

# 1997-2007: The Transformation of **SOCAM**

SOCAM was listed on the main board of the Stock Exchange of Hong Kong in February 1997. The newly listed company combined the construction business of the Shui On Group, which was the founding business of Shui On with over 25 years of history, as well as Shui On's construction materials operations, which had built a successful 20-year track record.



In just 10 years, SOCAM has successfully completed a dramatic transformation, from a Hong Kong-focused corporation into a predominantly Chinese Mainland-based group that now boasts a total asset base in excess of HK\$10 billion, of which almost 90% is invested in the Mainland. By anticipating market changes and leveraging core competencies, we have achieved new successes. In cement, our joint venture with Lafarge is the market leader in southwest China and aiming to be a leader in China. We have built a distressed property development business with projects in Dalian, Beijing, Qingdao and Chengdu which is poised for rapid growth. We no longer supply the construction materials market in Hong Kong although our construction business remains a highly competitive division serving Hong Kong and Macau. We have a significant minority stake in the Hong Kong-listed Shui On Land, a premier Mainland property developer, and our venture capital investments are yielding attractive returns via IPOs and profitable disposals.

## Strong Performance After The 1997 Listing

SOCAM's early focus was on Hong Kong. While the Group had production facilities for construction materials and building components in the Pearl River Delta along with investments in cement plants in Chongqing, the overwhelming majority of its business operations and assets was in Hong Kong.

The Group played a prominent part in Hong Kong's construction boom which saw a considerable increase in private and public sector works in the late 1990s. Our construction subsidiaries, Shui On Construction and Shui On Building Contractors, stood out among their competitors in public housing construction and in prominent design-and-build contracts. It was the same design-and-build capability that allowed SOCAM to successfully undertake property development projects such as Bauhinia Garden in Tseung Kwan O, which is a project under the

government's Private Sector Participation Scheme. Another achievement of which we are justly proud is the relocation of the historic Murray House to Stanley on the south side of Hong Kong Island. This was an intricate and challenging project that involved preserving a heritage building while giving Hong Kong a magnificent new landmark.

The Group's construction materials division also prospered alongside the construction boom. We produced ready-mixed concrete and aggregates, and imported cement to supply the Hong Kong market. In addition to cement trading, we made sizeable investments in Mainland cement plants, having started a Chongqing cement operation with a joint venture partner in 1994, and adding a major plant - in which we have a 60% interest - in Nanjing in 1998.



*Murray House, Hong Kong*



*Bauhinia Garden, Hong Kong*

By the end of the 1990s, SOCAM enjoyed a strong position in each of its business sectors but the value of SOCAM's construction works peaked in 2000. The Hong Kong Housing Authority's public housing programme began to shrink and this, together with the general downturn in Hong Kong's economy, dealt a major blow to the Group's businesses, especially its construction materials operation.

The Group had been seeking long term sustainable growth by diversifying outside the limited Hong Kong market, hence its early investments in Mainland cement plants. In the face of a difficult business environment, it was apparent by the turn of the millennium that repositioning of the Group's businesses was an essential platform for future success.

## The Repositioning Takes Shape

Two key strategic thrusts underpinned SOCAM's repositioning. The first was the necessity to identify new business streams for diversification and growth. The second was the enormous range of opportunities presented by the emergence of the Chinese Mainland as a global powerhouse with its imminent accession to the World Trade Organization at the beginning of a new millennium.

The Group stepped up its planning for new business streams in the late 1990s around a broad aim to diversify and expand into the fast-growing markets of the Mainland through extending the existing operations. An early move in terms of building new operations came in

2000 in response to the dotcom boom and the associated proliferation of e-commerce applications. This was when SOCAM set up Asia Materials for on-line and off-line trading of construction materials and products, capitalising on the Group's expertise in construction and supported by fully-fledged supply chain management.

That same year, SOCAM set up the first Yangtze Ventures fund together with other investors to make direct investments in technology-based and high-growth ventures in the Yangtze River area, to capture the opportunity for high-returns from the success of innovative businesses.

There were further new moves with SOCAM acquiring its first cement plant in Guizhou at the end of 2000. The following year, SOCAM's joint venture Chongqing TH Cement became the largest high-grade cement producer in Chongqing, thanks to continued expansion of its earlier investment in this business. SOCAM then acquired from its parent company, the Shui On Group, the development rights for Rui Hong Xin Cheng in Shanghai, one of the city's largest and earliest large-scale urban redevelopment projects. This was the start of SOCAM's strategy to participate in the Mainland's property development market.

In the course of repositioning, there were, understandably, challenges. The cessation of Asia Materials in 2004 and the disposal of the long-standing construction materials business in Hong Kong and the Pearl River Delta in early 2005 were notable examples of our readiness to exit operations that did not suit our new strategy. These strategic moves reflected our determination to focus our resources, both financial and human, on businesses that offer long-term growth prospects and allow us to excel and achieve leadership. By that time, it was clear that the repositioning of SOCAM should focus on Mainland cement, Mainland properties, Hong Kong construction, and venture capital investments.



*The establishment of Lafarge Shui On Cement joint venture*

## Success In Cement

An important theme in SOCAM's transformation into a Mainland-oriented enterprise is China's cement industry. Indeed, a primary listing objective in 1997 was to expand cement investments in the Mainland and SOCAM's acquisition of Nanjing Jiangnan Cement in 1998 was a step in this strategy. In late 2000, SOCAM acquired its first cement plant in Guizhou and, by end of 2004, it had built a network of plants operating in a cohesive territory surrounding the provincial capital Guiyang, while TH Cement had some 70% of the high-grade cement market in Chongqing. Our rapid expansion in Chongqing and Guizhou coincided with the Central Government's "Go West" policy aimed at modernising the central and western provinces. SOCAM was one of the first Hong Kong corporations to exploit the region's emerging potential, becoming the leading cement producer in Chongqing and Guizhou. In 2004 we successfully signed a framework agreement to acquire major plants in Yunnan, a move that was soon to further strengthen our leading position in southwest China.

While SOCAM was building its position in this sector, Lafarge – the world leader in building materials – was also making

its strategic push into the post-WTO Mainland market. The Group saw the opportunity for a strong and lasting partnership that could provide world-class leadership in this industry in China. In 2005, SOCAM initiated the Lafarge Shui On Cement (LSOC) joint venture. The alliance immediately established a new cement leader in the southwest region, one of the Mainland's largest and fastest growing areas. The joint venture combined Lafarge's global expertise in cement technology and operational management with SOCAM's experience and reputation in the Chinese market.

With SOCAM chairman Mr. Vincent Lo chairing the board of directors and Lafarge managing the business operations, LSOC quickly expanded production and made a key acquisition in Sichuan. LSOC has significantly strengthened the Group's presence in the Mainland's cement industry. The joint venture is benefiting from large infrastructure projects that are part of China's "Go West" programme, as well as Beijing's numerous Olympics-related infrastructure and real estate projects. With the enormous growth potential of the southwest region in the medium and long term, the future for this business is bright.

## Enhancing Shareholder Value

SOCAM's transformation story has involved keeping a keen eye on opportunities to invest in attractive properties in major Mainland conurbations. Aware that its initial resources were not sufficient for achieving success as a fully-fledged property business, SOCAM in 2004 sold Rui Hong Xin Cheng and the related development rights in return for a significant shareholding in the Shui On Group's property flagship Shui On Land (SOL) which had by now become one of the Mainland's most admired and ambitious mega-developers. With its broad range of prominent mixed developments in Shanghai, Hangzhou, Chongqing and Wuhan, SOL was successfully listed on the Hong Kong Stock Exchange in 2006, bringing very substantial gains to SOCAM, and enhancing its asset base.

## A Niche That Leverages Our Core Capabilities

The niche market of acquiring and developing "distressed properties" in key cities in the Chinese Mainland is an exciting chapter in SOCAM's transformation into a Mainland-oriented enterprise. Distressed property assets have come onto the market in China as cash-strapped Mainland developers find themselves unable to proceed with their original plans for property or land they have acquired. While often situated in prime locations, these partially completed properties present challenges to potential investors because of the many complications involved – legal, financial, technical and so on.

SOCAM on the other hand, is uniquely positioned to meet these challenges by leveraging its core capabilities. These include SOCAM's strong base in construction and fitting out, its project



management capability, its property development know-how as well as its expertise in investment financing and deal structuring, not to mention its rich Mainland experience and network. These factors have attracted global financiers and international investors to partner with SOCAM in the confidence that SOCAM is well qualified to deliver.

SOCAM's involvement in the distressed property market began in 2005 with the acquisition of Xiwang Building, an almost completed 38-storey Grade-A office tower in Dalian, in a consortium with investment banker JP Morgan and other investors. With successful completion of this first project, SOCAM is reaping handsome rewards with the building's prestigious image in a prime city-centre location commanding above-average rents.

The distressed property development portfolio grew quickly and now embraces five projects in four major cities – Dalian, Beijing, Chengdu and Qingdao. There are further projects in the pipeline. SOCAM is well advanced in its strategy to become a leader in distressed property development in the Chinese Mainland.

### Building On Our Roots in Hong Kong

While SOCAM's strategic focus has been to transform the Group into a predominantly Mainland-based enterprise, our construction operations in Hong Kong remain an important foundation for our growth. These are not only leading businesses in their own right, they also provide a solid foundation in project management and building technology to support the Group's expansion in the Mainland.

Shui On Building Contractors and Shui On Construction continue to play a robust



*Xintiandi, Shanghai*

role in the public sector construction and have successfully expanded into maintenance works, although the total value of their contracts has shrunk significantly compared to their heyday at the turn of the millennium. SOCAM is currently servicing building construction and maintenance works contracts from the Hong Kong Housing Authority, the Architectural Services Department and public institutions. It is also tendering for a number of design-and-build projects, including the large-scale new government headquarters at the Tamar Development, for which SOCAM is working in joint venture with Paul Y. Engineering.

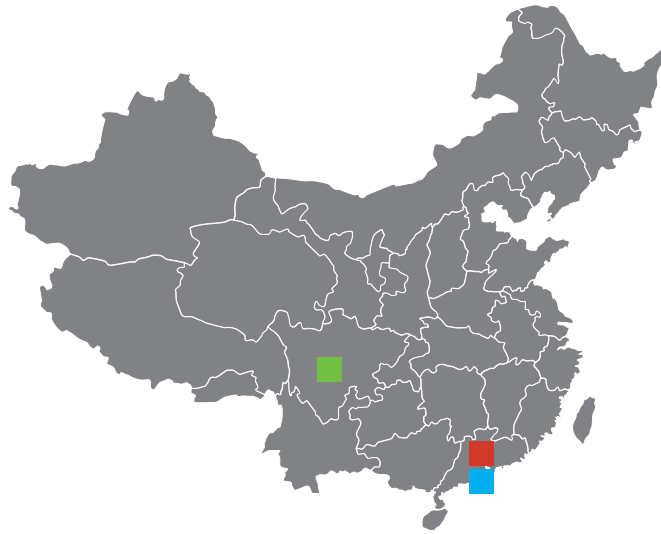
As Macau realises its own vision of becoming "Asia's Las Vegas", our fitting-out and refurbishment subsidiary Pat Davie captured this market opportunity back in 2004 and now achieved clear market leadership in serving the gaming and hospitality industries in this market. In Hong Kong, Pat Davie continues to be a leading contractor for extensions and relocations of large corporate offices, and for the burgeoning shopping arcade and retail sector. Pat Davie's project management expertise in fitting-out has also been highly instrumental to the Group's rapidly expanding distressed property development business.



*Distressed property project in Qingdao - before and after*

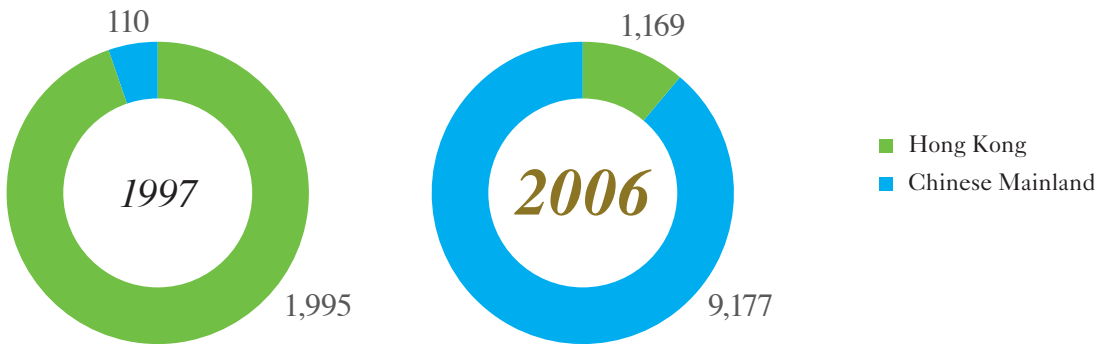
1997

- Cement
- Construction
- Construction materials



*Geographical Segments (in terms of total assets)*

(HK\$ million)



**Creating A Venture Capital Portfolio**

Venture capital investments in the Chinese Mainland businesses have continued to bring pleasing results to SOCAM. Following the establishment of the first fund —Yangtze Ventures I— in 2000, Yangtze Ventures II and On Capital China Tech Fund were set up to invest in fledgling high-tech enterprises in the Mainland as well as Hong Kong. These three funds are now fully invested and the range of investments embraces innovative products and services from

environmentally-friendly recycling of waste oils and animal feedstuffs to telecoms, TV programming, herbal supplements, “green” packaging and biopharmaceuticals.

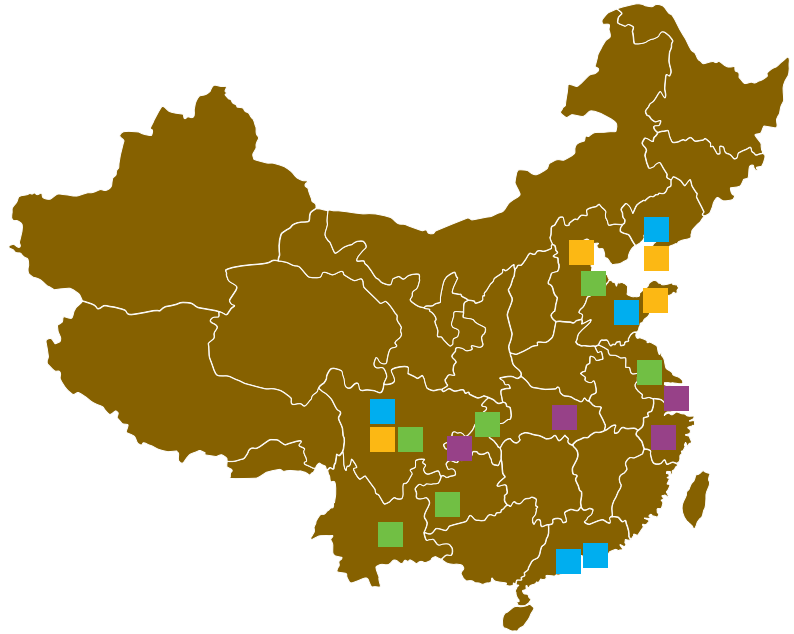
The investee companies are progressively seeking public listings in various international equity markets. Not only are the Group’s venture funds delivering highly satisfactory returns, they also underline our deep understanding of the China market and our ability to successfully identify and capitalise on new investment opportunities.

**Weathering Storms**

Over the past decade, SOCAM has successfully weathered the same economic storms that hit Hong Kong. We have evolved into a company with leading positions in both Hong Kong and the Chinese Mainland through diversified businesses that embrace the distressed property development, cement supply, construction, a significant shareholding in SOL and venture capital interests. Today’s SOCAM bears little resemblance to the SOCAM that went public ten years ago.

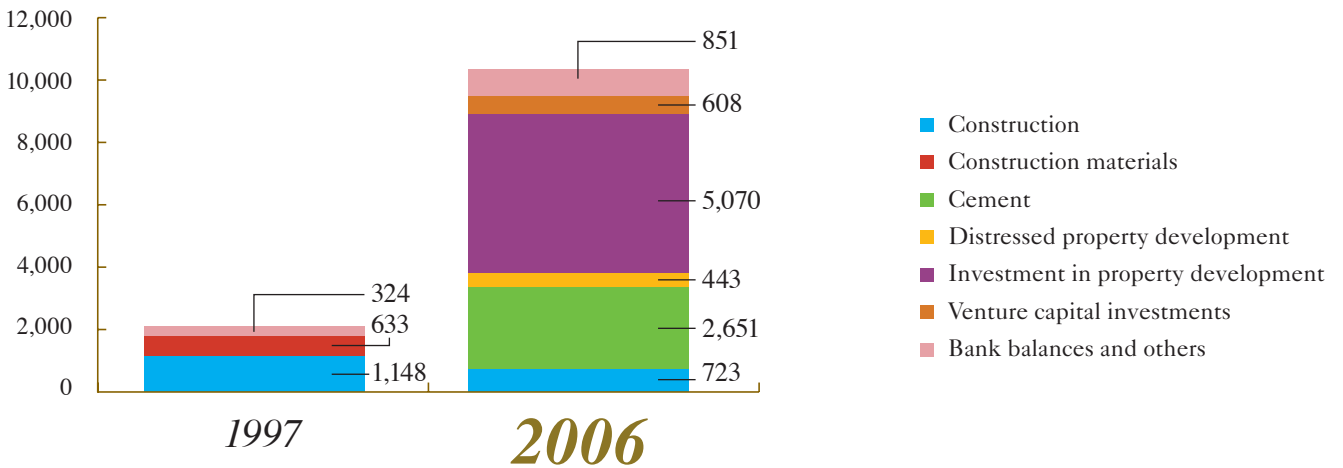
# 2006

- Construction
- Cement
- Distressed property development
- Investment in property development



## Business Segments (in terms of total assets)

(HK\$ million)



Our transformation reflects our determination to excel as well as our commitment to sound corporate governance. Together, these guiding principles have allowed us to build strong new operations and capitalise on attractive business opportunities.

At the centre of our corporate culture is a determination to improve and innovate, and to conduct business and staff relationships in a spirit of integrity and fairplay. In guiding our strategy, we seek long-term growth by continuing to create shareholder value, and our efforts

are directed only at those markets and businesses in which we can excel.

Our corporate governance is characterised by a constant endeavour to ensure shareholders' interests are promoted and protected by strict adherence to regulatory requirements, consistent application of control systems and practices, proper disclosure and transparent reporting, and effective functioning of the Board. We are guided by our wider Corporate Mission, which emphasises attractive returns to shareholders, quality products and

services to customers, career development opportunities for employees, a merit-based management philosophy that values teamwork and a set of shared beliefs in integrity and excellence to foster long-term, sustainable growth.

On these strong foundations, SOCAM is entering a new era of growth. We look ahead with confidence and optimism, with a determination to make positive contributions to the future of the Chinese Mainland and Hong Kong.