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SOCAM Development Announces 2016 Annual Results

Recovery On The Way

(Hong Kong, 24 March 2017) SOCAM Development Limited (“SOCAM” or the “Group”, stock code: 983) today announced its results for the year ended 31 December 2016.

RESULTS HIGHLIGHTS

- Turnover at HK\$5.3 billion (2015: HK\$5.9 billion).
- Loss attributable to shareholders at HK\$1,382 million (2015: HK\$1,126 million).
- Loss per share at HK\$2.86 (2015: HK\$2.33).
- Total assets at HK\$9.2 billion (2015: HK\$12.3 billion).
- Net assets at HK\$3.8 billion (2015: HK\$5.5 billion), with net asset value per share at HK\$7.9 (2015: HK\$11.4).
- Net gearing at 33.5% (2015: 21.0%).
- No final dividend to be distributed as recommended by the Board of Directors (2015: Nil).

BUSINESS HIGHLIGHTS

- **Monetisation Plan Made Further Progress:** the Group completed three property project disposals during the year: selling the remaining 20% interest in Shenyang Project Phase II for approximately HK\$364 million; a land parcel in Zunyi, Guizhou for a consideration of approximately HK\$462 million; and the Group’s 35% out of 60% interest in a Nanjing Cement Plant joint venture for approximately HK\$165 million. The disposals generated total sales revenue of approximately HK\$1.0 billion, as the Group entered the final phase of the monetisation plan.
- **Divestment of the Remaining Property Inventory:** nearly all of the remaining residential inventory in Chengdu Centropolitan and Nanjing Scenic Villa were disposed of, and together with the sales of the inventory of residential, office, and carparking units in other projects, generated a total of around RMB1.2 billion revenue. An agreement for the block sale of all 504 Soho units of Chengdu Centropolitan for RMB231 million was signed in December 2016.
- **Lower Valuations and Weakened Renminbi Led to Bigger Loss of Property Division:** Our projects, mainly located in highly competitive tier 2 and 3 cities, achieved lower



valuations and prices than our book costs, owing to intense price competition in these cities. The Group's property assets also suffered a decrease in value upon currency conversion as a result of weakened Renminbi in the past two years. The property division recorded a loss of HK\$1.2 billion (2015: HK\$1.0 billion loss), including net operating loss of our retail malls, sales and marketing expenses, overheads and taxes.

- **Enhancement of Retail Portfolio:** Facing the oversupply of retail space in the Chinese Mainland, we are taking proactive steps to revamp our four shopping malls by calibrating the design and tenant mix to raise customer traffic and increase rentals, so as to enhance asset value for en-bloc disposal opportunities.
- **Construction Business Remained Competitive:** the construction business reported a decline in profit of HK\$75 million (2015: HK\$108 million), which was principally attributed to lower turnover, volatility in building material prices and steep rises in labour costs. New contracts totalling HK\$4.7 billion (2015: HK\$3.7 billion) were secured during the year, and we saw good prospects in tendering opportunities presented both in housing, fit-outs and maintenance works projects.
- **Deleveraging Strategy Gathered Pace:** the Group's net bank borrowings decreased from HK\$4.5 billion in 2013 to the current HK\$1.3 billion, reducing debt burden and raising borrowing capacity to enable the rebuilding of the Company.

BUSINESS REVIEW

Property – Refining Business Model and Revamping Shopping Malls

China's residential property market remained uneven in 2016, with property booms in tier 1 cities, and price declines in lower tier cities. Housing over-supply in tier 2 and 3 cities put considerable pressure on our achievable prices and revenue. The Group stepped up sales activities to deplete our stocks amidst the favourable market conditions in the beginning of 2016.

Chengdu Centopolitan had a total of 333 residential units contracted for sale. At Nanjing Scenic Villa, the pre-sale of Phase II apartments started in July and met with good market response, 169 out of 187 of the units launched for sale were pre-sold or subscribed for total revenue of approximately RMB700 million.

Since the Group's implementation of the monetisation strategy in 2013, a significant portion of our property portfolio has been sold; attributable gross floor area has been reduced from 2.1 million



square metres to 0.4 million square metres today.

Project	Usage	SOCAM's interest	Total GFA attributable to the Group (square metres)
Chengdu Centropolitan	Composite	81%	184,200*
Chongqing Creative Concepts Center	Retail and Car Park	100%	31,500*
Guangzhou Parc Oasis	Car Park	100%	5,300*
Nanjing Scenic Villa	Residential and Car Park	50%	67,200
Shenyang Project Phase I	Office, Retail and Car Park	100%	88,300*
Tianjin Veneto	Retail	45%	44,800
Total			421,300*

**The GFA shown above has excluded sold and delivered areas, and the knowledge community in Dalian*

To enhance asset values we have been implementing revamping plans to upgrade and reposition our four shopping malls in Chengdu, Chongqing, Shenyang, and Tianjin. Chengdu Centropolitan has a 40,000 square metre GFA shopping mall which is targeted to open in July this year; leasing activity has begun and is attracting strong retailer interest. In Chongqing, the mall at the Creative Concepts Center was 64% leased as at December 2016; improvement works will progressively be implemented to enhance customers' mall shopping experience.

The Shenyang Tiandi mall has been undergoing revamping works and a tenant mix reshuffle, aiming to increase its rental yield and consumer footfall in the latter half of 2017. 72% of the retail space of Tianjin Veneto, an outlet shopping centre with a total GFA of 98,100 square metres, was leased as at December 2016, with popular international brands such as Uniqlo and H&M opening following its revamp, and customer flow had increased by 50% in 2016.

Construction – Strengthening Management for Project Profitability

The Group's construction business reported a lower profit of HK\$75 million in 2016 (2015: HK\$108 million), mainly attributable to volatility in building materials prices, steep rises in labour costs, and lower turnover in Hong Kong and Macau. Turnover for the year was HK\$4.7 billion (2015: HK\$5.6 billion). As at 31 December 2016, the gross value of contracts on hand was HK\$18.6 billion and the value of outstanding contracts to be completed was HK\$9.7 billion, compared with HK\$18.4 billion and HK\$9.5 billion respectively as at 31 December 2015.

Six major construction contracts with aggregate value of approximately HK\$3.9 billion were secured, including the public rental housing development at Shek Kip Mei Estate Phases 3, 6



and 7, two term contracts for the alterations, additions, maintenance and repair of aided schools, buildings and lands and other properties for the Education Bureau, the construction of a home ownership scheme at Kai Tak, a three-year outline agreement for design and construction of minor building/civil engineering works at CLP Power's premises and a term contract for architectural and building works for MTR Corporation's railways and premises. The Group's interior fit-out and building renovation arm maintained a healthy order book in 2016, and won 21 interior and fitting-out contracts worth approximately HK\$858 million and completed 29 projects with an aggregate contract value of HK\$1,038 million both in Hong Kong and Macau. Four more contracts have further been awarded after the financial year end in Hong Kong and Macau, worth an aggregate of HK\$478 million.

Highly competitive bidding, fluctuating cost of building materials, and shortage of skilled labour all contributed to reduced profit margins and posed challenges for the business. Nevertheless, with our track records, the business is well set to capture market opportunities in public housing and in related construction activities such as fit-out and maintenance contracts.

Focusing On Recovery

The Group is now in the final stage of monetising property assets in the Chinese Mainland. We will continue to implement the monetisation plan in the year ahead with the aim of further reducing our bank borrowings and improving cash flow. For our commercial properties, we shall expend effort and money to enhance their asset values, thus when supply and demand eventually rationalise, the Company will seek timely opportunities for en-bloc disposals.

Our construction division will continue to capture opportunities and is poised to gain a stronger foothold in selected markets such as revitalising industrial buildings, upgrading wet markets as well as maintenance contracts. We will seek to expand the order book and carefully calibrate the costs of building material and skilled labour in order to maximise profitability.

Looking forward, we are confident that the Group can be more proactive in advancing our aligned business model, with a significantly reduced debt load and a leaner corporate structure. We shall seek new pathways to revitalising and rebuilding the Company.



Summary of Financial Results for the Year Ended 31 December

	2016 HK\$ million	2015 HK\$ million
Property		
(Loss) profit from property sales and net rental expenses	(38)	22
Fair value changes on investment properties, net of deferred tax provision	(29)	(34)
Share of losses of joint ventures and associates	(977)	(494)
Impairment loss on a property under development for sale	–	(238)
Operating expenses, net of project fee income	(155)	(220)
	(1,199)	(964)
Construction	75	108
Cement - LSOC (discontinued operations)		
Share of losses, net of other income	–	(272)
Net gain on disposal	–	416
	–	144
Venture capital investments	(25)	(20)
Net finance costs	(125)	(206)
Corporate overheads	(43)	(63)
Taxation and others	(39)	(108)
Non-controlling interests	(26)	(17)
Total	(1,382)	(1,126)

Turnover for the Year Ended 31 December

	2016 HK\$ million	2015 HK\$ million
Turnover		
SOCAM and subsidiaries		
Construction and building maintenance	4,711	5,606
Property	634	306
Others	–	4
Total	5,345	5,916
Joint ventures and associates		
Property	1,535	308
Others	37	55
Total	1,572	363
Total	6,917	6,279

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