helen shall retire at the forthcoming annual general meeting of the Company to be held on 28 May 2020. 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:

	Major roles and functions	Composition at the date of this report	Frequency of meetings
Audit Committee	• 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

<table>
<tr><th></th><th>Major roles and functions</th><th>Composition at the date of this report</th><th>Frequency of meetings</th></tr>
<tr><td>Remuneration Committee</td><td>• 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</td><td>Independent Non-executive Directors
Ms. Li Hoi Lun, Helen (Chairman)
Mr. Chan Kay Cheung
Mr. William Timothy Addison

Executive Director
Mr. Lo Hong Sui, Vincent

Non-executive Director
Ms. Lo Bo Yue, Stephanie

(Note 1)</td><td>At least twice a year</td></tr>
<tr><td>Nomination Committee</td><td>• 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</td><td>Executive Director
Mr. Lo Hong Sui, Vincent (Chairman)

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

(Note 1)</td><td>At least once a year</td></tr>
<tr><td>Finance Committee</td><td>• 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</td><td>Executive Director
Mr. Lee Chun Kong, Freddy (Chairman)

Independent Non-executive Directors
Ms. Li Hoi Lun, Helen
Mr. Chan Kay Cheung
Mr. William Timothy Addison

(Notes 2 and 3)</td><td>At least four times a year</td></tr>
</table>

	Major roles and functions	Composition at the date of this report	Frequency of meetings
Investment Committee	• 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. Lee Chun Kong, Freddy *(Chairman)* **Independent Non-executive Directors** Ms. Li Hoi Lun, Helen Mr. Chan Kay Cheung Mr. William Timothy Addison (Notes 2 and 3)	On an as needed basis
Executive Committee	• 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. Lee Chun Kong, Freddy *(Chairman)* Mr. Lo Hong Sui, Vincent **Other key executives** including heads of various business units and the finance & accounting function (Notes 2 and 3)	Monthly

Notes:

1. Ms. Lo Bo Yue, Stephanie and Mr. William Timothy Addison were appointed as members of the Remuneration Committee and the Nomination Committee effective 1 April 2019.
2. Mr. Wong Yuet Leung, Frankie ceased to be a member and the Chairman of the Finance Committee, the Investment Committee and the Executive Committee following his stepping down from the Board effective 1 October 2019.
3. Mr. Lee Chun Kong, Freddy was appointed as a member and the Chairman of the Finance Committee, the Investment Committee and the Executive Committee to succeed Mr. Frankie Wong effective 1 October 2019.

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 2019 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 meeting	Executive Committee meetings	Annual general meeting	Special general meeting
Mr. Lo Hong Sui, Vincent	4/4	N/A	2/2	1/1	N/A	N/A	10/12	0/1 (Note 1)	0/1
Mr. Wong Yuet Leung, Frankie (stepped down on 1 October 2019) (Note 2)	3/3	N/A	N/A	N/A	4/4	1/1	9/9	1/1	1/1
Mr. Lee Chun Kong, Freddy (appointed on 1 October 2019) (Note 3)	1/1	N/A	N/A	N/A	1/1	N/A	3/3	N/A	N/A
Ms. Lo Bo Yue, Stephanie (appointed on 1 January 2019) (Note 4)	4/4	N/A	0/1	N/A	N/A	N/A	N/A	0/1	0/1
Ms. Li Hoi Lun, Helen	4/4	4/4	2/2	1/1	5/5	1/1	N/A	1/1	1/1
Mr. Chan Kay Cheung	4/4	4/4	2/2	1/1	5/5	1/1	N/A	1/1	1/1
Mr. William Timothy Addison (Note 5)	4/4	4/4	1/1	N/A	5/5	1/1	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 other business commitments, Mr. Lo Hong Sui, Vincent, the Chairman of the Board, did not attend the annual general meeting of the Company held on 30 May 2019. In his absence, Mr. Wong Yuet Leung, Frankie, the then Executive Director, Chief Executive Officer and Chief Financial Officer of the Company, chaired the meeting and responded to shareholders' questions about the Group's affairs.
2. Mr. Wong Yuet Leung, Frankie stepped down as Executive Director, Chief Executive Officer and Chief Financial Officer and ceased to be a member and the Chairman of the Finance Committee, the Investment Committee and the Executive Committee effective 1 October 2019.
3. Mr. Lee Chun Kong, Freddy was appointed as Executive Director and Chief Executive Officer as well as a member and the Chairman of the Finance Committee, the Investment Committee and the Executive Committee effective 1 October 2019.
4. Ms. Lo Bo Yue, Stephanie was appointed as a Non-executive Director effective 1 January 2019 as well as a member of the Remuneration Committee and the Nomination Committee effective 1 April 2019. The Nomination Committee did not hold any meeting during the year after her appointment.
5. Mr. William Timothy Addison was appointed as a member of the Remuneration Committee and the Nomination Committee effective 1 April 2019. The Nomination Committee did not hold any meeting during the year after his appointment.

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 2019, 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 e-training (Note 2)
Mr. Lo Hong Sui, Vincent		✓
Mr. Wong Yuet Leung, Frankie (stepped down on 1 October 2019)	✓	✓
Mr. Lee Chun Kong, Freddy (appointed on 1 October 2019)	✓	✓
Ms. Lo Bo Yue, Stephanie (appointed on 1 January 2019)		✓
Ms. Li Hoi Lun, Helen	✓	✓
Mr. Chan Kay Cheung	✓	✓
Mr. William Timothy Addison	✓	✓

Notes:

1. Seminar entitled "Land Compulsory Sale in Hong Kong", presented by an external solicitor.
2. Covering topics relevant to directors' duties and regulatory requirements.

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 2019.

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 2019, the remuneration paid/payable to the external auditor of the Company in respect of audit services and non-audit services amounted to approximately HK$4.2 million and HK$2.7 million respectively. The fees paid/payable to the external auditor for the non-audit service assignments performed during the year are set out as follows:

Non-audit service assignments	**Fees paid/ payable** (HK$'000)
Agreed-upon procedures in relation to preliminary results announcement for the year ended 31 December 2018	45
Review of the interim report for the six months ended 30 June 2019	1,250
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 disposal of interest in a commercial building in Hong Kong	400
Professional services rendered in relation to the issuance of senior notes	800

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 2019, 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 2019 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 2019, 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 2019. 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, 31 March 2020

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.

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

The Audit Committee held four meetings in 2019. Members' attendance records at the Committee meetings are set out in the Corporate Governance Report contained in this Annual Report.

During 2019, 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 2018 (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 2018 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 2019 (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 2018 and its review of the Group's condensed consolidated financial statements for the six months ended 30 June 2019;
- reviewed and considered the reports of the Company's Corporate Evaluation Department ("CE", which undertakes the internal audit function) 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 business risks and operational controls of selected construction projects in the public sector and the operational and/or financial controls of the Group's maintenance and fitting-out businesses in Hong Kong;
- reviewed and considered the reports of CE on complaints received in 2019 regarding three cases;
- reviewed and considered the reports of CE on the banking facilities available to the Group and the cost of debts;
- reviewed and considered the report of CE on the test check of special control points responded by management in the self-assessment questionnaire for the review of the Group's internal control systems;

- considered and endorsed the proposed amendments to the Company Policy on Connected Transactions and the Risk Management Policy, with a recommendation to the Board for approval;
- conducted an annual review of the Company's Whistle-blowing Policy and Policy on Engaging Non-audit Services from External Auditor, and approved the amendments to the latter policy;
- 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 2019 and for the audit of the Group's consolidated financial statements for the year ended 31 December 2019;
- 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 2019, complaints were received regarding (i) the ethics and performance of certain personnel of the project company in Tianjin; (ii) management performance of the Construction Division in Hong Kong; and (iii) business conduct and performance of the leasing function of the project office in Chengdu. 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 2019, 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 2020 for shareholders' approval at the forthcoming annual general meeting of the Company.

Chan Kay Cheung
Chairman, Audit Committee

Hong Kong, 31 March 2020

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

Ms. Lo Bo Yue, Stephanie and Mr. William Timothy Addison were appointed as members of the Remuneration Committee with effect from 1 April 2019.

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

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.

Upon the stepping down of Mr. Wong Yuet Leung, Frankie as Executive Director, Chief Executive Officer and Chief Financial Officer effective 1 October 2019, Mr. Lee Chun Kong, Freddy was appointed as Executive Director and Chief Executive Officer. As approved by the Remuneration Committee, the salary and bonus components of the remuneration of Mr. Freddy Lee are set to be normally related to his aggregate cash remuneration as follows:

Cash remuneration components	Proportion
Salary and other benefits	Half
Bonus for achievement of targets (based 75% on corporate performance and 25% on personal performance)	Half

Where appropriate, to recognise the contribution of Mr. Freddy Lee, the bonus element could be increased, relative to performance delivered, by up to twice the amount that would be given normally.

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

SHARE OPTIONS

The Company 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 results 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 2019 was as follows:

	Director's fees (Note 1) HK$'000	Salary and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	For the year ended 31 December 2019 Total HK$'000
Executive Directors				
Mr. Lo Hong Sui, Vincent	10	–	–	10
Mr. Wong Yuet Leung, Frankie (stepped down on 1 October 2019)	8	22,104 (Note 2)	–	22,112
Mr. Lee Chun Kong, Freddy (appointed on 1 October 2019)	3	3,657 (Note 3)	51	3,711
Non-executive Director				
Ms. Lo Bo Yue, Stephanie (appointed on 1 January 2019)	299	–	–	299
Independent Non-executive Directors				
Ms. Li Hoi Lun, Helen	550	–	–	550
Mr. Chan Kay Cheung	595	–	–	595
Mr. William Timothy Addison	504	–	–	504
TOTAL	1,969	25,761	51	27,781

Notes:

1. According to the fee schedule as approved by the Board for the year ended 31 December 2019, each Executive Director was entitled to an annual fee of HK$10,000 while a Non-executive Director or an Independent Non-executive Director was entitled to an annual fee of HK$250,000. In addition, a Non-executive Director or an Independent Non-executive Director also received an annual fee for his chairmanship or membership in the following Board Committees:

Board Committees	Fees per annum HK$
Audit Committee chairmanship	150,000
Audit Committee membership	75,000
Remuneration Committee chairmanship	65,000
Remuneration Committee membership	35,000
Nomination Committee membership	30,000
Finance Committee membership	65,000
Investment Committee membership	65,000

2. The amount comprised (i) the salary and other benefits of Mr. Frankie Wong totaling HK$7,944,405 for his employment as Executive Director, Chief Executive Officer and Chief Financial Officer for the period from 1 January 2019 to 30 September 2019 and as Senior Adviser for the period from 1 October 2019 to 31 December 2019; and (ii) the gratuity of HK$14,160,000 granted to Mr. Frankie Wong upon his retirement on 1 January 2020 in recognition of his efforts and contribution for the years 2018 and 2019 as approved by the Remuneration Committee based on the achievement of the performance targets of the Group as well as some individual performance targets set for the two years.

3. The amount comprised the salary and other benefits of Mr. Freddy Lee for his employment as Deputy Chief Executive Officer for the period from 2 May 2019 to 30 September 2019 and as Executive Director and Chief Executive Officer for the period from 1 October 2019 to 31 December 2019. With effect from 1 January 2020, the annual salary and allowances of Mr. Freddy Lee has been adjusted to HK$5,671,200 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 2019 was within the following bands:

	Number of individuals
HK$2,000,000 – HK$3,000,000	1
HK$4,000,001 – HK$5,000,000	1
HK$5,000,001 – HK$6,000,000	1
HK$6,000,001 – HK$7,000,000	2

SERVICE CONTRACTS

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

SUMMARY OF WORK DONE

The Remuneration Committee held two meetings and passed one written resolution in 2019. Members' attendance records at the Committee meetings are set out in the Corporate Governance Report contained in this Annual Report.

During 2019, 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 2018;
- reviewed and endorsed the Remuneration Committee Report included in the 2018 Annual Report of the Company, with a recommendation to the Board for approval;
- considered and approved the remuneration package and target bonus formula for the new Executive Director and Chief Executive Officer, taking into account the report of an external consultant on the analysis of executive remuneration in comparable Hong Kong listed companies;
- considered and determined the amount of the gratuity granted to the former Executive Director, Chief Executive Officer and Chief Financial Officer upon his retirement based on the achievement of performance targets; and
- considered and approved the 2020 salary review recommendation for the Executive Director and Chief Executive 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 2020 salary review guidelines for the Group as a whole.

Li Hoi Lun, Helen
Chairman, Remuneration Committee

Hong Kong, 31 March 2020

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. Lo Bo Yue, Stephanie
Ms. Li Hoi Lun, Helen
Mr. Chan Kay Cheung
Mr. William Timothy Addison

Ms. Lo Bo Yue, Stephanie and Mr. William Timothy Addison were appointed as members of the Nomination Committee with effect from 1 April 2019.

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

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. An analysis of the existing 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. For future appointments to the Board, the Committee opines that educational background, professional experience, skills and knowledge are important elements that should be taken into account in view of the prevailing business strategy of the Group, while it is not appropriate to set specific requirements for such criteria as gender, ethnicity and age although due consideration should also be given to these criteria for the benefits of diversity.

NOMINATION POLICY

Upon the recommendation of the Nomination Committee, the Board formally adopted a Nomination Policy in 2018 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 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

The Nomination Committee held one meeting and passed three written resolutions in 2019. Members' attendance records at the Committee meeting are set out in the Corporate Governance Report contained in this Annual Report.

During 2019, 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 2018 Annual Report, with a recommendation to the Board for approval;
- considered the succession arrangement for the then Executive Director, Chief Executive Officer and Chief Financial Officer in light of his planned retirement on 1 January 2020;
- considered the proposals for appointment of the new Executive Director and Chief Executive Officer as well as the resultant changes of the composition of the Finance Committee, the Investment Committee and the Executive Committee, with recommendations to the Board for approval;
- considered the nomination of three retiring Directors for the Board's recommendation to stand for re-election by shareholders at the 2019 annual general meeting of the Company;
- considered the renewal of service contracts with two Independent Non-executive Directors, with recommendations to the Board for approval; and
- considered the proposed appointment of additional members to the Nomination Committee and the Remuneration Committee, with recommendations to the Board for approval.

Lo Hong Sui, Vincent
Chairman, Nomination Committee

Hong Kong, 31 March 2020

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.

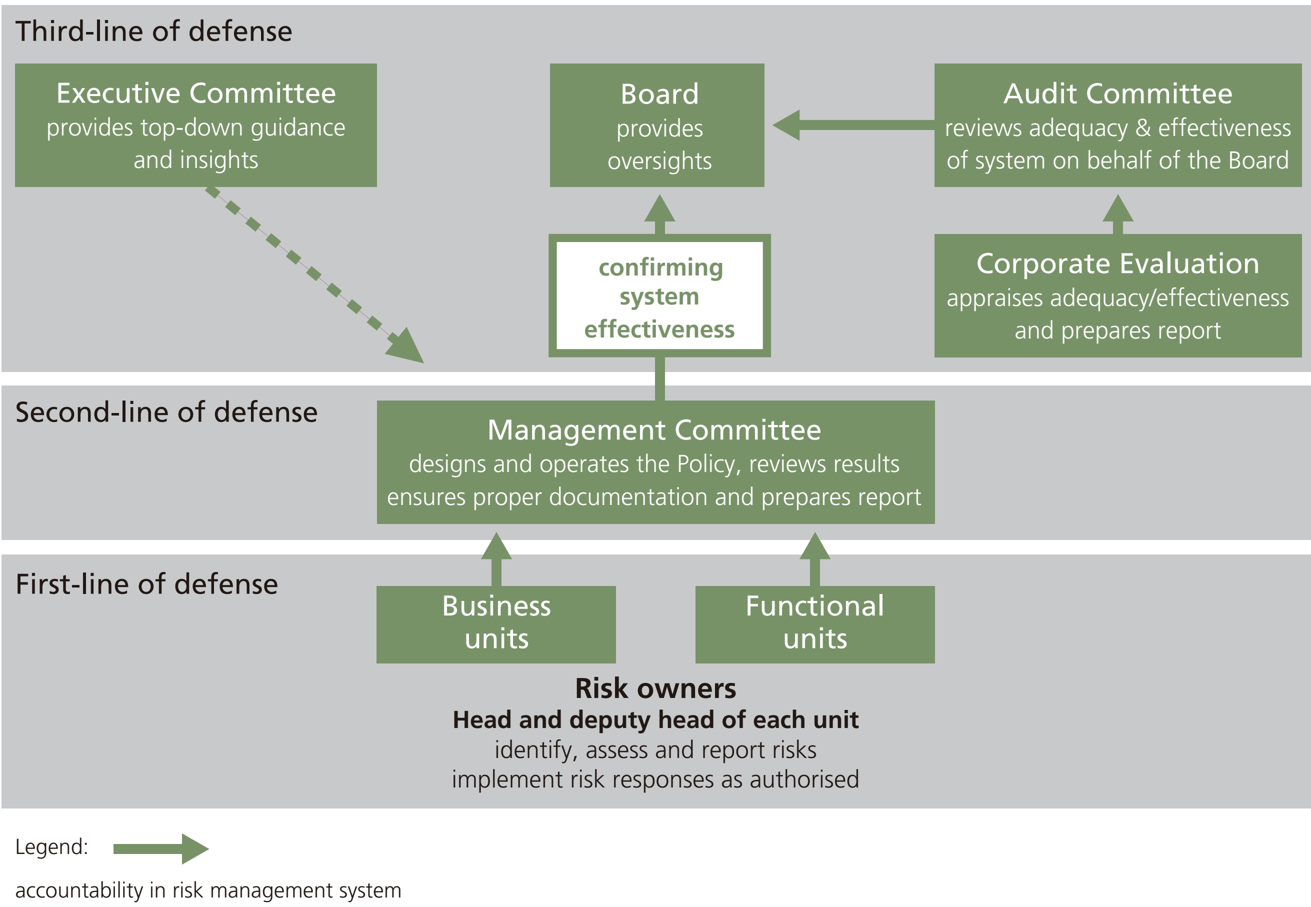
The Company has implemented a Risk Management Policy (the "Policy") since 2007 after the revision of the Code on Corporate Governance (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which required the Directors to review 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. As recommended by the Audit Committee and approved by the Board, the Policy was further refined in August 2019 with the risk appetite statement therein more clearly defined.

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 construction and property 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 approaches.
- 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
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

Risks and change of levels from last year		Risk responses
Construction segment (Continued)		
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
Property segment		
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
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 and disruption of business due to outbreak of epidemic	↔	Carry out special review of manpower of relevant business operations at time of change in business strategy and outbreak of epidemic
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 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries and joint ventures are set out in notes 43 and 44 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 business outlook are provided in the Chairman's Statement and the Management Discussion and Analysis sections of this Annual Report. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2019 are included in the abovementioned sections and note 42 to the consolidated financial statements. 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 39 to the consolidated financial statements.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights and Financial Review sections of this Annual Report. In addition, discussions on the Group's environmental policies, including compliance with the relevant laws and regulations that have a significant impact on the Group, and relationships with its key stakeholders are included in the Environmental, Social and Governance Report contained in this Annual Report.

All 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 2019 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% 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 movements in 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 2019, 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. Lee Chun Kong, Freddy
(appointed on 1 October 2019)
Mr. Wong Yuet Leung, Frankie
(stepped down on 1 October 2019)

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, Mr. Lee Chun Kong, Freddy shall retire at the forthcoming annual general meeting (the "2020 AGM") of the Company to be held on 28 May 2020. In addition, in accordance with Bye-law 87(1) of the Bye-laws of the Company, Mr. Lo Hong Sui, Vincent and Ms. Li Hoi Lun, Helen shall retire by rotation at the 2020 AGM. All the said Directors, being eligible, will offer themselves for re-election.

No Director proposed for re-election at the 2020 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 2019, the interests of the Directors and chief executive of the Company in the shares, underlying 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 ("Mr. Lo")	–	312,000 (Note 2)	234,381,000 (Note 3)	234,693,000	62.02 (Note 4)
Ms. Lo Bo Yue, Stephanie ("Ms. Lo")	–	–	234,381,000 (Note 3)	234,381,000	61.94 (Note 5)

Notes:

1. Based on 378,398,164 shares of the Company in issue at 31 December 2019.
2. These shares were beneficially owned by Ms. Loletta Chu ("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 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 both Mr. Lo and Ms. Lo were discretionary beneficiaries and HSBC International Trustee Limited ("HSBC Trustee") was the trustee. Accordingly, Mr. Lo, Mrs. Lo, Ms. Lo, HSBC Trustee and Bosrich were deemed to be interested in such shares under the SFO.
4. Increased to Approximately 62.68% based on 374,396,164 shares of the Company currently in issue following cancellation of 4,002,000 shares bought back by the Company as referred to in the section headed "Purchase, Sale or Redemption of Listed Securities" below.
5. Increased to approximately 62.60% based on 374,396,164 shares of the Company currently in issue following cancellation of 4,002,000 shares bought back by the Company as referred to in the section headed "Purchase, Sale or Redemption of Listed Securities" below.

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

Name of Director	Name of associated corporation	Number of shares/underlying shares: Personal interests	Family interests	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
Ms. Lo	SOL	437,000 (Note 4)	–	4,611,835,751 (Note 3)	4,612,272,751	57.20

Notes:

1. Based on 8,062,216,324 shares of SOL in issue at 31 December 2019.
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 2,672,990,325 shares, 1,725,493,996 shares, 183,503,493 shares and 29,847,937 shares held by Shui On Investment Company Limited ("SOI"), Shui On Properties Limited ("SOP"), Chester International Cayman Limited ("Chester International") and New Rainbow Investments Limited ("NRI") respectively, whereas SOI, SOP and Chester International 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 61.94%. 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 both Mr. Lo and Ms. Lo were discretionary beneficiaries and HSBC Trustee was the trustee. Accordingly, Mr. Lo, Mrs. Lo, Ms. Lo, HSBC Trustee and Bosrich were deemed to be interested in such shares under the SFO.
4. These represent the interests in the underlying shares of SOL under the outstanding share options granted by SOL.

(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 ("SODH")	Trust interests (Note 1)	RMB50,000,000
		Trust interests (Note 1)	US$6,000,000
		Trust interests (Note 1)	US$17,800,000
		Trust interests (Note 1)	US$5,000,000
		Family interests (Note 2)	RMB35,500,000
		Family interests (Note 2)	US$2,000,000
Ms. Lo	SODH	Trust interests (Note 1)	RMB50,000,000
		Trust interests (Note 1)	US$6,000,000
		Trust interests (Note 1)	US$17,800,000
		Trust interests (Note 1)	US$5,000,000

Notes:

1. These represent the interests in the debentures held by SOI and/or Boswell Limited ("Boswell") and/or Doreturn Limited ("Doreturn"). SOI, Boswell and Doreturn were wholly-owned subsidiaries of SOCL, which 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 both Mr. Lo and Ms. Lo were discretionary beneficiaries.
2. These represent the interests in the debentures held by Mrs. Lo, the spouse of Mr. Lo.

Save as disclosed above, at 31 December 2019, 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 2019, the interests of substantial shareholders (not being a Director or chief executive of the Company) in the shares of the Company 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)	62.02 (Note 5)
SOCL	Beneficial owner and interest of controlled corporation	234,381,000 (Notes 3 & 4)	61.94 (Note 6)
HSBC Trustee	Trustee	234,381,000 (Notes 3 & 4)	61.94 (Note 6)
Bosrich	Trustee	234,381,000 (Notes 3 & 4)	61.94 (Note 6)

Notes:

1. Based on 378,398,164 shares of the Company in issue at 31 December 2019.
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 both Mr. Lo and Ms. Lo were discretionary beneficiaries and HSBC Trustee was the trustee. Accordingly, Mr. Lo, Mrs. Lo, Ms. 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.
5. Increased to approximately 62.68% based on 374,396,164 shares of the Company currently in issue following cancellation of 4,002,000 shares bought back by the Company as referred to in the section headed "Purchase, Sale or Redemption of Listed Securities" below.
6. Increased to approximately 62.60% based on 374,396,164 shares of the Company currently in issue following cancellation of 4,002,000 shares bought back by the Company as referred to in the section headed "Purchase, Sale or Redemption of Listed Securities" below.

Save as disclosed above, at 31 December 2019, 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.

Details of the outstanding share options granted under the Old Scheme are set out as follows:

Category of eligible participants	Date of grant	Subscription price per share HK$	Number of shares subject to options At 1.1.2019	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31.12.2019	Period during which the options are exercisable (Note)
Employees	28.7.2011	10.00	1,442,000	–	–	–	–	1,442,000	1.5.2015 to 27.7.2021

Note:

The share options are exercisable by the eligible participants during the exercise period in accordance with the schedules as set out in the offer letters.

All the outstanding share options granted under the Existing Scheme had lapsed in 2018, and no further share option was granted during the year ended 31 December 2019.

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

With respect to the US$280 million 6.25% senior notes due 2020 issued by the Company (the "Notes"), the Company repurchased on the Stock Exchange in January 2019 a total of further US$2.20 million principal amount of the Notes for an aggregate consideration of US$2.20 million. In addition, pursuant to the tender offers launched by the Company in May and September 2019, the Company repurchased a total of US$85.085 million principal amount of the Notes for an aggregate consideration of US$85.085 million. Please refer to the announcements dated 17 May 2019, 3 June 2019, 11 September 2019 and 24 September 2019 issued by the Company for further details about the tender offers. In 2018, a total of US$19.50 million principal amount of the Notes had been repurchased on the Stock Exchange for an aggregate consideration of US$19.10 million. All the repurchased Notes, in an aggregate principal amount of US$106.785 million, were subsequently cancelled by the Company in 2019, and a total of US$173.215 million principal amount of the Notes now remains outstanding.

During the year ended 31 December 2019, the Company bought back a total of 10,014,000 shares on the Stock Exchange for an aggregate consideration of approximately HK$23.20 million, details of which are as follows:

Month of buy-back	Number of shares bought back	Purchase price per share Highest HK$	Purchase price per share Lowest HK$	Approximate amount of consideration HK$ million
June	584,000	2.09	1.95	1.19
September	398,000	1.97	1.88	0.77
October	4,660,000	2.468	1.95	9.98
November	370,000	2.68	2.49	0.96
December	4,002,000	2.67	2.27	10.30
Total	10,014,000			23.20

A total of 6,012,000 bought-back shares were cancelled between August and November 2019 and a total of 4,002,000 bought-back shares were cancelled in January 2020.

The share buy-backs were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the net asset value per share of 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 TRANSACTIONS

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

Acquisition of property management business in Hong Kong

On 18 April 2019, Grateful Tide Limited ("Grateful Tide", a wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with SOI, an indirect wholly-owned subsidiary of SOCL, pursuant to which Grateful Tide agreed to acquire (the "Acquisition") and SOI agreed to sell the entire issued share capital of Shui On Properties Management Services Limited (which, via its wholly-owned subsidiary, namely Shui On Properties Management Limited ("SOPM"), principally engages in the provision of property management services in Hong Kong) for a consideration of HK$35 million. The Acquisition was completed on 30 April 2019.

As SOI is a subsidiary of SOCL which is the controlling shareholder of the Company and an associate of Mr. Lo and Ms. Lo, Directors of the Company, given their interests in SOCL, it is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Acquisition constituted a connected transaction of the Company, details of which were set out in the announcement dated 18 April 2019 issued by the Company.

Disposal of 58% of the issued ordinary shares of Great Market Limited ("Great Market")

On 14 May 2019, Shui On Building Materials Limited ("SOBM", an indirect wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with Pacific Wise Enterprises Limited ("Pacific Wise", an indirect wholly-owned subsidiary of SOL), pursuant to which (i) SOBM agreed to sell and Pacific Wise agreed to acquire 58% of the issued ordinary shares of Great Market (which holds 60% equity interest in Nanjing Jiangnan Cement Co., Ltd. (the "Project Company") whose principal activity is manufacturing and trading of cement in Nanjing, the People's Republic of China (the "PRC")) and the corresponding shareholder's loan owed by Great Market to SOBM; and (ii) Pacific Wise agreed to procure its affiliates to provide an onshore loan to the Project Company for its partial settlement of the advances owed by it to the PRC affiliates of SOBM (the "Transaction"), for a total transaction amount of approximately RMB147.85 million (subject to adjustment). The Transaction was completed on 28 June 2019 and the total transaction amount was adjusted to approximately RMB148.50 million pursuant to the terms of the sale and purchase agreement.

As Pacific Wise is a subsidiary of SOL which is an associate of SOCL, Mr. Lo and Ms. Lo, 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 14 May 2019 issued by the Company.

CONTINUING CONNECTED TRANSACTION

Set out below is the transaction entered into by a subsidiary of the Company which constitutes a continuing connected transaction of the Company and is required to be disclosed herein under Chapter 14A of the Listing Rules.

Provision of property management services to Shui On Centre Property Management Limited ("SOCPM")

Pursuant to the property management services agreement dated 16 March 2019 (the "Property Management Agreement") entered into between SOPM and SOCPM (an indirect wholly-owned subsidiary of SOCL), SOPM continues to provide services in relation to the management and maintenance of Shui On Centre, a commercial building located at 6-8 Harbour Road, Hong Kong, to SOCPM (the "SOC Property Management Services") after SOPM has become an indirect wholly-owned subsidiary of the Company following completion of the Acquisition on 30 April 2019 until the end of the term of the Property Management Agreement on 31 December 2021. The annual remuneration of SOPM is equivalent to the aggregate sum of (i) 12% of the budgeted expenses for the management of Shui On Centre (the "Management Expenses") calculated in accordance with the provisions set out in the deed of mutual covenant and management agreement in respect of Shui On Centre dated 17 February 1994 (the "DMC") for the relevant financial year; and (ii) 12% of any additional sum demanded by SOCPM, as the management company under the DMC, in accordance with the provisions of the DMC to cover any insufficiency in the Management Expenses. It is expected that the remuneration paid or payable by SOCPM to SOPM under the Property Management Agreement for the period from 30 April 2019 to 31 December 2019 and for the years ending 31 December 2020 and 31 December 2021 would not exceed the annual caps of HK$4.80 million, HK$7.10 million and HK$7.50 million respectively.

As SOCPM is a subsidiary of SOCL and an associate of Mr. Lo and Ms. Lo, it is a connected person of the Company under Chapter 14A of the Listing Rules. The continual provision of the SOC Property Management Services by SOPM to SOCPM constitutes a continuing connected transaction of the Company, details of which were set out in the announcement dated 18 April 2019 issued by the Company.

The remuneration of SOPM for the provision of the SOC Property Management Services for the period from 30 April 2019 to 31 December 2019 was approximately HK$4.14 million. In accordance with Rule 14A.55 of the Listing Rules, the Independent Non-executive Directors of the Company have reviewed such transaction for the period ended 31 December 2019 and confirmed that such transaction has been entered into by SOPM in the ordinary and usual course of its business, on normal commercial terms, and in accordance with the terms of the Property Management Agreement that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

(1) Mr. Lo is a director and the controlling shareholder of SOCL which, through its subsidiaries, including (among others) SOL, principally engages in property development and investment projects in the 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) Ms. Lo is a director of SOCL which, through its subsidiaries, including (among others) SOL, principally engages in property development and investment projects in the PRC.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

MANAGEMENT CONTRACTS

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

EQUITY-LINKED AGREEMENTS

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

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

Financial assistance and guarantees provided by the Group in favour of New Pi (Hong Kong) Investment Co., Ltd. ("New Pi") and certain of its subsidiaries were HK$1,698 million at 31 December 2019, which comprised:

	HK$ million
Receivables	482
Guarantees	1,216
	1,698

The receivables are unsecured, repayable on demand and out of the total outstanding balance, an amount of HK$134 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(d) and 37(a) 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 ("Citicorp") as trustee, pursuant to which the US$280 million 6.25% senior notes due 2020 (the "Notes") were issued. In addition, on 23 January 2020, a written agreement (together with the Indenture, the "Indentures") was entered into between the Company as issuer and Citicorp as trustee, pursuant to which the US$180 million 6.25% senior notes due 2022 (the "New Notes") were issued. The Indentures provide that, upon the occurrence of a Change of Control (as defined in the Indentures), the Company will make an offer to repurchase all the outstanding Notes and New Notes respectively, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Please refer to the announcements of the Company dated 27 April 2017, 5 June 2017, 8 May 2018, 28 May 2018 and 20 January 2020 for the related details.

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, the New Notes and the Loan Facilities and may trigger cross defaults in other outstanding debts of the Group, in the aggregate amount of approximately HK$2,521 million at 31 December 2019.

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 18% of the total purchases of the Group for the year.

The five largest customers of the Group accounted for approximately 58% of the total turnover of the Group for the year with the largest customer, Hong Kong Housing Authority, accounting for approximately 29% of the turnover of the Group.

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

DONATIONS

During the year, the Group made donations of approximately HK$1.71 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 2020 AGM. A resolution will be proposed at the 2020 AGM to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Lo Hong Sui, Vincent
Chairman

Hong Kong, 31 March 2020

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 101 to 185, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 the People's Republic of China ("PRC") and carried at a total value of HK$4,583 million as at 31 December 2019, which represented 49% of the Group's total assets. The amount of fair value changes of HK$44 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 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$482 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(d) and 37(a) to the consolidated financial statements, the Group has outstanding receivables of HK$482 million from the Debtor and remained as a guarantor for a loan granted to the Debtor of HK$605 million plus related interest amounting to HK$611 million at 31 December 2019. Courts in the PRC 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$482 million will be fully settled and the financial guarantee of HK$605 million plus related interest amounting to HK$611 million will be fully released 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; • 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 and the related financial guarantee; • 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$4,493 million and HK$668 million respectively for the year ended 31 December 2019. 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 the revenue recognised; • Checking the 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 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

31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 HK$ million	2018 HK$ million
Turnover			
The Company and its subsidiaries		**5,545**	6,128
Share of joint ventures		**22**	34
		5,567	6,162
Group turnover	6	**5,545**	6,128
Other income, other gains and losses	7	**51**	(62)
Cost of properties sold		**(703)**	(809)
Raw materials and consumables used		**(271)**	(357)
Staff costs		**(690)**	(678)
Depreciation and amortisation		**(30)**	(13)
Subcontracting, external labour costs and other expenses		**(3,524)**	(4,112)
Fair value changes on investment properties	14	**44**	72
Gain on transfer of property inventories to investment properties	14	**–**	51
Dividend income from equity investments		**4**	3
Finance costs	8	**(229)**	(234)
Gain on disposal of partial interest in a joint venture		**62**	–
Share of loss of joint ventures	6	**(3)**	(8)
Profit (loss) before taxation		**256**	(19)
Taxation	9	**(177)**	(64)
Profit (loss) for the year		**79**	(83)
Attributable to:			
Owners of the Company		**7**	(139)
Non-controlling interests		**72**	56
		79	(83)
Earnings (loss) per share	12		
Basic		**HK$0.02**	HK$(0.31)
Diluted		**HK$0.02**	HK$(0.31)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$ million	2018 HK$ million
Profit (loss) for the year	**79**	(83)
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operations	**(88)**	(198)
Reclassification adjustments for exchange differences transferred to profit or loss:		
– upon disposal of partial interest in a joint venture	**6**	–
Item that will not be reclassified to profit or loss:		
Fair value changes of equity investments at fair value through other comprehensive income	**(1)**	(13)
Recognition of actuarial gain (loss)	**15**	(42)
Other comprehensive expense for the year	**(68)**	(253)
Total comprehensive income (expenses) for the year	**11**	(336)
Total comprehensive (expenses) income attributable to:		
Owners of the Company	**(61)**	(392)
Non-controlling interests	**72**	56
	11	(336)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$ million	2018 HK$ million
Non-current Assets			
Investment properties	14	**4,583**	5,069
Goodwill		**7**	–
Other intangible assets		**6**	–
Right-of-use assets		**15**	–
Property, plant and equipment	15	**32**	36
Interests in joint ventures	16	**101**	98
Financial assets at fair value through other comprehensive income	17	**51**	52
Club memberships		**1**	1
Restricted bank deposits	21	**–**	139
		4,796	5,395
Current Assets			
Properties held for sale	19	**393**	450
Properties under development for sale	19	**687**	1,066
Debtors, deposits and prepayments	20	**1,264**	1,582
Contract assets	22	**668**	650
Amounts due from joint ventures	18	**74**	176
Amounts due from related companies	24	**43**	5
Restricted bank deposits	21	**109**	41
Bank balances, deposits and cash	20	**1,354**	1,237
		4,592	5,207
Assets classified as held for sale	23	**48**	–
		4,640	5,207
Current Liabilities			
Creditors and accrued charges	25	**2,414**	2,615
Contract liabilities	22	**324**	413
Lease liabilities		**10**	–
Amounts due to joint ventures	18	**123**	117
Amounts due to related companies	24	**51**	46
Amounts due to non-controlling shareholders of subsidiaries	24	**3**	4
Other financial liabilities		**27**	–
Taxation payable		**142**	91
Bank borrowings due within one year	26	**1,019**	978
Senior notes	27	**1,344**	–
		5,457	4,264
Net Current (Liabilities) Assets		**(817)**	943
Total Assets Less Current Liabilities		**3,979**	6,338

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2019** **HK$ million**	2018 HK$ million
Capital and Reserves			
Share capital	28	**374**	384
Reserves		**2,431**	2,505
Equity attributable to owners of the Company		**2,805**	2,889
Non-controlling interests		**177**	127
		2,982	3,016
Non-current Liabilities			
Bank borrowings	26	**620**	870
Senior notes	27	**–**	2,023
Lease liabilities		**6**	–
Other financial liabilities		**–**	28
Defined benefit liabilities	29	**58**	66
Deferred tax liabilities	30	**313**	335
		997	3,322
		3,979	6,338

The consolidated financial statements on pages 101 to 185 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

Lo Hong Sui, Vincent
Chairman

Lee Chun Kong, Freddy
Executive Director and Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company												
	Share capital HK$ million	Share premium account HK$ million	Translation reserve HK$ million	Contributed surplus (Note a) HK$ million	Goodwil HK$ million	Accumulated losses HK$ million	Share option reserve HK$ million	Actuarial gain and loss HK$ million	Investment revaluation reserve HK$ million	Other reserve (Note b) HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total Equity HK$ million
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) profit 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
Fair value changes of equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**–**	**(1)**
Exchange differences arising on translation of financial statements of foreign operations	**–**	**–**	**(88)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(88)**	**–**	**(88)**
Recognition of actuarial gain	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15**	**–**	**–**	**15**	**–**	**15**
Disposal of interest in a joint venture	**–**	**–**	**6**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**–**	**6**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**7**	**–**	**–**	**–**	**–**	**7**	**72**	**79**
Total comprehensive (expense) income for the year	**–**	**–**	**(82)**	**–**	**–**	**7**	**–**	**15**	**(1)**	**–**	**(61)**	**72**	**11**
Contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Buy-back of shares	**(10)**	**(13)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(23)**	**–**	**(23)**
Dividends payable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24)**	**(24)**
At 31 December 2019	**374**	**2,982**	**103**	**197**	**(3)**	**(1,122)**	**5**	**(16)**	**1**	**284**	**2,805**	**177**	**2,982**

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 (2018: HK$231 million) recognised in prior years, which arose when the Group entered into agreements with Shui On Company Limited ("SOCL"), the Company's ultimate holding company, to co-invest in Shui On Land Limited during the year ended 31 March 2005; (ii) an amount of HK$16 million (2018: 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 (2018: 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 2019

	2019 HK$ million	2018 HK$ million
Operating Activities		
Profit (loss) before taxation	**256**	(19)
Adjustments for:		
Gain on disposal of partial interest in a joint venture	**(62)**	–
Share of loss of joint ventures	**3**	8
Interest income	**(55)**	(58)
Finance costs	**229**	234
Dividend income from equity investments	**(4)**	(3)
Fair value loss on derivative financial instruments	**–**	57
Fair value changes on investment properties	**(44)**	(72)
Gain on transfer of property inventories to investment properties	**–**	(51)
Loss on disposal of an investment property through disposal of a subsidiary	**6**	–
Depreciation of property, plant and equipment	**12**	13
Depreciation of right-of-use assets	**16**	–
Amortisation of other intangible assets	**2**	–
Waiver of the fees payable to a related company	**–**	(32)
Discount on buy-back of senior notes	**–**	(4)
Loss on disposal of property, plant and equipment	**–**	2
Expense recognised in respect to defined benefit scheme	**13**	13
Operating cash flows before movements in working capital	**372**	88
Decrease in properties held for sale	**699**	668
Increase in properties under development for sale	**(274)**	(224)
(Increase) decrease in debtors, deposits and prepayments	**(22)**	462
Increase in contract assets	**(18)**	(150)
(Increase) decrease in amounts due from related companies	**(26)**	3
Decrease in amounts due from joint ventures	**2**	1
Decrease in creditors and accrued charges	**(187)**	(461)
Decrease in contract liabilities	**(80)**	(88)
Increase in amounts due to joint ventures	**8**	4
Increase (decrease) in amounts due to related companies	**8**	(120)
Settlement for derivative financial instruments	**–**	(159)
Contribution to defined benefit scheme	**(6)**	(7)
Cash from operations	**476**	17
Hong Kong Profits Tax paid	**(5)**	(23)
Income taxes of other regions in the People's Republic of China ("PRC") paid	**(134)**	(125)
Net cash from (used in) operating activities	**337**	(131)

	2019 HK$ million	2018 HK$ million
Investing Activities		
Advance to joint ventures	**(4)**	(103)
Repayment from joint ventures	**23**	–
Additions in property, plant and equipment	**(8)**	(22)
Payment for construction of investment properties	**(11)**	(55)
Acquisition of investment properties and other assets and liabilities through acquisition of a subsidiary	**–**	(182)
Acquisition of subsidiaries	**(26)**	–
Interest received	**48**	41
Proceeds from disposal of property, plant and equipment	**–**	3
Proceeds from disposal of investment properties	**2**	–
Dividends received from equity investments	**4**	3
Net proceeds from disposal of a joint venture	**–**	1
Net proceeds from disposal of partial interest in a joint venture	**144**	–
Net proceeds from disposal of an investment property through disposal of a subsidiary	**382**	–
Net proceeds from disposal of interest in an associate in previous year	**347**	668
Restricted bank deposits placed	**(7)**	(279)
Restricted bank deposits refunded	**79**	299
Net cash from investing activities	**973**	374
Financing Activities		
Drawdown of bank borrowings	**727**	881
Repayment of bank borrowings	**(930)**	(587)
Loan from a related company	**300**	–
Repayment to related companies	**(315)**	(56)
Payment for buy-back of shares	**(23)**	(277)
Payment for buy-back of senior notes	**(685)**	(149)
Payment of lease liabilities	**(16)**	–
Interest paid	**(210)**	(211)
Payment for acquisition of partial interest in a subsidiary	**–**	(21)
Other borrowing costs paid	**(6)**	(6)
Dividends paid to non-controlling shareholders of subsidiaries	**(24)**	(48)
Net cash used in financing activities	**(1,182)**	(474)
Net increase (decrease) in cash and cash equivalents	**128**	(231)
Cash and cash equivalents at the beginning of the year	**1,237**	1,486
Effect of foreign exchange rate changes	**(11)**	(18)
Cash and cash equivalents at the end of the year	**1,354**	1,237
Analysis of the balances of cash and cash equivalents		
Bank balances, deposits and cash	**1,354**	1,237

1. General Information and Basic of Presentation

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 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. 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, 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.

At 31 December 2019, the Group reported net current liabilities of HK$817 million, which included HK$690 million revolving bank loans with no fixed term of repayment. The Directors of the Company believe that such revolving bank loans will continue to be made available to the Group and will not be withdrawn unexpectedly within the next twelve months from the end of the reporting period. In addition, the Company successfully issued a 2 year US$ denominated senior notes of US$180 million in January 2020. The net proceeds received on the bond issuance, coupled with the Group's operating cash flows as well as the available credit facilities have enabled the Group to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2019 have been prepared on a going concern basis.

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 2019.

HKFRS 16	Leases
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

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.

HKFRS 16 Leases

The Group has applied, for the first time, HKFRS 16 "Leases" using the modified retrospective approach, under which the cumulative effect of initial application is recognised in accumulated losses at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated.

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

HKFRS 16 Leases (Continued)

HKFRS 16 supersedes HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under HKIFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact for leases where the Group is the lessor.

The Group elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Accounting policies resulting from application of HKFRS 16 are disclosed in note 4.

On transition to HKFRS 16, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities, recognising the difference in accumulated losses and comparative information has not been restated. The impact on transition is summarised below:

	1 January 2019 HK$ million
Non-current assets	
Right-of-use assets	21
Current liabilities	
Lease liabilities	(15)
Non-current liabilities	
Lease liabilities	(6)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 5%.

	1 January 2019 HK$ million
Operating lease commitments at 31 December 2018	25
Discounted using the incremental borrowing rate at 1 January 2019	24
Less: Short-term leases recognition exemption	(3)
Lease liabilities recognised at 1 January 2019	21

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

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

HKFRS 17	Insurance Contracts[2]
HKFRS 3 (Amendments)	Definition of a Business[4]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKAS 1 and HKAS 8 (Amendments)	Definition of Material[1]
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform[1]

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

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

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

4 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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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 these new and amendments to HKFRSs.

4. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRS 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 HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

For financial instruments and investment properties (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.

4. Significant Accounting Policies (Continued)

Basis of preparation (Continued)

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.

Business combinations

Acquisitions of businesses (including a business under common control) 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.

4. Significant Accounting Policies (Continued)

Business combinations (Continued)

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;

– 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; and

– lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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)

Intangible assets

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is not amortised.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Other intangible assets

Other intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date. Other intangible assets with finite useful lives are subsequently carried at cost less accumulated amortisation and impairment losses. Amortisation for other intangible assets with finite useful lives is recognised on a straight-line method over their estimated useful lives.

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.

4. Significant Accounting Policies (Continued)

Investments in joint ventures (Continued)

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 is not allocated to any asset, including goodwill that 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.

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

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.

4. Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

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.

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 10%-100% of the contract value as deposits from customers or receipts in advance from customers when they sign the sale and purchase agreement.

Deposits 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.

4. Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

Rendering of services

Revenue from the rendering of services is recognised over the scheduled period on the straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

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.

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.

4. Significant Accounting Policies (Continued)

Properties held for sale

Properties held for sale are classified as current assets and carried at the lower of cost and net realisable value. Costs relating to the development of properties, comprising costs of 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 for sale which are intended to be sold upon completion of development are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets upon the application of HKFRS 16, properties under development for sale are carried 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 tangible and intangible assets (other than club memberships with indefinite useful life and goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amounts of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount (i.e. the higher of fair value less costs of disposal and value in use) of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating units, the Group compares the carrying amount of a group of cash-generating units, including the carrying amount of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash generating units. An impairment loss is recognised as an expense immediately.

4. Significant Accounting Policies (Continued)

Impairment of tangible and intangible assets (other than club memberships with indefinite useful life and goodwill) (Continued)

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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.

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 before tax 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

4. Significant Accounting Policies (Continued)

Taxation (Continued)

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessor

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.

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 (upon application of HKFRS 16 in accordance with transitions in note 2)

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 Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight line basis over the lease term. The Group also elected to account for operating leases with a remaining lease term of less than 12 months on transition as short-term lease. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. However, the Group elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

4. Significant Accounting Policies (Continued)

Leases (Continued)

The Group as lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

For the classification of cash flows, the Group previously presented upfront prepaid lease payments as investing cash flows in relation to leasehold lands classified as investment properties while other operating lease payments were presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability are allocated into a principal and an interest portion which is presented as financing cash flows of the Group.

Right-of-use assets

The Group recognises a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits paid are accounted for under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

The Group recognises a lease liability at the lease commencement date at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted by interest accretion and lease payments, as well as the impact of lease modifications, amongst others.

The lease payments include fixed payments and variable lease payments (depend on an index or a rate).

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

4. Significant Accounting Policies (Continued)

Leases (Continued)

The Group as lessee (prior to 1 January 2019)

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.

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

Foreign currencies

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

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

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 reclassified to 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.

4. Significant Accounting Policies (Continued)

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.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

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.

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.

4. Significant Accounting Policies (Continued)

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. 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

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 of HKFRS 9/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.

A financial asset is 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.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

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

The Group performs impairment assessment under ECL model on financial assets (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.

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.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. 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.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 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;

(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.

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, 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 investment in financial assets classified as at FVTOCI, 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 at amortised cost

Other financial liabilities (including creditors, lease liabilities, 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; 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$4,583 million (2018: HK$5,069 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(d) and 37(a), CCP disposed of a former subsidiary group (the "Debtor") in prior years. With respect to the disposal, the Group had outstanding receivables of HK$482 million at 31 December 2019 and remained as a guarantor for a loan granted to the Debtor at a principal amount of HK$605 million plus related interest. The receivables of HK$482 million (2018: HK$469 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$605 million (2018: HK$619 million) and the related interest amounting to HK$611 million (2018: HK$549 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(d) 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 in the PRC of HK$4,583 million at 31 December 2019 (2018: HK$4,709 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 Group's investment properties in Hong Kong with fair value of HK$360 million at 31 December 2018, in the opinion of the Directors of the Company, were 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 in the PRC and property investment and provision of property 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 2019

	Property HK$ million	Construction and building maintenance HK$ million	Other businesses HK$ million	Total HK$ million
REVENUE				
Revenue from property sales	869	–	–	869
Construction contract revenue	–	4,493	–	4,493
Revenue from rendering of services in Hong Kong	70	–	–	70
Revenue from rendering of services in the PRC	26	–	–	26
Revenue from contracts with customers	965	4,493	–	5,458
Revenue from property leasing	87	–	–	87
Group's revenue from external customers	1,052	4,493	–	5,545
Share of joint ventures' revenue	–	3	19	22
Total segment revenue	1,052	4,496	19	5,567
Timing of revenue recognition				
– At a point of time	869	–	–	869
– Over time	96	4,493	–	4,589
Revenue from contracts with customers	965	4,493	–	5,458
Reportable segment results	102	405	20	527
Segment results have been arrived at after crediting (charging):				
Depreciation and amortisation	(9)	(10)	–	(19)
Interest income	37	12	4	53
Fair value changes on investment properties	44	–	–	44
Compensation for closure of a cement plant	–	–	34	34
Gain on disposal of partial interest in a joint venture	62	–	–	62
Dividend income from equity investments	–	–	4	4
Finance costs	(20)	–	–	(20)
Share of (loss) profit of joint ventures				
Property development	(3)	–	–	(3)
Other operations in Guizhou	–	–	7	7
Venture capital investments	–	–	(7)	(7)
				(3)

6. Turnover and Segment Information (Continued)

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

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)

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 2019 and the expected timing of recognising revenue are as follows:

	Properties sales HK$ million	**Construction contracts HK$ million**
Within one year	**447**	**4,844**
More than one year but less than two years	**–**	**5,914**
More than two years	**–**	**4,186**
	447	**14,944**

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

6. Turnover and Segment Information (Continued)

(b) Reportable segment assets and liabilities

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

At 31 December 2019

	Property HK$ million	Construction and building maintenance HK$ million	Other businesses HK$ million	Total HK$ million
Reportable segment assets	**7,138**	**1,971**	**915**	**10,024**
Reportable segment liabilities	**1,408**	**2,062**	**399**	**3,869**

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

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

	Year ended 31 December	
	2019 HK$ million	2018 HK$ million
Revenue		
Reportable segment revenue	**5,567**	6,162
Elimination of share of revenue of joint ventures	**(22)**	(34)
Consolidated turnover	**5,545**	6,128

6. Turnover and Segment Information (Continued)

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

	Year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Profit (loss) before taxation		
Reportable segment results	**527**	297
Unallocated other income	**2**	4
Unallocated finance costs	**(209)**	(219)
Fair value loss on derivative financial instruments	**–**	(57)
Other unallocated corporate expenses	**(64)**	(44)
Consolidated profit (loss) before taxation	**256**	(19)

	At 31 December	
	2019	2018
	HK$ million	HK$ million
Assets		
Reportable segment assets	**10,024**	11,224
Elimination of inter-segment receivables	**(588)**	(622)
Consolidated total assets	**9,436**	10,602

	At 31 December	
	2019	2018
	HK$ million	HK$ million
Liabilities		
Reportable segment liabilities	**3,869**	4,216
Elimination of inter-segment payables	**(588)**	(622)
Unallocated liabilities		
– Bank borrowings	**1,316**	1,477
– Senior notes	**1,344**	2,023
– Taxation and others	**513**	492
Consolidated total liabilities	**6,454**	7,586

6. Turnover and Segment Information (Continued)

(d) Other segment information

At 31 December 2019

	Property	Construction and building maintenance	Other businesses	Total
	HK$ million	HK$ million	HK$ million	HK$ million
Interests in joint ventures	**38**	**4**	**59**	**101**
Capital expenditure (excluding assets acquired on acquisition of subsidiaries)	**16**	**3**	**–**	**19**
Tax charges	**100**	**68**	**9**	**177**

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

(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**	
	2019	2018	**2019**	2018
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**4,273**	4,503	**43**	372
PRC (excluding Hong Kong)	**1,272**	1,625	**4,601**	4,734
	5,545	6,128	**4,644**	5,106

* 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.

6. Turnover and Segment Information (Continued)

(f) Information about major customers

Included in external revenue arising from construction and building maintenance of HK$4,493 million (2018: HK$4,914 million) is revenue of HK$1,587 million and HK$686 million, which arose from services provided to the Group's largest and second largest customers respectively (2018: HK$2,263 million and HK$1,128 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

	2019 **HK$ million**	2018 HK$ million
Included in other income, other gains and losses are:		
Compensation for closure of a cement plant	**34**	–
Interest income	**55**	58
Discount on buy-back of senior notes	**–**	4
Waiver of fees payable to a related company	**–**	32
Exchange loss	**(48)**	(111)
Fair value loss on derivative financial instruments	**–**	(57)
Loss on disposal of property, plant and equipment	**–**	(2)

8. Finance Costs

	2019 **HK$ million**	2018 HK$ million
Interest on bank and other loans	**104**	80
Interest on senior notes	**118**	148
Interest on lease liabilities	**1**	–
Other borrowing costs	**6**	6
	229	234

9. Taxation

	2019 HK$ million	2018 HK$ million
The tax charge comprises:		
Current taxation		
Hong Kong Profits Tax	**69**	29
PRC Enterprise Income Tax	**68**	9
PRC Land Appreciation Tax	**57**	81
	194	119
Deferred taxation (note 30)	**(17)**	(55)
	177	64

Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the year.

PRC Enterprise Income Tax is calculated at 25% (2018: 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 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.

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

	2019 HK$ million	2018 HK$ million
Profit (loss) before taxation	**256**	(19)
Tax at Hong Kong Profits Tax rate of 16.5% (2018: 16.5%)	**42**	(3)
Effect of share of loss of joint ventures	**1**	1
Effect of different tax rates on operations in other jurisdictions	**24**	8
PRC Land Appreciation Tax	**57**	81
Tax effect of PRC Land Appreciation Tax	**(9)**	(13)
Tax effect of expenses not deductible for tax purposes	**67**	75
Tax effect of income not taxable for tax purposes	**(42)**	(42)
Tax effect of tax losses not recognised	**41**	32
Tax effect of utilisation of tax losses previously not recognised	**(5)**	(16)
Recognition of deferred tax assets for unused tax losses	**–**	(59)
(Over) under provision of current taxation in prior year	**(1)**	1
Others	**2**	(1)
Tax charge for the year	**177**	64

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

Directors and Chief Executives

The emoluments paid or payable to each of the seven (2018: five) Directors were as follows:

For the year ended 31 December 2019

Name of Director	Notes	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payments HK$'000	2019 Total HK$'000
Mr. Lo Hong Sui, Vincent		**10**	**–**	**–**	**–**	**10**
Mr. Lee Chun Kong, Freddy	(a)	**3**	**3,657**	**51**	**–**	**3,711**
Ms. Lo Bo Yue, Stephanie	(b) & (d)	**299**	**–**	**–**	**–**	**299**
Ms. Li Hoi Lun, Helen	(c)	**550**	**–**	**–**	**–**	**550**
Mr. Chan Kay Cheung	(c)	**595**	**–**	**–**	**–**	**595**
Mr. William Timothy Addison	(c)	**504**	**–**	**–**	**–**	**504**
Mr. Wong Yuet Leung, Frankie	(e)	**8**	**22,104**	**–**	**–**	**22,112**
Total		**1,969**	**25,761**	**51**	**–**	**27,781**

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	(c)	523	–	–	–	523
Mr. Chan Kay Cheung	(c)	595	–	–	–	595
Mr. William Timothy Addison	(c)	455	–	–	–	455
Total		1,593	7,015	–	–	8,608

Notes:

(a) Mr. Lee Chun Kong, Freddy was appointed as an Executive Director and Chief Executive Officer with effect from 1 October 2019.

(b) Non-executive Director.

(c) Independent Non-executive Directors.

(d) Ms. Lo Bo Yue, Stephanie was appointed as a Non-executive Director on 1 January 2019.

(e) Mr. Wong Yuet Leung, Frankie stepped down as an Executive Director, Chief Executive Officer and Chief Financial Officer with effect from 1 October 2019. The amount included HK$14 million gratuity payment upon his retirement on 1 January 2020 in recognition of his efforts and contribution for the years 2018 and 2019 as approved by the Remuneration Committee.

(f) 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.

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

Five Highest Paid Employees

Of the five highest paid individuals in the Group, one (2018: one) is Director of the Company whose emoluments are set out above. The emoluments of the remaining four (2018: four) highest paid employees were as follows:

	2019 **HK$ million**	2018 HK$ million
Salaries, bonuses and allowances	**21**	16
Retirement benefits scheme contributions	**1**	1
	22	17

The emoluments were within the following bands:

	2019 **No. of employees**	2018 No. of employees
HK$3,500,001 to HK$4,000,000	**–**	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
HK$6,000,001 to HK$6,500,000	**2**	–

11. Profit (loss) for the Year

	2019 HK$ million	2018 HK$ million
Profit (loss) for the year has been arrived at after charging (crediting):		
Cost of sales (note):		
Cost of construction	**3,963**	4,587
Cost of properties sold	**703**	809
Cost of rendering services	**107**	62
Direct rental outgoings arising from investment properties	**35**	40
	4,808	5,498
Staff costs (including directors' emoluments) (note):		
Salaries, bonuses and allowances	**658**	656
Retirement benefits cost	**41**	38
Less: amounts capitalised	**(9)**	(16)
	690	678
Depreciation and amortisation		
Depreciation of property, plant and equipment	**12**	13
Depreciation of right-of-use assets	**16**	–
Amortisation of other intangible assets	**2**	–
	30	13
Auditors' remuneration	**4**	4
Operating lease payments in respect of rented premises	**3**	20

Note:

Cost of sales includes HK$459 million (2018: HK$469 million) relating to staff costs, which is also included in the staff costs separately disclosed above.

12. Earnings (Loss) Per Share

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

	2019 **HK$ million**	2018 HK$ million
Profit (loss) for the year attributable to owners of the Company:		
Profit (loss) for the purpose of basic and diluted earnings (loss) per share	**7**	(139)
Number of shares:	**Million**	Million
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**383**	449
Effect of dilutive potential ordinary shares:		
Share options	**–**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**383**	449

The computation of the diluted earnings per share for the year ended 31 December 2019 does not assume the exercise of the Company's share options, of which the relevant exercise price was higher than the average market price of shares of the Company for the period when those options were outstanding.

The computation of the diluted loss per share for the year ended 31 December 2018 did 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 2019 (2018: nil).

14. Investment properties

	2019 HK$ million	2018 HK$ million
FAIR VALUE		
At the beginning of the year	**5,069**	4,538
Exchange adjustments	**(104)**	(210)
Acquired on acquisition of subsidiaries	**–**	303
Additions	**11**	55
Transfer from properties held for sale	**–**	313
Disposals	**(389)**	(2)
Increase in fair value recognised	**44**	72
Reclassified as assets classified as held for sale	**(48)**	–
At the end of the year	**4,583**	5,069
Analysed into:		
Completed investment properties in the PRC	**4,583**	4,709
Completed investment properties in Hong Kong	**–**	360
	4,583	5,069

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 2019 and 31 December 2018 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, one of the Group's investment properties was reclassified to assets classified as held for sale upon meeting the conditions for such classification.

During the year ended 31 December 2018, the Group had 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 had been recognised in the consolidated statement of profit or loss for the year ended 31 December 2018.

14. Investment properties (Continued)

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

The major inputs used in the fair value measurement of investment properties and information about the fair value hierarchy at 31 December 2019 and 31 December 2018 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 6.25% (2018: 6.50%)	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 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 RMB80-178 (2018: RMB71-178) 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 (2018: RMB260,000) 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 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 5.0% (2018: 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 (2018: RMB115-230) 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 (2018: RMB170,000) 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 (2018: RMB330,000) 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 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 4.5%-5.0% (2018: 5.00%-5.25%)	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 RMB89-200 (2018: RMB82-199) 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 (2018: RMB160,000) 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 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% (2018: 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 RMB29-97 (2018: RMB39-97) 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 *(disposed in 2019)*	(2018: 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

Investment properties classified as assets held for sale	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Sensitivity
Property 7 – Chengdu Centropolitan kindergarten premise	Level 2	With reference to the transaction price in the sale and purchase agreement	Not applicable	Not applicable	Not applicable
	(2018: 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%	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 7, and vice versa
			Monthly market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB50 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 7, and vice versa

15. Properties, Plant and Equipment

	Properties in other regions of the PRC HK$ million	Plant and machinery HK$ million	Motor vehicles HK$ million	Equipment, furniture and other assets HK$ million	Total HK$ million
AT COST					
At 1 January 2018	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
Additions	**–**	**–**	**2**	**6**	**8**
Acquired on acquisition of subsidiaries	**–**	**–**	**–**	**1**	**1**
Disposals	**–**	**–**	**(4)**	**(3)**	**(7)**
Exchange adjustments	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2019	**1**	**2**	**21**	**113**	**137**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2018	–	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
Charge for the year	**–**	**–**	**3**	**9**	**12**
Eliminated on disposals	**–**	**–**	**(4)**	**(3)**	**(7)**
Exchange adjustments	**–**	**–**	**–**	**–**	**–**
At 31 December 2019	**–**	**2**	**15**	**88**	**105**
CARRYING VALUES					
At 31 December 2019	**1**	**–**	**6**	**25**	**32**
At 31 December 2018	1	–	7	28	36

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

	2019 HK$ million	2018 HK$ million
Cost of unlisted investments in joint ventures, net of impairment	**316**	383
Share of post-acquisition losses and other comprehensive income	**(215)**	(285)
	101	98

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

Note:

During the year, the Group disposed of 34.8% effective equity interest in a joint venture, which operates a cement grinding mill in Nanjing, through the disposal of 58% issued shares of a wholly-owned subsidiary of the Company. Following completion of the disposal, this subsidiary became a 42%-owned joint venture of the Group and the effective equity interest in the joint venture was reduced from 60% to 25.2%, and will continue to be accounted for as a joint venture of the Group. Details of the transaction were set out in an announcement and a circular of the Company dated 14 May 2019 and 12 June 2019 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 2019 and 31 December 2018 attributable to the Group's interest is as follows:

	2019 HK$ million	2018 HK$ million
Loss after tax	**(3)**	(8)
Total comprehensive expense	**(3)**	(8)

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:

	2019 HK$ million	2018 HK$ million
Unrecognised share of losses of the joint venture for the year	**(8)**	(12)
Accumulated unrecognised share of losses of the joint venture	**(54)**	(118)

(ii) Joint operations

The Group's joint operation, China State – Shui On Joint Venture, 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

	2019 HK$ million	2018 HK$ million
Financial assets at fair value through other comprehensive income		
Listed equity securities in Hong Kong (note)	**51**	52

Note:

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 2019, the Group held a 0.4% (2018: 0.4%) equity interest in SOL.

18. Amount due from/to Joint Ventures

	2019 HK$ million	2018 HK$ million
Amounts due from joint ventures (note a)	**74**	176
Amounts due to joint ventures (note b)	**123**	117

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$55 million bear interest at 4.35% per annum (2018: 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:

	2019 HK$ million	2018 HK$ million
Properties held for sale in other regions of the PRC	**393**	450
Properties under development for sale in other regions of the PRC (note a)	**687**	1,066

Note:

(a) Properties under development for sale of nil at 31 December 2019 (2018: HK$420 million) represent the carrying value of the properties expected to be completed and available for sale after one year from the end of the reporting period.

(b) The leasehold land element cannot be allocated in proportion to the relative carrying amounts and the entire properties are classified as properties held for sale or properties under development for sale.

20. Other Current Assets

Debtors, deposits and prepayments

	2019 HK$ million	2018 HK$ million
Trade debtors (note b)		
– Construction contract	**364**	400
– Sales of goods	**4**	6
– Rendering of services	**3**	–
– Operating lease receivables	**11**	6
	382	412
Less: Allowance for credit losses	**(5)**	(5)
	377	407
Consideration receivable in respect of disposal of an associate (note c)	**36**	391
Prepayments, deposits and other receivables (note d)	**851**	784
	1,264	1,582

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 2019, trade debtors from contracts with customers amounted to HK$371 million (2018: HK$406 million).

(c) The balance carries interest at 15% per annum.

(d) Included in prepayments, deposits and other receivables are receivables of HK$482 million (2018: HK$469 million) due from CCP's former subsidiary group (the "Debtor"), which hold a property interest in the PRC and were disposed of in 2008. The amounts are repayable on demand and out of the total outstanding balance, an amount of HK$134 million (2018: HK$137 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 RMB276 million (approximately HK$308 million) (2018: RMB140 million (approximately HK$160 million)) and its related interest. In addition to these receivables, the Company has provided a guarantee in relation to a loan granted to the Debtor (see note 37(a)). 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:

	2019 **HK$ million**	2018 HK$ million
Trade debtors aged analysis:		
Not yet due or within 90 days	**372**	388
Amounts past due but not impaired:		
91 days to 180 days	**3**	17
181 days to 360 days	**1**	–
Over 360 days	**1**	2
	5	19
	377	407

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

	2019 **HK$ million**	2018 HK$ million
Balance at the beginning of the year	**5**	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**	5

Included in the trade debtors are receivables of HK$2 million (2018: 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 2019 are set out in note 39.

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 2019 represent custody deposits amounting to HK$109 million (2018: HK$180 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 0.001% to 1.10% (2018: 0.35% to 1.80%) per annum.

22. Contract Assets and Contract Liabilities

(i) Contract assets

	2019 **HK$ million**	2018 HK$ million
Relating to construction contracts (note)	**668**	650

As 1 January 2018, contract assets amounted to HK$497 million.

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.

Note:

At 31 December 2019, the amount of contract assets that is expected to be recovered after more than one year is HK$162 million (2018: HK$111 million), all of which relates to retention receivable.

(ii) Contract liabilities

	2019 **HK$ million**	2018 HK$ million
Relating to property sales	**321**	413
Relating to construction contracts	**3**	–
	324	413

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

When the Group receives a deposit before construction services is rendered, this will give rise to contract liabilities at the beginning of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

22. Contract Assets and Contract Liabilities (Continued)

(ii) Contract liabilities (Continued)

Movements in contract liabilities:

	2019 **HK$ million**	2018 HK$ million
Balance at the beginning of the year	**413**	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	**(410)**	(521)
Increase in contract liabilities as a result of receiving deposits:		
– in respect of property sales	**320**	413
– in respect of construction contracts	**3**	–
Exchange adjustments	**(2)**	(7)
Balance at the end of the year	**324**	413

23. Assets Classified as Held for Sale

	2019 **HK$ million**	2018 HK$ million
Investment properties	**48**	–

Note:

During the year, the Group initiated a sale plan to dispose of an investment property in Chengdu, which was held under operating lease to earn rental or for capital appreciation purposes previously. In July 2019, the Group entered into a sale and purchase agreement with an independent third party to dispose of this investment property. Details of the transaction are set out in an announcement of the Company dated 12 July 2019. The disposal of this property is expected to be completed within one year from the end of the reporting period and accordingly, the property has been reclassified as assets classified as held for sale in the Group's consolidated statement of financial position at 31 December 2019.

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

	2019 **HK$ million**	2018 HK$ million
Amounts due from related companies (notes a and b)	**43**	5
Amounts due to related companies (notes a and b)	**51**	46
Amounts due to non-controlling shareholders of subsidiaries (note b)	**3**	4

Notes:

(a) The related companies are subsidiaries of SOCL.

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

25. Creditors and Accrued Charges

The aged analysis of creditors (based on invoice date) of HK$375 million (2018: HK$435 million), which are included in the Group's creditors and accrued charges, is as follows:

	2019 HK$ million	2018 HK$ million
Trade creditors aged analysis:		
Not yet due or within 30 days	**337**	386
31 days to 90 days	**19**	23
91 days to 180 days	**3**	8
Over 180 days	**16**	18
	375	435
Retention payable (note b)	**427**	453
Provision for contract work/construction cost	**1,345**	1,493
Other accruals and payables	**267**	234
	2,414	2,615

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$111 million (2018: HK$84 million), which is due after one year from the end of the reporting period.

26. Bank Borrowings

	2019 HK$ million	2018 HK$ million
Secured bank borrowings	**891**	1,169
Unsecured bank borrowings	**748**	679
	1,639	1,848
Less: Amounts due within 12 months	**(1,019)**	(978)
Amounts due for settlement after 12 months	**620**	870
Carrying amount repayable:		
Within one year	**1,019**	978
More than one year but not exceeding two years	**288**	362
More than two years but not exceeding five years	**239**	387
More than five years	**93**	121
	1,639	1,848

26. Bank Borrowings (Continued)

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

Denominated in	Interest rate (per annum)	2019 HK$ million	2018 HK$ million
At variable rates			
Renminbi	5.94% to 6.89% (2018: 6.11% to 6.89%)	**323**	249
Hong Kong dollars	5.18% to 5.68% (2018: 2.38% to 5.49%)	**1,316**	1,599
		1,639	1,848

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:

1. The Group's investment properties and properties under development for sale amounting to HK$3,475 million and nil respectively (2018: HK$3,328 million and HK$354 million respectively) were pledged as security for certain banking facilities granted to the Group at the end of the reporting period.
2. Restricted bank deposits amounting to HK$17 million (2018: HK$41 million) at 31 December 2019 were placed with banks in relation to certain banking facility arrangements entered into with the Group.
3. 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

	2019 HK$ million	2018 HK$ million
At the beginning of the year	**2,023**	2,157
Interests charged during the year	**118**	148
Less: Discount on buy-back of senior notes	**–**	(4)
Less: Interest payable reclassified under other payables	**(105)**	(134)
Less: Buy-back of senior notes	**(685)**	(149)
Exchange adjustments	**(7)**	5
At the end of the year	**1,344**	2,023
Less: Amount due within one year shown under current liabilities	**(1,344)**	–
Amount due after one year	**–**	2,023

At 31 December 2019, the senior notes carries interest at 6.25% (2018: 6.25%) per annum.

In May and September 2019, the Group launched tender offers to purchase for cash, at par, the existing senior notes and completed the purchase of the senior notes in an aggregate principal amount of approximately US$76.7 million (HK$602 million) and US$8.4 million (HK$66 million) respectively. In addition, the Group bought-back US$2.2 million (HK$17 million) senior notes from open market at a price ranged from 98.3% to 98.8% to its face value during the year.

27. Senior Notes (Continued)

During the year ended 31 December 2018, 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, was included in "other income, other gains and losses".

28. Share Capital

	2019 **Number of shares**	2018 Number of shares	**2019** **HK$ million**	2018 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	**384,410,164**	484,410,164	**384**	484
Buy-back of shares	**(10,014,000)**	(100,000,000)	**(10)**	(100)
At the end of the year	**374,396,164**	384,410,164	**374**	384

During the year, the Company bought-back of 10,014,000 of its own shares on The Stock Exchange of Hong Kong Limited at prices ranging from HK$1.88 to HK$2.68 per share, for a total consideration of approximately HK$23 million. The bought-back shares were subsequently cancelled and the issued share capital of the Company was reduced by the nominal value of the bought-back shares. The premium of approximately HK$13 million paid on the bought-back shares was debited to the share premium account.

During the year ended 31 December 2018, the Company bought-back of 100,000,000 of its own shares through a cash offer at an aggregate amount of approximately HK$277 million, including transaction costs of approximately HK$27 million. The 100 million shares were subsequently cancelled 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$19 million (2018: HK$16 million). The amount of employer's voluntary contributions to the MPF Scheme forfeited for the years ended 31 December 2019 and 31 December 2018 was immaterial and was used to reduce the existing level of contributions.

Defined Benefit Scheme

Contributions to the Scheme are made by the members at 5% of their salaries and by the Group at rates, which are based on recommendations made by the actuary to the Scheme. The current employer contribution rate is 5.8% (2018: 5.8%) 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.

29. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

Defined Benefit Scheme (Continued)

- Salary risk

  The defined benefit obligation is calculated with reference to the future salaries of members because the Scheme's benefits are salary-related. Salary increases that are higher than expected will increase the defined benefit obligation.

The most recent actuarial valuations of the Scheme assets and the present value of the defined benefit obligation were carried out at 31 December 2019 by Mr. Leong-Hang Choi 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:

	2019	2018
Discount rate	**1.7%**	1.9%
Expected rate of salary increase	**3.5% p.a.**	3.5% p.a.

The actuarial valuation shows that the fair value of the Scheme assets attributable to the Group at 31 December 2019 was HK$387million (2018: HK$343 million), representing 87% (2018: 84%) of the benefits that has accrued to members.

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

	Year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Current service cost	**10**	11
Net interest on net defined benefit liabilities	**1**	–
Administrative expenses paid from scheme assets	**2**	2
Defined benefit cost recognised in the consolidated statement of profit or loss	**13**	13
Actuarial loss due to experience adjustment	**9**	4
Actuarial loss (gain) due to financial assumption changes	**4**	(4)
Return on Scheme assets (greater) less than discount rate	**(28)**	42
Remeasurement effects recognised in the consolidated statement of other comprehensive income	**(15)**	42
Total	**(2)**	55

29. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

Defined Benefit Scheme (Continued)

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

	2019 **HK$ million**	2018 HK$ million
Present value of defined benefit obligation	**(445)**	(409)
Fair value of Scheme assets	**387**	343
Defined benefit liabilities included in the consolidated statement of financial position	**(58)**	(66)

The Scheme assets do not include any shares in the Company (2018: nil).

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

	2019 **HK$ million**	2018 HK$ million
At the beginning of the year	**409**	419
Current service cost	**10**	11
Interest cost	**7**	7
Employees' contributions	**5**	5
Actuarial loss – experience adjustment	**9**	4
Actuarial loss (gain) – financial assumptions	**4**	(4)
Benefits paid	**(38)**	(33)
Transfer in	**39**	–
At the end of the year	**445**	409

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

	2019 **HK$ million**	2018 HK$ million
At the beginning of the year	**343**	401
Interest income on Scheme assets	**6**	7
Return on scheme assets greater (less) than discount rate	**28**	(42)
Employers' contributions	**6**	7
Employees' contributions	**5**	5
Benefits paid	**(38)**	(33)
Transfer in	**39**	–
Administrative expenses paid from scheme assets	**(2)**	(2)
At the end of the year	**387**	343

29. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

Defined Benefit Scheme (Continued)

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

	2019 **HK$ million**	2018 HK$ million
Equities	**12**	226
Hedge funds	**–**	45
Bonds and cash	**375**	72
	387	343

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

The below tables summarises the results of sensitivity analysis on the defined benefit obligation ("DBO"), based on reasonably possible changes in significant actuarial assumptions.

	Adopted rate	**Change to Adopted rate**	**Rate used in sensitivity analysis**	**Effect on DBO** **HK$ million**	**Effect on DBO** **%**
At 31 December 2019					
Discount rate	**1.7%**	**+0.25%**	**1.95%**	**(6)**	**(1.3%)**
		-0.25%	**1.45%**	**6**	**1.4%**
Expected rate of salary increase	**3.5%**	**+0.25%**	**3.75%**	**6**	**1.4%**
		-0.25%	**3.25%**	**(6)**	**(1.4%)**
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	3.5%	+0.25%	3.75%	6	1.4%
		-0.25%	3.25%	(6)	(1.4%)

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.

29. Retirement Benefit Plans (Continued)

Hong Kong (Continued)

Defined Benefit Scheme (Continued)

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

	2019 **HK$ million**	2018 HK$ million
Expected employer contributions	**6**	5
Expected member contributions	**5**	5

The weighted average duration of the defined benefit obligation at 31 December 2019 is 5.0 years (2018: 5.4 years).

PRC

The employees of the Company's subsidiaries in the PRC are members of state-managed retirement plans operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement plans to fund the benefits. The only obligation of the Group with respect to the retirement plans is to make the specified contributions. The Group's contributions to state-managed retirement plans charged to the consolidated statement of profit or loss as staff cost during the year amounted to HK$8 million (2018: HK$9 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 2018	(1)	(445)	40	(406)
Exchange adjustments	–	18	(3)	15
Acquisition of a subsidiary	–	–	1	1
(Charge) credit to consolidated statement of profit or loss	–	(4)	59	55
At 31 December 2018	(1)	(431)	97	(335)
Exchange adjustments	**–**	**9**	**(3)**	**6**
Disposal of a subsidiary	**–**	**–**	**(1)**	**(1)**
Credit to consolidated statement of profit or loss	**–**	**16**	**1**	**17**
At 31 December 2019	**(1)**	**(406)**	**94**	**(313)**

30. Deferred Taxation (Continued)

Notes:

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

(b) At 31 December 2019, the Group had unused tax losses of HK$1,834 million (2018: HK$1,741 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to HK$376 million (2018: HK$384 million). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$1,458 million (2018: HK$1,357 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2019 are tax losses of approximately HK$359 million (2018: HK$372 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$659 million at 31 December 2019 (2018: HK$567 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 lessee

The Group leases certain office properties. Leases are negotiated for lease terms ranging from one to three years.

Information about leases for which the Group is a lessee is presented below.

(a) Right-of-use assets

	2019 **HK$ million**
Balance at 1 January 2019	**21**
Depreciation	**(16)**
Additions	**10**
Balance at 31 December 2019	**15**

(b) Amounts recognised in profit or loss

	2019 **HK$ million**
Interest on lease liabilities	**1**
Expenses relating to short-term leases	**3**

(c) Amounts recognised in statement of cash flows

	2019 **HK$ million**
Total cash outflow for leases	**19**

31. Lease Arrangements (Continued)

As lessor

The Group leases out its investment properties and all leases are classified as operating leases. Rental income from the Group's investment properties during the year ended 31 December 2019 was HK$87 million (2018: HK$85 million), of which contingent rental income was HK$13 million (2018: HK$12 million).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 **HK$ million**
Leases under HKFRS 16	
Within one year	**69**
After one year but within two years	**64**
After two years but within three years	**51**
After three years but within four years	**38**
After four years but within five years	**27**
After five years	**133**
	382

	2018 HK$ million
Leases under HKAS 17	
Within one year	59
In the second to fifth years inclusive	168
After five years	159
	386

32. Capital Commitments

At 31 December 2019, the Group had no significant capital commitments (2018: 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 12.9% of the issued shares of the Company as of 31 December 2019.

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 0.39% of the issued shares of the Company as of 31 December 2019.

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	At 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2019	Period during which share options outstanding are exercisable	Average closing reference price for exercise of options
			Number of shares subject to options						
		HK$							**HK$ (Note)**
28 July 2011	2	10.00	**1,442,000**	**–**	**–**	**–**	**1,442,000**	1 May 2015 to 27 July 2021	–
			1,442,000	**–**	**–**	**–**	**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	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
			Number of shares subject to options						
		HK$							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	3	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		

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 2019 and 2018.

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:

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 2019 and 2018. 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 2019 (2018: nil) 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 Combination

On 18 April 2019, the Group entered into a sale and purchase agreement with an indirect wholly-owned subsidiary of SOCL to acquire the entire issued share capital of Shui On Properties Management Services Limited ("SOPMSL"). SOPMSL and its wholly-owned subsidiary, Shui On Properties Management Limited ("SOPML", collectively the "SOPMSL Group"), principally engage in the provision of property management services in Hong Kong. The transaction was completed on 30 April 2019 and SOPMSL and SOPML became the indirect wholly-owned subsidiaries of the Company. Details of the transaction are set out in an announcement of the Company dated 18 April 2019.

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

	HK$ million
Cash consideration	**35**
Fair value of the net assets acquired	**(28)**
Goodwill arising on acquisition	**7**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	**1**
Other intangible assets	**8**
Debtors, deposits and prepayments	**11**
Amounts due from related companies	**12**
Restricted bank deposits	**3**
Bank balances, deposits and cash	**9**
Creditors and accrued charges	**(4)**
Amounts due to related companies	**(12)**
Total identifiable net assets	**28**
Net cash outflow arising on acquisition	
Cash consideration paid	**(35)**
Bank balances, deposits and cash acquired	**9**
	(26)

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 2019.

The goodwill recognised is primarily attributed to the diversification of the Group's income stream and developing of the Group's revenue and earning sources in the property management business in Hong Kong.

Turnover of HK$70 million included in the consolidated statement of profit or loss since the date of acquisition to 31 December 2019 was contributed by SOPMSL Group. SOPMSL Group also contributed net profit of HK$6 million over the same period.

Had the acquisition been completed on 1 January 2019, total group turnover and profit attributable to owners of the Company for the year would have been HK$5,578 million and HK$10 million respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

36. Disposal of an investment property through disposal of a subsidiary

During the year, the Group disposed of an investment property in Hong Kong through disposal of the entire share interest in a wholly-owned subsidiary, which owned the property. The transaction was accounted for as a sale of an investment property in the ordinary course of the Group's property business. Details of the transaction were set out in an announcement of the Company dated 19 July 2019.

The net assets disposed of in the transaction are as follows:

	HK$ million
Investment property	**387**
Deferred tax assets	**1**
Net assets disposed of	**388**
Consideration	**387**
Net assets disposed of	**(388)**
Transaction costs incurred in connection with the disposal	**(5)**
Loss on disposal	**(6)**
Net cash inflow arising on disposal:	
Cash consideration received	**387**
Transaction costs paid	**(5)**
	382

37. Contingent Liabilities

At 31 December 2019, the Group had the following contingent liabilities, which have not been provided for in the consolidated financial statements:

(a) 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(d) 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 2020, subject to extension after further discussions. The outstanding principal amount of the loan under the Guarantee amounting to RMB542 million (HK$605 million) (2018: RMB542 million (HK$619 million)) and the related interest amounting to RMB547 million (HK$611 million) (2018: RMB481 million (HK$549 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.

37. Contingent Liabilities (Continued)

(b) The Group is in discussion with the local government authority in the PRC with respect to the delay in construction completion of a development project in Tianjin, by the date as stipulated in the relevant land grant contracts. The relevant local government authority has accepted certain of the reasons identified by the Group in supporting the application for extending the completion date of the project. Based on the respective supplemental land grant contracts, a penalty of 0.02% of the land grant premium per day would be imposed from 29 June 2018 until the completion of the construction. Taking into account the aforesaid extension as accepted by the government authority and the fact that phase 1 of the project has been completed in 2015 and is in operation; and phase 2 of the project has been launched for pre sale since January 2019, the estimated penalty as at 31 December 2019, if any, will not be more than RMB8.3 million. The management of the Company will resume the communication with the relevant government authority after the ease of epidemic in the PRC and are of the view that the exposure should be further reduced or fully exempted.

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.

38. Material Related Party Transactions

(a) During the year, the Group had the following transactions with SOCL and its subsidiaries other than those of the Group ("SOCL Private Group").

Nature of transactions	**2019** **HK$ million**	2018 HK$ million
Dividend income	**4**	3
Management and information system services	**1**	1
Waiver of the fee payments by the Group	**–**	32
Property management services income	**4**	–
Interest expenses	**4**	–
Rental expenses	**1**	1

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

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

Nature of transactions	**2019** **HK$ million**	2018 HK$ million
Interest expenses	**11**	11
Subcontracting work expenses	**8**	14

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

38. Material Related Party Transactions (Continued)

(c) 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.

(d) During the year, the Group acquired the entire issued share capital of Shui On Properties Management Services Limited (which is an indirect wholly-owned subsidiary of SOCL and holds the entire issued share capital of Shui On Properties Management Limited) from a wholly-owned subsidiary of SOCL for a consideration of HK$35 million.

(e) During the year, the Group disposed of 34.8% effective interest in a joint venture through disposal of 58% of the issued ordinary shares of Great Market Limited (which is an indirect wholly-owned subsidiary of the Company and holds 60% interest in this joint venture) to an indirect wholly-owned subsidiary of Shui On Land Limited for the total transaction amount of RMB148 million (HK$165 million). A gain on disposal of partial interest in this joint venture of HK$62 million was recognised in the consolidated statement of profit or loss for the current year.

(f) During the year, the Group obtained unsecured loan of HK$300 million carrying interest at 3.5% over applicable Hong Kong Interbank Offered Rate per annum from a wholly-owned subsidiary of SOCL, which was repaid in the same year.

(g) During the year, the Group repaid unsecured non-interest bearing short-term loan of HK$15 million to a subsidiary of SOL.

(h) During the year ended 31 December 2018, the Group repaid unsecured non-interest bearing short-term loan of HK$56 million to a subsidiary of SOL.

(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:

	2019 **HK$ million**	2018 HK$ million
Fees	**2**	1
Salaries and other benefits	**40**	24
Performance bonuses	**9**	3
Retirement benefit scheme contributions	**1**	1
	52	29

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.

39. Financial Instruments

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. There has been no change in the Group's exposure to capital risk or the manner in which it manages and measures the risk.

The capital structure of the Group consists of debts, which include bank 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.

(b) Categories of financial instruments

	2019 **HK$ million**	2018 HK$ million
Financial assets		
At fair value through other comprehensive income	**51**	52
At amortised cost	**3,501**	3,803
Financial liabilities		
At amortised cost	**4,104**	5,060

(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, lease liabilities, 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.

39. Financial Instruments (Continued)

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

Market risk (Continued)

(i) Interest rate risk (Continued)

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to cash flow interest rate risk for variable-rate borrowings. No sensitivity analysis is performed for bank deposits as the management considered the risk is immaterial. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. An increase or decrease of 100 basis points (2018: 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 (2018: 100 basis points) and all other variables were held constant, the Group's post tax profit for the year would increase/decrease by approximately HK$16 million for the year ended 31 December 2019 (2018: HK$19 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:

	2019 **HK$ million**	2018 HK$ million
Assets		
United States dollars	**95**	95
Hong Kong dollars	**10**	11
Liabilities		
United States dollars	**1,349**	2,041
Hong Kong dollars	**323**	554

39. Financial Instruments (Continued)

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

Market risk (Continued)

(ii) Foreign currency risk (Continued)

Foreign currency sensitivity

The Group's foreign currency risk is mainly concentrated on the fluctuation among Renminbi, the United States dollars and Hong Kong dollars. The sensitivity analysis does not include those United States dollars denominated assets and liabilities when they are held by group entities having Hong Kong dollars as their functional currency since the exchange rates between United States dollars and Hong Kong dollars are pegged. The following table details the Group's sensitivity to a 7% (2018: 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% (2018: 7%) change in foreign currency rates. The following table indicates the impact to the profit after tax where the foreign currencies strengthen against the functional currencies of the relevant group entities. For a 7% (2018: 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 profit. 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.

Increase (decrease) in profit/Decrease (increase) in loss	**2019** **HK$ million**	2018 HK$ million
United States dollars	**7**	7
Hong Kong dollars	**(22)**	(38)

(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. If the market price of the investments had been increased/decreased by 20% (2018: 20%), the Group's reserve at 31 December 2019 would increase/decrease by approximately HK$10 million (2018: HK$10 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 37.

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 on trade balances and contract assets. In this regard, the Directors of the Company consider that the credit risk is significantly reduced.

39. 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
At 31 December 2019			
Low risk (note a)	**0.36%**	**366**	**651**
Watch risk (note b)	**1.35%**	**1**	**19**
Loss (note c)	**100%**	**4**	**–**
At 31 December 2018			
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$482 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 2019, 41% (2018: 55%) of total trade debtors and other receivables was due from two counterparties. At 31 December 2019, other receivables of HK$482 million (2018: HK$469 million) were due from a counterparty and a guarantee on outstanding loan principal amounting to RMB542 million (HK$605 million) (2018: RMB542 million (HK$619 million)) and related interest amounting to RMB547 million (HK$611 million) (2018: RMB481 million (HK$549 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.

39. 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.

39. 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 2019							
Bank deposits	**1.00%**	**93**	**–**	**–**	**–**	**93**	**93**
Non-derivative financial liabilities							
Trade and other payables (note a)	**–**	**(1,010)**	**(111)**	**–**	**–**	**(1,121)**	**(1,121)**
Bank borrowings at variable rate	**5.56%**	**(1,089)**	**(321)**	**(271)**	**(105)**	**(1,786)**	**(1,639)**
Senior notes	**6.25%**	**(1,374)**	**–**	**–**	**–**	**(1,374)**	**(1,344)**
Lease liabilities	**5.00%**	**(10)**	**(4)**	**(2)**	**–**	**(16)**	**(16)**
		(3,390)	**(436)**	**(273)**	**(105)**	**(4,204)**	**(4,027)**
Financial guarantee contracts (note b)	**–**	**(1,216)**	**–**	**–**	**–**	**(1,216)**	**–**
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 at 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)	–

Notes:

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

(b) At the end of the reporting period, the Group has provided a financial guarantee to an independent third party (note 37(a)). 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.

39. Financial Instruments (Continued)

(d) Fair value measurements of financial instruments

At 31 December 2019 and 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).

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.

40. Reconciliation of Liabilities arising from Financing Activities

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

	Advances from related companies	Bank borrowings	Senior notes	Interest payable (included in other payables and amounts due to related companies)	Lease liabilities	Dividends payable to non-controlling interests	Total
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
At 1 January 2018	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
Adjustment upon application of HKFRS 16	–	–	–	–	21	–	21
At 1 January 2019 (restated)	44	1,848	2,023	27	21	–	3,963
Financing cash flows	**(15)**	**(203)**	**(685)**	**(216)**	**(16)**	**(24)**	**(1,159)**
New leases entered	**–**	**–**	**–**	**–**	**10**	**–**	**10**
Finance costs	**–**	**–**	**118**	**110**	**1**	**–**	**229**
Interest payable reclassified to other payables	**–**	**–**	**(105)**	**105**	**–**	**–**	**–**
Dividends payable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**24**	**24**
Exchange adjustments	**–**	**(6)**	**(7)**	**–**	**–**	**–**	**(13)**
At 31 December 2019	**29**	**1,639**	**1,344**	**26**	**16**	**–**	**3,054**

41. Statement of Financial Position of the Company

	2019 HK$ million	2018 HK$ million
Non-current Assets		
Property, plant and equipment	**3**	3
Right-of-use assets	**3**	–
Interests in subsidiaries	**7,505**	7,382
Club memberships	**1**	1
Restricted bank deposits	**–**	139
	7,512	7,525
Current Assets		
Debtors, deposits and prepayments	**257**	243
Amounts due from subsidiaries	**40**	421
Amounts due from joint ventures	**2**	2
Amounts due from related companies	**–**	–
Restricted bank deposits	**84**	9
Bank balances, deposits and cash	**20**	93
	403	768
Current Liabilities		
Creditors and accrued charges	**402**	395
Lease liabilities	**3**	–
Amounts due to joint ventures	**78**	78
Amounts due to related companies	**403**	58
Bank borrowings	**497**	498
Senior notes	**1,344**	–
	2,727	1,029
Net Current Liabilities	**(2,324)**	(261)
Total Assets Less Current Liabilities	**5,188**	7,264
Capital and Reserves		
Share capital (note 28)	**374**	384
Reserves (note)	**2,241**	2,298
	2,615	2,682
Non-current Liabilities		
Bank borrowings	**429**	247
Amounts due to subsidiaries	**2,086**	2,140
Senior notes	**–**	2,129
Defined benefit liabilities	**58**	66
	2,573	4,582
	5,188	7,264

41. 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 2018	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
Loss for the year	**–**	**–**	**(59)**	**–**	**–**	**–**	**(59)**
Recognition of actuarial loss	**–**	**–**	**–**	**–**	**15**	**–**	**15**
Total comprehensive expense for the year	**–**	**–**	**(59)**	**–**	**15**	**–**	**(44)**
Buy-back of shares	**(13)**	**–**	**–**	**–**	**–**	**–**	**(13)**
At 31 December 2019	**2,982**	**89**	**(1,043)**	**5**	**(23)**	**231**	**2,241**

42. Events After the Reporting Period

(a) On 23 January 2020, the Company issued US$180 million senior notes to independent third parties with a maturity of two years due on 23 January 2022, bearing coupon at 6.25% per annum, payable semi-annually in arrears.

(b) Since the outbreak of the novel coronavirus in early 2020, a series of precautionary and control measures have been and continued to be implemented across China. The Group has responded by implementing precautionary measures at its areas of operation, and has been evaluating its impact on the operating results and financial position of the Group. Given the uncertainties of the development of the epidemic, the related impact on the Group's 2020 results could not be reasonably estimated at this stage.

43. Particulars of Principal Subsidiaries

The Directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the following list contains only the particulars of subsidiaries at 31 December 2019 and 31 December 2018, 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%	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

43. 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				
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
Shui On Properties Management Services Limited	2 ordinary shares (HK$2)	–	100% (note 1)	Investment holding
Shui On Properties Management Limited	2 ordinary shares (HK$2)	–	100% (note 1)	Provision of property management services
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

43. 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)				
Beijing SOCAM Real Estate Consulting Co., Ltd.**+	Registered and paid up capital of RMB800,000	–	100%	Provision of consultancy services
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 leasing of investment properties
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 leasing of investment properties
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 2019 or at any time during the year.

Notes:

1. Shui On Properties Management Services Limited and Shui On Properties Management Limited were acquired during the year ended 31 December 2019 (see note 35).
2. Profit Point Development Limited was disposed of during the year ended 31 December 2019.

44. Particulars of Principal Joint Ventures

The Directors are of the opinion that a complete list of the particulars of all joint ventures will be of excessive length and therefore the following list contains only the particulars of principal joint ventures of the Group at 31 December 2019 and 31 December 2018. 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
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	25.2%	Manufacture and trading of cement	1 & 2

** 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. During the year, the Group disposed of its 34.8% interest in Nanjing Jiangnan Cement Co., Ltd., reducing the effective interest to 25.2%.
3. The share interest held by the Group in On Capital China Fund Series B was fully redeemed during the year ended 31 December 2019.

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				
	2015 HK$ million	2016 HK$ million	2017 HK$ million	2018 HK$ million	**2019** **HK$ million**
Turnover	5,916	5,345	6,472	6,128	**5,545**
(Loss) profit before taxation	(1,041)	(1,362)	(536)	(19)	**256**
Taxation	(68)	6	(34)	(64)	**(177)**
(Loss) profit for the year	(1,109)	(1,356)	(570)	(83)	**79**
Attributable to:					
Owners of the Company	(1,126)	(1,382)	(613)	(139)	**7**
Non-controlling interests	17	26	43	56	**72**
	(1,109)	(1,356)	(570)	(83)	**79**

2. Assets and Liabilities

	At 31 December				
	2015 HK$ million	2016 HK$ million	2017 HK$ million	2018 HK$ million	**2019** **HK$ million**
Total assets	12,339	9,210	12,024	10,602	**9,436**
Total liabilities	(6,759)	(5,338)	(8,322)	(7,586)	**(6,454)**
	5,580	3,872	3,702	3,016	**2,982**
Equity attributable to:					
Owners of the Company	5,542	3,835	3,566	2,889	**2,805**
Non-controlling interests	38	37	136	127	**177**
	5,580	3,872	3,702	3,016	**2,982**

CORPORATE INFORMATION

BOARD

Executive Directors

Mr. Lo Hong Sui, Vincent *(Chairman)*
Mr. Lee Chun Kong, Freddy *(Chief Executive 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. Lee Chun Kong, Freddy *(Chairman)*
Ms. Li Hoi Lun, Helen
Mr. Chan Kay Cheung
Mr. William Timothy Addison

INVESTMENT COMMITTEE

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

EXECUTIVE COMMITTEE

Mr. Lee Chun Kong, Freddy *(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 54, 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 (Asia) Limited
Shanghai Commercial Bank Limited
Standard Chartered Bank (Hong Kong) Limited

STOCK CODES

Shares: 983
Senior Notes: 4518
40137

WEBSITE

www.socam.com

SOCAM DEVELOPMENT LIMITED

瑞安建業有限公司

(Incorporated in Bermuda with limited liability)

www.socam.com