



FOR IMMEDIATE RELEASE

SOCAM Development Announces 2020 Interim Results Building on Strengths

(Hong Kong, 28 August 2020) SOCAM Development Limited (“SOCAM” or the “Group”, stock code: 983) announced its 2020 interim results today. For the six months ended 30 June 2020, net loss attributable to shareholders was HK\$130 million, as compared to the net profit attributable to shareholders of HK\$11 million for the corresponding period in 2019. The Group’s turnover decreased by 14% against the same period in 2019 to HK\$2.25 billion (1H 2019: HK\$2.62 billion). The Board of Directors does not recommend the payment of an interim dividend (1H 2019: Nil).

The construction business in Hong Kong achieved a significant profit, supported by a strong order book, and projects on hand progressed on track. However, the sales and leasing performance of the property business saw an obvious setback, as the pandemic has triggered far-reaching shifts in consumer behaviour and changes to the business landscape of mall operations in the Mainland. The new issuance of senior notes to refinance the Group’s indebtedness with near-term maturities has strengthened the balance sheet and improved the cash position. Amidst this uncertain time, SOCAM has been accelerating efforts to enhance our organisation and business sustainability.

RESULTS HIGHLIGHTS

- The construction business reported a 84% significant increase in profit to HK\$190 million in 1H 2020 (1H 2019: HK\$103 million). Turnover was HK\$2.1 billion, a 11% increase as compared with the same period last year (1H 2019: HK\$1.9 billion).
- Average pre-tax profit margin of the construction works rose considerably to 9.1% (1H 2019: 5.5%).
- New construction contracts worth a total of HK\$2.0 billion were secured during 1H 2020 (1H 2019: HK\$2.1 billion).
- The property business recorded a loss of HK\$71 million, on a turnover of HK\$168 million in 1H 2020 (1H 2019: HK\$173 million profit and HK\$746 million turnover).
- The Group recognised revenue of HK\$80 million and profit of HK\$11 million resulting from property sales (1H 2019: HK\$673 million and HK\$113 million respectively).
- Total gross rental income from retail and office properties before deduction of applicable taxes in 1H 2020 was RMB26 million (1H 2019: RMB32 million).

- The Group reported a HK\$44 million net foreign exchange loss mainly arising from the 2.0% depreciation of the Renminbi against the Hong Kong dollar on the Group's property assets in the Mainland (1H 2019: HK\$7 million net foreign exchange loss).
- In January 2020, SOCAM issued 6.25% senior notes due 2022 in an aggregate principal amount of US\$180 million to refinance its existing indebtedness with near term maturities and for general corporate purposes. In May 2020, SOCAM redeemed all the outstanding 6.25% senior notes due 2020 in an aggregate principal amount of US\$173.2 million.
- The Group's net gearing ratio was 62.2% at 30 June 2020 (at 31 December 2019: 54.2%).

BUSINESS REVIEW

Construction – Higher Profit, Strong Order Book

The COVID-19 pandemic had modest impact on the Group's building construction activities, and the Group managed to maintain a strong order book during the period. Gross value of contracts on hand was HK\$23.1 billion as at 30 June 2020, with contracts to be completed of HK\$15.3 billion (31 December 2019: HK\$22.1 billion and HK\$15.1 billion respectively). The strong order book will help produce healthy growth in turnover, profit and cash flow in the coming few years.

A number of new construction, maintenance, fit-out and renovation contracts in Hong Kong and Macau worth a total of HK\$2.0 billion were secured in 1H 2020 (1H 2019: HK\$2.1 billion). Major contracts secured include two 3-year maintenance term contracts for public housing estates at various districts, a 5-year maintenance term contract for buildings at the Hong Kong International Airport, a 2-year term contract for architectural and building works of MTRC railways and premises in Hong Kong, and fit-out works on The Hong Kong Palace Museum.

We foresee a contraction in the private sector construction projects in the next few years, while more tendering opportunities will come from the public sector to address the imminent housing and healthcare needs where SOCAM stands to benefit. With our extensive experience and expertise in design and build projects, our construction business is set to benefit from the opportunities ahead.

Property – Weakened performance due to COVID-19

Our property business suffered adverse impacts on the performance and assets valuation resulting from the pandemic. The sales and handover of the retail shops and SOHO units in Tianjin Veneto Phase 2 were delayed. In addition, the leasing income from investment properties decreased as a result of rental and management fee concessions offered to our tenants and fair value losses on the Group's property assets in the Mainland.

At Nanjing Scenic Villa, property sales revenue recognised in the first half of 2020 amounted to RMB75 million. In addition, the Group contracted sales of 7 retail shops and 65 SOHO units, with a total GFA of 4,540 square metres, in Phase 2 of Tianjin Veneto for a total sales amount of RMB58 million during the period.

With a leaner property team and mall-focused portfolio, the Group is responding dynamically to the consumer behaviour in the new normal and the changing retail market landscape, and strives for marked improvement in occupancy, footfall and rental performance to generate higher returns. We will also step up marketing efforts to push for the sales of the remaining units in Tianjin Veneto Phase 2 in the coming months.

OUTLOOK

While China has become the first major economy to recover from the impact of COVID-19, we remain extremely cautious on the changing and uncertain global economic outlook amidst the worsening US-China relations and heightened geopolitical tensions. In Hong Kong, the already recovering business and economic activities are facing another blow due to the renewed COVID outbreak from July and the stricter anti-epidemic controls.

Nevertheless, we see the crisis creating both risk and opportunity. We will further sharpen our competitive edge, notably health and safety and design-and-build capabilities, to harness the tremendous opportunities from the public sector ahead. The pent-up demand post-epidemic will also drive private consumption, and we will continue to refine our asset enhancement initiatives to respond to the changing retail environment in the Mainland.

In the current difficult times, SOCAM continues to build on our core competencies, strengthen the organisation, and sharpen our focus on the booming public sector construction in Hong Kong as we prioritise our strategies with greater resilience. We will also continue to adopt a prudent strategy and remain alert to acquisition and disposal opportunities to create value for shareholders.

Summary of Financial Results for the Six Months Ended 30 June

	2020 (HK\$ million)	2019 (HK\$ million)
Construction	190	103
Property		
Profit from property sales	11	113
Net rental income (expenses)	1	(5)
Fair value changes on investment properties, net of deferred tax provision	(38)	29
Gain on disposal of interest in a joint venture	-	61
Disposal of interest in Dalian Tiandi	3	20
Hong Kong property management	5	2
Net operating expenses	(53)	(47)
	(71)	173
Net finance costs		
Senior notes	(74)	(68)
Bank and other borrowings	(21)	(40)
Net foreign exchange losses	(44)	(7)
Corporate overheads and others	(36)	(26)
Taxation	(40)	(99)
Non-controlling interests	(34)	(25)
Total	(130)	11

Turnover for the Six Months Ended 30 June

	2020 (HK\$ million)	2019 (HK\$ million)
Turnover		
SOCAM and subsidiaries		
Construction	2,083	1,879
Property	168	746
Total	2,251	2,625
Joint ventures		
Others	4	13
Total	4	13
Total	2,255	2,638