瑞安建業有限公司*

**SOCAM Development Limited**

(Incorporated in Bermuda with limited liability)

**(Stock Code: 983)**

# Announcement of results for the year ended 31 December 2017

## FINANCIAL HIGHLIGHTS

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| Turnover | | | |
| Company and subsidiaries | *HK$ million* | **6,472** | 5,345 |
| Share of joint ventures and associates | *HK$ million* | **481** | 1,572 |
| Total | *HK$ million* | **6,953** | 6,917 |
| Loss attributable to shareholders | *HK$ million* | **(613)** | (1,382) |
| Basic loss per share | *HK$* | **(1.27)** | (2.86) |

| | | At 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| Total assets | *HK$ billion* | **12.0** | 9.2 |
| Net assets | *HK$ billion* | **3.6** | 3.8 |
| Net asset value per share | *HK$* | **7.4** | 7.9 |
| Net gearing | *%* | **53.6** | 33.5 |

# CHAIRMAN'S STATEMENT

To Our Shareholders,

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

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

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

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

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

## IMPROVED FINANCIAL POSITION

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

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

## REVITALISING OUR BUSINESSES

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

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

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

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

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

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

## OUR COMMITMENT TO SHAREHOLDERS

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

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

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

**Vincent H.S Lo**
*Chairman*

Hong Kong, 28 March 2018

# BUSINESS REVIEW

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

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

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

## PROPERTY

### Market Review

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

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

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

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

**Operating Performance**

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

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

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

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

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

## Project Development and Marketing Progress

### *Nanjing Scenic Villa*

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

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

### *Chengdu Centropolitan*

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

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

Integral to the development is a shopping mall which occupies approximately 43,000 square metres. The fresh market ‘village’ at the basement of the mall, offering unique features to satisfy the daily needs of the local community, and the ground floor were opened in December 2017. As of December occupancy rates of these two newly opened floors were 89% and 25% respectively. Since its opening, favourable footfall and turnover were achieved. Official opening of the entire mall is expected in mid 2018, when we are aiming to achieve an 80% occupancy rate.

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

### *Chongqing Creative Concepts Center*

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

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

*Guangzhou Parc Oasis*

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

*Shenyang Project Phase I*

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

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

*Tianjin Veneto*

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

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

*Knowledge Community - Dalian Tiandi*

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

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

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

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

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

## CONSTRUCTION

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

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

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

As progress is made in identifying sites on which terrain preparation and construction of public housing expansion can begin, the Group's construction arm will be in a strong position to further expand its order book. Beyond this, SOCAM is looking at more opportunities to expand its public sector construction, maintenance contracts and interior fit-out projects.

### Project Progress

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

In a joint venture with China State Construction, SOCAM completed the Hong Kong Children's Hospital in September 2017. This HK$9 billion project will open by end of 2018, which comprises two connected 11-storey towers, initially with 230 hospital beds, and rehabilitation park surroundings to provide a green outdoor space for patients. Working hand in hand with China State Construction, our joint-venture partner, we strive to deliver the project on track and on budget which are of vital importance for this major community facility that is in urgent need.

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

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

## Operating Performance

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

Projects completed during the year included

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

## Shui On Building Contractors (SOBC)

New contracts secured by SOBC amounted to HK$2,783 million. The renovation and maintenance businesses kept growing at a steady pace and new contracts volume further expanded compared to the previous year. New contracts comprised

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

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

## Shui On Construction (SOC)

SOC secured a contract worth HK$2,720 million from the Architectural Services Department for the design and construction of Junior Police Officer Married Quarters at Fan Garden, Fanling providing 1,184 units on completion in 2020. As the project takes shape, SOC is seeking Building Environmental Assessment Method (BEAM) Plus certification that acknowledges the adoption of a range of best practices aiming to reduce any environmental impact of a new building while maximising end-user satisfaction. In its construction we look for innovative ways to save energy and water consumption.

## Pat Davie (PDL)

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

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

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

# RESULTS

The Board of Directors (the "Board") of SOCAM Development Limited (the "Company" or "SOCAM") presents the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Notes | **2017**<br>**HK$ million** | 2016<br>HK$ million |
|---|---|---|---|
| Turnover | | | |
| The Company and its subsidiaries | | **6,472** | 5,345 |
| Share of joint ventures/associates | | **481** | 1,572 |
| | | **6,953** | 6,917 |
| Group turnover | 2 | **6,472** | 5,345 |
| Other income, other gains and losses | | **254** | 103 |
| Changes in inventories of finished goods, work in progress, contract work in progress and cost of properties sold | | **(566)** | (466) |
| Raw materials and consumables used | | **(472)** | (432) |
| Staff costs | | **(690)** | (679) |
| Depreciation | | **(8)** | (11) |
| Subcontracting, external labour costs and other expenses | | **(4,868)** | (4,000) |
| Fair value changes on investment properties | | **(59)** | (43) |
| Gain on transfer of property inventories to investment properties | | **64** | – |
| Dividend income from available-for-sale investments | | **2** | 1 |
| Finance costs | | **(234)** | (195) |
| Loss on disposal of interest in an associate | | **(127)** | – |
| Share of results of joint ventures | | **(299)** | (834) |
| Share of results of associates | | **(5)** | (151) |
| Loss before taxation | | **(536)** | (1,362) |
| Taxation | 3 | **(34)** | 6 |
| **Loss for the year** | | **(570)** | (1,356) |
| Attributable to: | | | |
| Owners of the Company | | **(613)** | (1,382) |
| Non-controlling interests | | **43** | 26 |
| | | **(570)** | (1,356) |
| Loss per share | 5 | | |
| Basic | | **HK$(1.27)** | HK$(2.86) |
| Diluted | | **HK$(1.27)** | HK$(2.86) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | **31 December 2017 HK$ million** | 31 December 2016 HK$ million |
|---|---|---|---|
| **Non-current Assets** | | | |
| Investment properties | | **4,538** | 1,752 |
| Property, plant and equipment | | **37** | 23 |
| Interests in joint ventures | | **107** | 118 |
| Available-for-sale investments | | **65** | 50 |
| Club memberships | | **1** | 1 |
| Amounts due from joint ventures | | **–** | 1,399 |
| Amounts due from associates | | **–** | 1,294 |
| Restricted bank deposits | | **137** | – |
| | | **4,885** | 4,637 |
| **Current Assets** | | | |
| Properties held for sale | | **925** | 213 |
| Properties under development for sale | | **1,343** | 65 |
| Debtors, deposits and prepayments | 6 | **3,074** | 1,877 |
| Amounts due from customers for contract work | | **163** | 374 |
| Amounts due from joint ventures | | **74** | 689 |
| Amounts due from associates | | **–** | 272 |
| Amounts due from related companies | | **8** | 1 |
| Taxation recoverable | | **–** | 4 |
| Restricted bank deposits | | **66** | 482 |
| Bank balances, deposits and cash | | **1,486** | 587 |
| | | **7,139** | 4,564 |
| Assets classified as held for disposal | | **–** | 9 |
| | | **7,139** | 4,573 |
| **Current Liabilities** | | | |
| Creditors and accrued charges | 7 | **2,578** | 1,992 |
| Sales deposits received | | **528** | 13 |
| Derivative financial instruments | | **102** | – |
| Amounts due to customers for contract work | | **531** | 223 |
| Amounts due to joint ventures | | **116** | 106 |
| Amounts due to associates | | **–** | 1 |
| Amounts due to related companies | | **281** | 374 |
| Amounts due to non-controlling shareholders of subsidiaries | | **5** | 14 |
| Taxation payable | | **127** | 35 |
| Bank borrowings due within one year | | **500** | 1,685 |
| | | **4,768** | 4,443 |
| **Net Current Assets** | | **2,371** | 130 |
| **Total Assets Less Current Liabilities** | | **7,256** | 4,767 |
| **Capital and Reserves** | | | |
| Share capital | | **484** | 484 |
| Reserves | | **3,082** | 3,351 |
| Equity attributable to owners of the Company | | **3,566** | 3,835 |
| Non-controlling interests | | **136** | 37 |
| | | **3,702** | 3,872 |
| **Non-current Liabilities** | | | |
| Bank borrowings | | **945** | 669 |
| Senior notes | | **2,157** | – |
| Other financial liabilities | | **28** | – |
| Defined benefit liabilities | | **18** | 112 |
| Deferred tax liabilities | | **406** | 114 |
| | | **3,554** | 895 |
| | | **7,256** | 4,767 |

Notes:

## 1. Basis of preparation

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are mandatorily effective for the Group's financial period beginning on 1 January 2017.

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

Except as described below, the application of these amendments to HKFRSs has had no material effect on the amounts reported and disclosures set out in the consolidated financial statements of the Group for the current or prior accounting periods. Disclosure has been made upon application of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

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

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] Effective for annual periods beginning on or after a date to be determined

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

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

## 1. Basis of preparation (continued)

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

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

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

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

*Classification and measurement*

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

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

*Impairment*

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

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

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

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

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

## 1. Basis of preparation (continued)

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

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

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

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

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

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

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

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

## 2. Segment information

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

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

1. Property – property development for sale and investment and provision of property asset management services

2. Construction and building maintenance – construction, interior fit-out, renovation and maintenance of building premises

3. Other businesses – venture capital investment and others

## 2. Segment information (continued)

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

**For the year ended 31 December 2017**

| | Property HK$ million | Construction and building maintenance HK$ million | Other businesses HK$ million | Total HK$ million |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Sales of goods | **24** | **–** | **–** | **24** |
| Rental income | **31** | **–** | **–** | **31** |
| Revenue from rendering of services | **14** | **–** | **–** | **14** |
| Construction contract revenue | **–** | **6,403** | **–** | **6,403** |
| Group's revenue from external customers | **69** | **6,403** | **–** | **6,472** |
| Share of joint ventures/associates' revenue | **448** | **4** | **29** | **481** |
| Total segment revenue | **517** | **6,407** | **29** | **6,953** |
| **Reportable segment results** | **(248)** | **140** | **14** | **(94)** |
| Unallocated items: | | | | |
| Other income | | | | **3** |
| Finance costs | | | | **(234)** |
| Fair value loss on derivative financial instruments | | | | **(174)** |
| Other corporate expenses | | | | **(37)** |
| Consolidated loss before taxation | | | | **(536)** |
| **Segment results have been arrived at after crediting (charging):** | | | | |
| Cost of properties sold | **(17)** | **–** | **–** | **(17)** |
| Depreciation | **(3)** | **(4)** | **–** | **(7)** |
| Interest income | **175** | **5** | **–** | **180** |
| Fair value changes on investment properties | **(59)** | **–** | **–** | **(59)** |
| Gain on transfer of property inventories to investment properties | **64** | **–** | **–** | **64** |
| Dividend income from available-for-sale investments | **–** | **–** | **2** | **2** |
| Gain from business combinations | **141** | **–** | **–** | **141** |
| Gain on deregistration of a subsidiary | **–** | **–** | **7** | **7** |
| Loss on disposal of interest in an associate | **(127)** | **–** | **–** | **(127)** |
| Share of results of joint ventures | | | | |
| Property development | **(298)** | **–** | **–** | **(298)** |
| Other operations in Guizhou | **–** | **–** | **7** | **7** |
| Venture capital investments | **–** | **–** | **(8)** | **(8)** |
| | | | | **(299)** |
| Share of results of associates | | | | |
| Property development | **(5)** | **–** | **–** | **(5)** |

## 2. Segment information (continued)

For the year ended 31 December 2016

| | Property HK$ million | Construction and building maintenance HK$ million | Other businesses HK$ million | Total HK$ million |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Sales of goods | 604 | – | – | 604 |
| Rental income | 12 | – | – | 12 |
| Revenue from rendering of services | 18 | – | – | 18 |
| Construction contract revenue | – | 4,711 | – | 4,711 |
| Group's revenue from external customers | 634 | 4,711 | – | 5,345 |
| Share of joint ventures/associates' revenue | 1,535 | 1 | 36 | 1,572 |
| Total segment revenue | 2,169 | 4,712 | 36 | 6,917 |
| | | | | |
| **Reportable segment results** | (1,176) | 80 | (45) | (1,141) |
| Unallocated items: | | | | |
| Other income | | | | 2 |
| Finance costs | | | | (195) |
| Other corporate expenses | | | | (28) |
| Consolidated loss before taxation | | | | (1,362) |
| | | | | |
| **Segment results have been arrived at after crediting (charging):** | | | | |
| Cost of properties sold | (606) | – | – | (606) |
| Depreciation | (4) | (5) | (1) | (10) |
| Interest income | 53 | 5 | – | 58 |
| Fair value changes on investment properties | (43) | – | – | (43) |
| Dividend income from available-for-sale investments | 1 | – | – | 1 |
| Reversal of impairment loss recognised in respect of interest in a joint venture | – | – | 29 | 29 |
| Loss on disposal of investment properties classified as held for disposal | (22) | – | – | (22) |
| Share of results of joint ventures | | | | |
| Property development | (816) | – | – | (816) |
| Other operations in Guizhou | – | – | 7 | 7 |
| Venture capital investments | – | – | (25) | (25) |
| | | | | (834) |
| Share of results of associates | | | | |
| Property development | (151) | – | – | (151) |

## 3. Taxation

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

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

PRC Enterprise Income Tax is calculated at 25% (2016: 25%) on the estimated assessable profits for the year.

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

## 4. Dividends

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

## 5. Loss per share

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

| | **2017** **HK$ million** | 2016 HK$ million |
|---|---|---|
| Loss for the year attributable to owners of the Company: | | |
| Loss for the purpose of basic and diluted loss per share | **(613)** | (1,382) |
| Number of shares: | **Million** | Million |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **484** | 484 |
| Effect of dilutive potential ordinary shares: Share options | **–** | – |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **484** | 484 |

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

## 6. Debtors, deposits and prepayments

The Group maintains a defined credit policy. The general credit term ranges from 30 to 90 days.

Included in debtors, deposits and prepayments are debtors with an aged analysis (based on the repayment terms set out in sale and purchase agreements or invoice date) at the end of the reporting period as follows:

| | **31 December 2017 HK$ million** | 31 December 2016 HK$ million |
|---|---|---|
| Trade debtors aged analysis (note a): | | |
| Not yet due or within 90 days | **702** | 761 |
| 91 days to 180 days | **7** | – |
| 181 days to 360 days | **–** | – |
| Over 360 days | **2** | 3 |
| | **711** | 764 |
| Retention receivable | **337** | 263 |
| Consideration receivables in respect of disposal of an associate | **1,102** | – |
| Prepayments, deposits and other receivables (note c) | **924** | 850 |
| | **3,074** | 1,877 |

Notes:

(a) Included in the trade debtors are receivables of HK$2 million (2016: HK$16 million), which are aged over 180 days, based on the date on which revenue was recognised.

(b) 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.

(c) Included in prepayments, deposits and other receivables are receivables of HK$449 million (2016: HK$423 million) due from China Central Properties Limited's former subsidiary group (the "Debtor"), which hold a property interest in the PRC and were disposed of in 2008. The amounts are repayable on demand and out of the total outstanding balance, an amount of HK$144 million (2016: HK$134 million) carries interest at prevailing market rates. A court in the PRC issued notices to attach the aforesaid property interest to cause the Debtor to settle part of the onshore outstanding receivables in the amount of RMB140 million (approximately HK$167 million) (2016: RMB140 million (approximately HK$157 million)) and its related interest. In addition to these receivables, the Company has provided a guarantee in relation to a loan granted to the Debtor (see note 8). In the opinion of the Directors of the Company, given that there have been continued positive outcomes in the legal disputes in relation to the property interest, including the successful registration of title deed of the property under the name of the Debtor in May 2015, a court order was issued in 2016 to request the Debtor to preserve certain assets, in a value capped at RMB122 million (approximately HK$146 million), in the course of a legal proceeding on the recovery of an offshore loan receivable of US$12 million (approximately HK$94 million) against the Debtor, the Directors of the Company believe that these receivables will be fully settled and the guarantee provided by the Company will be fully released either through the public auction of the aforesaid property interest or the sale of the equity interest of the entity holding the property interest, which is expected to take place within twelve months from the end of the reporting period.

## 7. Creditors and accrued charges

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

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

## 8. Contingent liabilities

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

In 2007, the Company issued a guarantee (the "Guarantee") in favour of a bank for a loan granted to an entity which was a wholly-owned subsidiary of China Central Properties Limited ("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 6(c) for details of receivables due from the Former Subsidiary arising from such disposal). In October 2011, the Company received a notice from the aforesaid bank that it had entered into an agreement to sell all its rights and interests, including the Guarantee, to a new lender (the "New Lender"). At the same time, the Company entered into a restructuring deed with the New Lender, which was subsequently supplemented by supplemental restructuring deeds, whereby the New Lender agreed not to demand fulfilment of the Company's obligations under the Guarantee to October 2018, subject to extension after further discussions. The outstanding principal amount of the loan under the Guarantee amounting to RMB542 million (HK$648 million) (2016: RMB542 million (HK$606 million)) and the related interest amounting to RMB413 million (HK$494 million) (2016: RMB347 million (HK$388 million)) are secured by a property interest in the PRC held by the Former Subsidiary. Both of the parent company of the acquirer and the acquirer of the Former Subsidiary have agreed to procure the repayment of the loan and agreed unconditionally to undertake and indemnify the Group for all losses as a result of the Guarantee.

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and at the end of the reporting period after taking into consideration the possibility of the default of the parties involved. Accordingly, no value has been recognised in the consolidated statement of financial position.

## 9. Business combinations

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

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

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

# FINANCIAL REVIEW

## FINANCIAL RESULTS

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

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

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

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

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

Revenue from the property business decreased to a relatively small amount of HK$69 million, from HK$634 million in the prior year. The turnover in 2016 was mainly derived from the disposal of the Zunyi project for a consideration of HK$463 million. Property sales revenue continued to decrease this year because the inventories of the Group's wholly-owned property projects have been substantially sold over the last few years.

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

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

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

## Property

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

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

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

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

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

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

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

## Construction

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

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

## Net finance costs

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

## Foreign exchange gain/loss

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

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

## ASSETS BASE

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

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

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

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

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

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

## EQUITY, FINANCING AND GEARING

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

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

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

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

In May and June 2017, the Company issued 6.25% senior notes due 2020 in a total amount of US$280 million, which were primarily used to repay the Group's short-term bank borrowings upon maturity. The net gearing ratio of the Group, calculated as net bank and other borrowings over shareholders' equity, increased to 53.6% at 31 December 2017, from 33.5% at 31 December 2016, mainly attributable to the combined effect of an increase in net borrowings and the decrease in shareholders' equity during the year as explained already.

## TREASURY POLICIES

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

The Group's bank borrowings are mainly denominated in Hong Kong dollars and have been arranged on a floating-rate basis. Investments in the Chinese Mainland are partly funded by capital already converted into Renminbi and partly financed by borrowings in Hong Kong dollars. Renminbi financing is primarily at project level where the sources of repayment are also Renminbi denominated. Given that income from operations in the Chinese Mainland is denominated in Renminbi and property assets in the Chinese Mainland are normally priced in Renminbi on disposal, the Group expects that the fluctuations of Renminbi in the short-term will affect the Group's business performance and financial status. In early 2017, the Company took out currency hedging contracts in a total notional amount of approximately US$369 million, of which notional amount of approximately US$225 million was outstanding as at 31 December 2017, to reduce potential foreign exchange risk that might arise from possible depreciation of the Renminbi in the short-term.

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

## EMPLOYEES

At 31 December 2017, the number of employees in the Group was approximately 1,100 (31 December 2016: 1,220) in Hong Kong and Macau, and 470 (31 December 2016: 480) in subsidiaries and joint ventures in the Chinese Mainland. Remuneration packages are maintained at competitive levels and employees are rewarded on a performance-related basis. Other staff benefits, including provident fund schemes and medical insurance, remained at appropriate levels. The Group continued to retain and develop talents through executive development and management trainee programmes. Based on the financial performance of the Group as well as the individual performance and contribution of the staff members each year, share options may be granted to senior management and staff members under different schemes as reward and long-term incentives. Likewise, in the Chinese Mainland, staff benefits are commensurate with market levels, with emphasis on building the corporate culture and professional training and development opportunities are provided for local employees. It remains our objective to be regarded as an employer of choice to attract, develop and retain high calibre and competent staff.

# PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

# CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance through its continuous effort in improving its corporate governance practices.

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group. It has also considered selected accounting, internal control and financial reporting matters of the Group, in conjunction with the Company's external auditor.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2017, the Company has 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 the deviations explained below.

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

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

As stipulated in code provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting of the Company. Due to family reasons, the Chairman of the Board did not attend the annual general meeting of the Company held on 26 May 2017. In his absence, the Executive Director, Chief Executive Officer and Chief Financial Officer of the Company chaired the meeting to answer shareholders' questions about the Group's affairs.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Following specific enquiries by the Company, all Directors have confirmed that they complied with the required standards set out in the Model Code throughout the year ended 31 December 2017.

## ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting (the "AGM") of the Company will be held at Tian & Di Room, 7th Floor, The Landmark Mandarin Oriental, 15 Queen's Road Central, The Landmark, Central, Hong Kong on Thursday, 31 May 2018 at 4:30 p.m. A circular containing the notice of the AGM will be despatched to shareholders together with the Company's 2017 Annual Report on or around Tuesday, 24 April 2018. The same will also be published on the websites of the Company and the Stock Exchange.

For ascertaining the shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 28 May 2018 to Thursday, 31 May 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all completed share transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 May 2018.

By Order of the Board
**SOCAM Development Limited**
**Lo Hong Sui, Vincent**
*Chairman*

Hong Kong, 28 March 2018

*At the date of this announcement, the Executive Directors of the Company are Mr. Lo Hong Sui, Vincent, and Mr. Wong Yuet Leung, Frankie; and the Independent Non-executive Directors of the Company are Ms. Li Hoi Lun, Helen, Mr. Chan Kay Cheung and Mr. William Timothy Addison.*

** For identification purpose only*

*Website: www.socam.com*