瑞安建業
SOCAM DEVELOPMENT

FOR IMMEDIATE RELEASE

SOCAM Development Announces 2019 Annual Results

(Hong Kong, 31 March 2020) SOCAM Development Limited ("SOCAM" or the "Group", stock code: 983) today announced its results for the year ended 31 December 2019. During the year, SOCAM restored profitability in its operations. Net profit attributable to shareholders was HK$7 million, as contrasted with the net loss attributable to shareholders of HK$139 million in 2018. Total turnover decreased by 9.8% against 2018 to HK$5.5 billion. The Board of Directors does not recommend the payment of a final dividend (2018: Nil).

RESULTS HIGHLIGHTS

- Profit of SOCAM's construction business surged 95.5% to HK$393 million in 2019 (2018: HK$201 million). Turnover was HK$4.5 billion in 2019, down from HK$4.9 billion in 2018. Profit margin rose considerably to 8.7% in 2019 (2018: 4.1%).

- New construction contracts worth a total of HK$11.5 billion were secured during the year, a record high for SOCAM in recent years (2018: HK$2.0 billion).

- In 2019, revenue of HK$869 million and profit of HK$124 million resulting from property sales were recognised (2018: HK$1,129 million and HK$215 million).

- Total gross rental income from retail and office properties before deduction of applicable taxes during the year was RMB68 million (2018: RMB50 million).

- SOCAM repurchased for cash the 6.25% senior notes due 2020 in an aggregate principal amount of US$85.1 million in May and September to optimise its debt structure.

- 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 and for general corporate purposes.

- During 2019, the Company bought back approximately 10 million of its own shares. The net asset value per share of the Company was maintained at HK$7.5 at both 31 December 2019 and 2018.

- The Group's net gearing ratio decreased to 54.2% at 31 December 2019, from 84.9% at 31 December 2018.

BUSINESS REVIEW

Construction – HK$11.5 billion New Contracts Secured

The year 2019 was a promising year for SOCAM's construction business, as we significantly expanded our order book and secured HK$11.5 billion new contracts in the construction, maintenance, fit-out and renovation markets of Hong Kong and Macau. Major contracts secured include the design and construction of redevelopment of Kwai Chung Hospital (Phase 2), design and construction of a purpose-built multi-welfare services complex at Kwu Tung North, the construction of public housing development in Chai Wan, and the interior fit-out works on the Hong Kong Palace Museum.

Gross value of contracts on-hand was HK$22.1 billion as at 31 December 2019, with contracts to be completed of HK$15.1 billion (31 December 2018: HK$14.1 billion and HK$7.3 billion). The expanded order book will help ensure healthy growth in turnover, profit and cash flow in the next few years.

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 long-term housing strategy, together with the first 10-year hospital development plan, will bring forth a tide of opportunities in the public sector construction market in the coming few years. With our extensive experience and expertise in design and build projects, our construction business is set to benefit from the opportunities ahead.

Property – 36% Increase in Rental Income from Retail & Office Properties

The Group continued to divest non-core assets, including the sale of a commercial building in Kwun Tong, and the disposal of 34.8% equity interest in Nanjing Jiangnan Cement, generating total proceeds of approximately HK$560 million. The Group handed over 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 addition, the Group contracted sales of 190 retail shops and 36 SOHO units, with a total GFA of approximately 9,680 square metres in Phase 2 of Tianjin Veneto for an aggregate sales amount of RMB280 million during the year, following the sales launches in January and August respectively.

The Group's retail and office properties contributed 36% higher rental income in 2019. In Mainland China, total gross rental income before deduction of applicable taxes was approximately RMB68 million (2018: RMB50 million). The growth was mainly due to the leasing of the upper floors of the retail mall of Chengdu Centropolitan, as well as improved leasing performance of the office and retail premises. All of our four shopping malls and the Chengdu Centropolitan office recorded increases in rental income during the year.

As at 31 December 2019, the occupancy rates for the Chengdu Centropolitan mall, Chongqing Creative Concepts Center, Shenyang Tiandi and Tianjin Veneto Phase 1 were 87%, 89%, 77% and 73%, respectively (31 December 2018: 83%, 93%, 80%, 83%). The office tower in Chengdu was over 99% let, compared with 91% as at 31 December 2018.

OUTLOOK

The outbreak of Covid-19 in China in January delivers a severe blow to the Mainland economy. 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.

While 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. Hong Kong economy will face mounting risks and challenges in 2020. 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. However, the political wrangling in Legco over funding, causing unpredictable workload peaks and troughs for government projects, will continue.

With the primary goal to provide sustained profitability, the Group will further sharpen our competitive edges, notably design-and-build capabilities, to better respond to the new trends and harness the opportunities ahead.

We will adopt a prudent approach to business expansion. As we 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 to create value for shareholders.

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Summary of Financial Results for the Year Ended 31 December

	2019 (HK$ million)	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)

Turnover for the Year Ended 31 December

	2019 (HK$ million)	2018 (HK$ million)
Turnover		
SOCAM and subsidiaries		
Construction	**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