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 2019

FINANCIAL HIGHLIGHTS

		Year ended 31 December	
		2019	2018
Turnover			
Company and subsidiaries	*HK$ million*	**5,545**	6,128
Share of joint ventures	*HK$ million*	**22**	34
Total	*HK$ million*	**5,567**	6,162
Profit (loss) attributable to shareholders	*HK$ million*	**7**	(139)
Basic earnings (loss) per share	*HK$*	**0.02**	(0.31)

		At 31 December	
		2019	2018
Total assets	*HK$ billion*	**9.4**	10.6
Net assets	*HK$ billion*	**2.8**	2.9
Net asset value per share	*HK$*	**7.5**	7.5
Net gearing	*%*	**54.2**	84.9

CHAIRMAN'S STATEMENT

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.

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

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'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.

CONSTRUCTION

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.

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.

	2019 (HK$)	2018 (HK$)	YoY change
Profit	393 million	201 million	+95.5%
Turnover	4.5 billion	4.9 billion	- 8.6%
Profit margin	8.7%	4.1%	

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 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 Awarded and Workload

	2019 (HK$)	2018 (HK$)	YoY change
New contracts awarded	11.5 billion	2.0 billion	+475%
	31 Dec 2019	**31 Dec 2018**	
Gross value of contracts on hand	22.1 billion	14.1 billion	+57%
Gross value of contracts to be completed	15.1 billion	7.3 billion	+107%

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 of 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.

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.

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 the following new contracts in an aggregate contract sum of HK$6,744 million from the ASD during the year:

- 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).

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.

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.

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.

The major contracts secured during the year included:

- 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 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.

PROPERTY

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:

Project	2019			2018		
	Contracted sales		Handover	Contracted sales		Handover
	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) (Carparks)	 392 3	 18,820 32 units	 35,720 33 units	 432 2	 21,970 20 units	 29,210 19 units
Tianjin Veneto Phase 2 (Retail) (SOHO)	 251 29	 7,230 2,450	 - -	 - -	 - -	 - -
Chengdu Centropolitan (Kindergarten) (Carparks) (SOHO)	 46 77 -	 3,560 466 units -	 - 466 units 200	 - 1 458	 - 5 units 31,460	 - 22 units 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)		
Project	**2019**	**2018**	**% increase**
Chengdu Centropolitan Retail* Office	 12.8 21.9	 8.1 15.6	 58% 40%
Chongqing Creative Concepts Center Retail	 6.7	 4.6	 46%
Shenyang Tiandi Retail	 10.6	 9.2	 15%
Tianjin Veneto Phase 1 Retail	 15.8	 12.9	 22%

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

Occupancy rates of retail and office properties in Mainland China:

Project	Total GFA (sq. m.)	Occupancy Rate	
		Dec 2019	**Dec 2018**
Chengdu Centropolitan			
Retail	43,000	87%	83%
Office	33,300	99%	91%
Chongqing Creative Concepts Center			
Retail	21,000	89%	93%
Shenyang Tiandi			
Retail	62,200	77%	80%
Tianjin Veneto Phase 1			
Retail	63,600	73%	83%

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.

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.

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.

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.

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.

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 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	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	2	**5,545**	6,128
Other income, other gains and losses		**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		**44**	72
Gain on transfer of property inventories to investment properties		**–**	51
Dividend income from equity investments		**4**	3
Finance costs		**(229)**	(234)
Gain on disposal of partial interest in a joint venture		**62**	–
Share of loss of joint ventures		**(3)**	(8)
Profit (loss) before taxation		**256**	(19)
Taxation	3	**(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	5		
Basic		**HK$0.02**	HK$(0.31)
Diluted		**HK$0.02**	HK$(0.31)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	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 (expense) for the year	**11**	(336)
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(61)**	(392)
Non-controlling interests	**72**	56
	11	(336)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2019 HK$ million**	31 December 2018 HK$ million
Non-current Assets			
Investment properties		**4,583**	5,069
Goodwill		**7**	–
Other intangible assets		**6**	–
Right-of-use assets		**15**	–
Property, plant and equipment		**32**	36
Interests in joint ventures		**101**	98
Financial assets at fair value through other comprehensive income		**51**	52
Club memberships		**1**	1
Restricted bank deposits		**–**	139
		4,796	5,395
Current Assets			
Properties held for sale		**393**	450
Properties under development for sale		**687**	1,066
Debtors, deposits and prepayments	6	**1,264**	1,582
Contract assets		**668**	650
Amounts due from joint ventures		**74**	176
Amounts due from related companies		**43**	5
Restricted bank deposits		**109**	41
Bank balances, deposits and cash		**1,354**	1,237
		4,592	5,207
Assets classified as held for sale		**48**	–
		4,640	5,207
Current Liabilities			
Creditors and accrued charges	7	**2,414**	2,615
Contract liabilities		**324**	413
Lease liabilities		**10**	–
Amounts due to joint ventures		**123**	117
Amounts due to related companies		**51**	46
Amounts due to non-controlling shareholders of subsidiaries		**3**	4
Other financial liabilities		**27**	–
Taxation payable		**142**	91
Bank borrowings due within one year		**1,019**	978
Senior notes		**1,344**	–
		5,457	4,264
Net Current (Liabilities) Assets		**(817)**	943
Total Assets Less Current Liabilities		**3,979**	6,338
Capital and Reserves			
Share capital		**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		**620**	870
Senior notes		**–**	2,023
Lease liabilities		**6**	–
Other financial liabilities		**–**	28
Defined benefit liabilities		**58**	66
Deferred tax liabilities		**313**	335
		997	3,322
		3,979	6,338

Notes:

1. Basis of preparation

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.

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.

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.

1. Basis of preparation (continued)

HKFRS 16 Leases (continued)

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 the relevant entities' 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

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.

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 in the People's Republic of China ("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

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	Construction and building maintenance	Other businesses	Total
	HK$ million	HK$ million	HK$ million	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	4,497	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
Unallocated items:				
Other income				2
Finance costs				(209)
Other corporate expenses				(64)
Consolidated profit before taxation				256
Segment results have been arrived at after crediting (charging):				
Cost of properties sold	(703)	–	–	(703)
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)

2. Segment information (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
Unallocated items:				
Other income				4
Finance costs				(219)
Fair value loss on derivative financial instruments				(57)
Other corporate expenses				(44)
Consolidated loss before taxation				(19)
Segment results have been arrived at after crediting (charging):				
Cost of properties sold	(809)	–	–	(809)
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)

3. Taxation

	2019	2018
	HK$ million	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	**(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.

4. Dividends

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

5. 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	2018
	HK$ million	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.

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, net of allowance for credit losses, with an aged analysis (based on the repayment terms set out in the sale and purchase agreements or invoice date, as appropriate) at the end of the reporting period as follows:

	31 December 2019 HK$ million	31 December 2018 HK$ million
Trade debtors aged analysis (note a):		
Not yet due or within 90 days	**372**	388
91 days to 180 days	**3**	17
181 days to 360 days	**1**	–
Over 360 days	**1**	2
	377	407
Consideration receivable in respect of disposal of an associate (note b)	**36**	391
Prepayments, deposits and other receivables (note c)	**851**	784
	1,264	1,582

Notes:

(a) 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.

(b) The balances carry interest at 15% per annum.

(c) Included in prepayments, deposits and other receivables at 31 December 2019 are receivables of HK482 million (2018: HK$469 million) due from China Central Properties Limited's former subsidiaries (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 outstanding receivable in the amount of approximately 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 9(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 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$375 million (2018: HK$435 million), which are included in the Group's creditors and accrued charges, is as follows:

	31 December 2019 HK$ million	31 December 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	**427**	453
Provision for contract work/construction cost	**1,345**	1,493
Other accruals and payables	**267**	234
	2,414	2,615

8. Business combination

On 18 April 2019, the Group entered into a sale and purchase agreement with an indirect wholly-owned subsidiary of Shui On Company Limited 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"), 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. The Group selects the acquisition method to account for the business combination involving a business under common control. Details of the transaction are set out in an announcement of the Company dated 18 April 2019.

9. 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 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 2020, subject to extension after further discussions. The outstanding principal amount of the loan under the Guarantee amounting to RMB542 million (HK$605 million) at 31 December 2019 (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.

(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.

10. 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.

FINANCIAL REVIEW

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:

	31 December 2019 HK$ million	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:

	31 December 2019 HK$ million	**%**	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:

	31 December 2019 HK$ million	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.

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 of Hong Kong Limited (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		Approximate amount of consideration
		Highest HK$	Lowest HK$	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.

The Audit 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. 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 2019, 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 on the Stock Exchange (the "Listing Rules"), 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 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.

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, the Chairman of the Board did not attend the annual general meeting of the Company held on 30 May 2019. 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 2019.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting (the "AGM") of the Company will be held on Thursday, 28 May 2020 at 4:15 p.m. A circular containing the notice of the AGM will be despatched to shareholders together with the Company's 2019 Annual Report on or around Monday, 27 April 2020. 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, 25 May 2020 to Thursday, 28 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 22 May 2020.

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

Hong Kong, 31 March 2020

At the date of this announcement, the Executive Directors of the Company are Mr. Lo Hong Sui, Vincent and Mr. Lee Chun Kong, Freddy; the Non-executive Director of the Company is Ms. Lo Bo Yue, Stephanie; 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