

FOR IMMEDIATE RELEASE

## SOCAM Development Announces 2014 Interim Results

(Hong Kong, 22 August 2014) SOCAM Development Limited (“SOCAM” or the “Group”, stock code: 983) today announced its results for the six months ended 30 June 2014. Total turnover was HK\$4,888 million (2013 restated: HK\$7,074 million). The loss attributable to shareholders amounted to HK\$573 million (2013 restated loss: HK\$74 million), and loss per share was HK\$1.18 (2013 restated loss per share: HK\$0.15).

The Board of Directors has recommended that no interim dividend be distributed (2013: Nil).

	<b>For the 6 months ended 30 June 2014</b>	For the 6 months ended 30 June 2013 (Restated)
Turnover		
Company and subsidiaries	<b>HK\$2,765 million</b>	HK\$4,784 million
Share of joint ventures and associates	<b>HK\$2,123 million</b>	HK\$2,290 million
Total	<b>HK\$4,888 million</b>	HK\$7,074 million
Loss attributable to shareholders	<b>HK\$573 million</b>	HK\$74 million
Basic loss per share	<b>HK\$1.18</b>	HK\$0.15
	<b>At 30 June 2014</b>	At 31 December 2013
Total assets	<b>HK\$20.3 billion</b>	HK\$23.1 billion
Net assets	<b>HK\$8.6 billion</b>	HK\$9.3 billion
Net asset value per share	<b>HK\$17.8</b>	HK\$19.3
Net gearing	<b>51.6%</b>	48.3%

The monetisation plan to unlock the asset value of our property portfolio remains a strategic priority of the Group, but the plan has been impacted by unprecedented challenges in the operating market environment due to the restricted mortgage policy for residential buyers and other austerity measures in the Chinese Mainland. The progress of marketing and sales activities of our property business was also affected by the ongoing Group restructuring with a potential offer to acquire the shares of the Company being held by the controlling shareholder, Shui On Company Limited (SOCL).

Another top priority for the Group is the plan to exit from our cement joint venture, Lafarge Shui On



Cement (LSOC). Against a challenging backdrop characterised by over-capacity in the cement market in southwest China, coupled with the continuing underperformance of LSOC, active discussions with Lafarge on various options have now been held in light of its impending merger with Holcim Limited, as any change in its shareholding structure will further affect the spirit of co-operation in our joint venture.

These developments, together with foreign exchange losses incurred by the Group's property projects in the Mainland as a result of the depreciation of Renminbi, posted negative impact on our interim results.

Mr. Vincent H.S. Lo, Chairman of SOCAM said, "The first half of 2014 has turned out to be more challenging, with unprecedented difficulties in the operating environment. We are hopeful that our plan for asset monetisation will resume its momentum in the second half of the year to efficiently realise the value of our property assets. Though we see some positive developments in the cement sector, exit from LSOC remains a top priority in order to free up our financial resources tied up in this investment. Meanwhile, we shall put a sharp focus on our construction business to capture the current thriving opportunities in Hong Kong. In the near term, however, there will be continuous pressure on our operating performance, and I sincerely hope to have our shareholders' understanding during this restructuring phase of the Company."

Mr. Lawrence Y.K. Choi, Vice Chairman and Managing Director of SOCAM said, "We have been implementing the monetisation policy diligently since 2013. During the period, despite the fact that progress was slowed down amid a challenging market environment and the Group restructuring, we successfully completed two en-bloc sales of properties in Shenyang Project Phase II and Tianjin Project Phase II, realising gross proceeds of approximately HK\$1.7 billion. Owing to lingering overcapacity and stiff competition, our cement investment continued to suffer loss. Meanwhile, our construction business has maintained strong market position."

## **BUSINESS REVIEW**

### **Property Business**

During the period under review, the monetisation plan, implemented since March 2013, which aims at achieving divestment of property assets in an orderly manner to unlock value for shareholders remained a strategic priority of the Group. The progress, however, was hindered by the unfavourable market sentiment and austerity measures. Further disposals of property projects were slowed down due to the restructuring of the Group amidst the potential offer to acquire the shares of the Company being held by SOCL.



Nevertheless, during the period, the Group successfully disposed of two property assets. We completed the disposal of an 80% interest in Shenyang Project Phase II in January and realised gross proceeds of approximately HK\$1.5 billion. As contracted, the Group will dispose of its remaining 20% interest to the same buyer by 2015. We also disposed of Tianjin Project Phase II en-bloc in April, generating gross proceeds of approximately HK\$220 million.

As of 30 June 2014, SOCAM owned 11 special situation property projects, with a total developable gross floor area attributable to the Group of approximately 1.6 million square metres in nine Mainland cities, namely Beijing, Chengdu, Chongqing, Guangzhou, Guizhou, Nanjing, Shanghai, Shenyang and Tianjin. The portfolio offers well-located residential and office premises, as well as mixed-use developments including retail spaces.

The Group continued to make progress for its property projects, despite a challenging environment. As at 30 June 2014, we have sold about 90% of the luxury units of Beijing Centrium Residence since their sales launch, and over 97% of the residential and serviced apartment units of Guangzhou Parc Oasis. Market response for the residential units at Shanghai Lakeville Regency Tower 18 has so far been satisfactory with around half of the 100 apartments sold. We also stepped up sales of Shanghai branded residence Four Seasons Place, with currently around 37% of the luxury apartments sold. In addition, the pre-sale launch of the first batch of residential units of Chengdu Centropolitan, commenced in late December 2013, also received favourable initial market response.

Meanwhile, Dalian Tiandi, our Knowledge Community Project, was progressing as planned. At 30 June 2014, a total leasable and saleable GFA of 539,000 sq.m. was completed, and the leasable and saleable GFA under construction totaled 827,000 sq.m.. The overall office occupancy rate stood at 87%.

### **Construction Business**

The HKSAR government's commitment to provide 470,000 housing units over 10 years boosted the construction activities in the territory. Despite the current thriving market opportunities and a promising outlook for the construction sector, securing a meaningful profit margin remains challenging as the serious shortage of skilled labour and wage inflation resulted in surging costs. In addition, with various major infrastructure projects entering their peaks of construction works, the already strong demand for specialised expertise and skilled labour intensified.

Against this backdrop, the Group's construction business recorded a profit of HK\$47 million during the period (2013: HK\$72 million). Turnover was HK\$2,478 million (2013: HK\$2,253 million), a 10% year-on-year increase.



New contracts totaling HK\$3.2 billion were secured. At 30 June 2014, the gross value of contracts on hand was approximately HK\$19.3 billion and the value of outstanding contracts to be completed was approximately HK\$14.4 billion, compared with HK\$17.8 billion and HK\$13.4 billion respectively at 31 December 2013.

Subsequent to 30 June 2014, a contract valued at HK\$560 million was secured for the Construction of the Public Rental Housing Development at San Po Kong.

With a promising outlook, highly competitive tendering environment and rapid increase in cost, the Group, with extensive experience and capabilities in timely and quality delivery, will continue to carefully consider price fluctuation factors when submitting tenders, and identify ways to increase operational efficiency and strengthen cost control to enhance profitability.

### **Cement Business**

China's cement production experienced the slowest growth in 10 years, up only 3.6% year-on-year, to 1.14 billion tonnes. In southwest China, overcapacity however continued to linger.

The significant contraction in demand for cement from the real estate sector has over-shadowed the increase in infrastructure-related expenditure, resulting in a decreasing trend in cement prices since the beginning of the year. However, profitability of the industry as a whole improved, primarily due to a larger reduction in coal prices. The supply and demand balance and operational efficiency also improved with capacity utilisation on a rising trend as China's Ministry of Industry and Information Technology targets to phase out a further 50 million tonnes of outdated plants in 2014. In addition, market consolidation through mergers and acquisition was seen, which would increase the market share of more energy-efficient, modern producers.

Total sales volume of LSOC, our 45% owned cement joint venture, slightly increased to about 13.8 million tonnes during the period. Prices recorded a 1% drop on average while variable costs of production reduced by about 3.5%, attributable mainly to lower fuel costs. Despite improved margins and EBITDA, LSOC continued to report net loss for the period.

LSOC's plan to inject cement plants into Sichuan Shuangma Cement ("Sichuan Shuangma"), a listed company on the Shenzhen Stock Exchange, progressed well. After receiving overwhelming approval for the injection of LSOC's remaining 25% interest in the Dujiangyan plants into Sichuan Shuangma from the independent shareholders of Sichuan Shuangma in January 2014, it is expected that China Securities Regulatory Committee's approval will be obtained around September. In addition, LSOC has started working on the injection of more cement assets into Shuangma. The continued asset

injection is expected to enhance progressively the market value of this joint venture.

The Group continues to pursue its planned exit strategy for its interests in LSOC to free up the significant financial resources, and discussions with Lafarge have now been conducted to pursue various exit options amid its impending merger with Holcim Limited.

## **OUTLOOK**

Recent indications are that uncertainty and short-term adjustments in China property and cement markets which dominated in the past few years are gradually being uplifted. We therefore maintain a positive outlook in the longer term in these sectors, and in the Chinese economy as a whole.

The monetisation programme of SOCAM has resulted in a number of en-bloc sales, including Shenyang Project Phase II and Tianjin Project Phase II since late 2013, realising significant cash proceeds. During the period, progress of monetisation was deferred as a result of market conditions and the potential offer to acquire the SOCAM shares being held by SOCL. On 30 July, the negotiations between SOCL and the offeror were terminated.

The disappointing performance of LSOC and the lack of co-operation from our joint venture partner has brought impacts on our cement exit plan. Taking advantage of industry consolidation, LSOC is expected to post more satisfactory results in the coming years. The continuous injection of quality cement assets into Sichuan Shuangma, as well as the success in raising funds from the debt market, are all encouraging developments which will enhance the value of our joint venture as we strive to realise our investment in the cement business.

Our construction division is taking on an increasing number of new jobs. We see a healthy flow of projects in the pipeline at a time when public works are being actively launched by the HKSAR Government. With due caution, SOCAM is well poised to capture the market opportunities despite labour shortage and rapidly rising labour and material costs.

We are hopeful that the original plan of asset monetisation will resume its momentum in the second half of 2014, and we will ride on our flexible response to the market and efficiently dispose of our remaining property portfolio with a view to realising the value of our assets, as well as reducing both our operating and finance costs. Emphasis will also be placed on the completion of existing development projects according to schedule.



**Summary of Financial Results for the Six Months Ended 30 June 2014**

	<b>Six months ended 30 June 2014 HK\$ million</b>	Six months ended 30 June 2013 HK\$ million (restated)
<b>Property</b>		
Project fee income	26	38
Profit from property sales and net rental income	12	368
Fair value changes on investment properties, net of deferred tax provision	(6)	13
Share of results of joint ventures and associates	(167)	62
Net loss on disposal of a subsidiary and joint ventures	(27)	–
Net operating expenses	(131)	(90)
	<b>(293)</b>	<b>391</b>
<b>Construction</b>	<b>45</b>	<b>70</b>
<b>Cement operations</b>		
LSOC	(132)	(120)
Guizhou cement	2	5
	<b>(130)</b>	<b>(115)</b>
<b>Venture capital investments</b>	<b>(12)</b>	<b>(32)</b>
<b>Net finance costs</b>	<b>(136)</b>	<b>(152)</b>
<b>Corporate overheads and others</b>	<b>(33)</b>	<b>(41)</b>
<b>Taxation</b>	<b>(7)</b>	<b>(187)</b>
<b>Non-controlling interests</b>	<b>(7)</b>	<b>(8)</b>
<b>Total</b>	<b>(573)</b>	<b>(74)</b>



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**About SOCAM Development Limited (SOCAM)**

Listed on the Hong Kong Stock Exchange in February 1997, SOCAM Development Limited (HKSE Stock Code : 00983) is a member of the Shui On Group, and is principally engaged in property and construction businesses, and investment in cement, with operations covering strategic areas and major cities in the Chinese Mainland, Hong Kong and Macau.

This press release is also available at [www.socam.com](http://www.socam.com).

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