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SOCAM Development Announces 2018 Annual Results

(Hong Kong, 22 March 2019) SOCAM Development Limited (“SOCAM” or the “Group”, stock code: 983) today announced its results for the year ended 31 December 2018. SOCAM’s losses were substantially reduced. Loss attributable to shareholders was HK\$139 million, approximately a 77% reduction of loss as compared to the net loss of HK\$613 million in 2017. The Group’s revenue for 2018 decreased against 2017 by 5.3% to HK\$6.1 billion. The loss per share reduced 76% to HK\$0.31, compared to HK\$1.27 in 2017. Net asset value per share increased to HK\$7.52 as at 31 December 2018, from HK\$7.36 as at December 2017. The Board of Directors has recommended that no final dividend be distributed (2017: Nil).

Despite the various challenges in the operating environment for the Group’s businesses in 2018, SOCAM has made significant progress in revitalising its property portfolio and improving the profitability of its construction business.

RESULTS HIGHLIGHTS

- Turnover at HK\$6.1 billion (2017: HK\$6.5 billion).
- Loss attributable to shareholders at HK\$139 million (2017: HK\$613 million).
- Loss per share at HK\$0.31 (2017: HK\$1.27).
- Total assets at HK\$10.6 billion (2017: HK\$12.0 billion).
- Net assets at HK\$2.9 billion (2017: HK\$3.6 billion).
- Net asset value per share at HK\$7.52 (2017: HK\$7.36).
- Net gearing at 84.9% (2017: 53.6%).

KEY HIGHLIGHTS

- **Significant Turnaround of Property Operation:** The Group’s property business recorded HK\$197 million profit in 2018, as compared to a HK\$420 million loss in 2017, excluding foreign exchange losses/gains and reflecting the improvement in underlying operations. Revenue of HK\$1,129 million resulting from sales was recognised during 2018. The main contributions came from the Chengdu Centropolitan SOHO tower and Nanjing Scenic Villa residential units which generated sales revenue of HK\$509 million and HK\$585 million, respectively.
- **Improved Profit for Construction Business:** Profit of the Group’s construction business increased 49% to HK\$201 million in 2018. Turnover was HK\$4.9 billion, down from HK\$6.4 billion in the previous year. The gross value of contracts on-hand was approximately HK\$14.1 billion on 31 December 2018, with contracts to be completed of HK\$7.3 billion.

- **Foreign Exchange Losses due to Fluctuations of the Renminbi:** Foreign exchange translation losses on the Group's Renminbi-denominated property assets totalling HK\$115 million were recorded, and a marked-to-market foreign exchange loss of HK\$57 million on the US\$225 million currency hedging contracts, matured in March and May 2018, were recognised, in contrast to the foreign exchange gains of HK\$143 million and the marked-to-market loss of currency hedging contracts of HK\$174 million in 2017 respectively.
- **Purchase of Commercial Building in Kwun Tong:** In November SOCAM announced the purchase of a commercial building with 2,600 square metres GFA in Kwun Tong, Hong Kong, at an agreed property price of HK\$303.5 million. The purchase, financed by the Group's internal resources and available banking facilities, was completed on 18 December 2018.
- **Completion of Share Buy-back Offer:** To enhance shareholder value, in May 2018 SOCAM announced a conditional cash offer to buy back 100 million shares of the Company at HK\$2.5 per share, representing a discount of approximately 66% to the net asset value per share of HK\$7.36 as at 31 December 2017. The transaction was completed in August 2018. As a result of the share buy-back, the Group's pro forma net asset value per share as at 31 December 2017 increased by approximately 17%. The offer provided an opportunity for those minority shareholders who wish to realise part of their investment in the Company at a premium over the prevailing market price.

BUSINESS REVIEW

Property – Turning Around to Profitability

Sales of SOHO units at Chengdu Centropolitan and residential units at Nanjing Scenic Villa met with positive market demand. Chengdu Centropolitan SOHO tower were relaunched in January 2018, and all units, with a total GFA of 32,080 square metres, had been sold as at 31 December 2018. 494 units were handed over to buyers during the year, achieving turnover of HK\$509 million. At Nanjing Scenic Villa, 94 villas with a total GFA of approximately 29,210 square metres were handed over during the year, generating revenue of HK\$585 million.

The Group continued to push forward the leasing activity of its investment properties in the Chinese Mainland. After progressive completion of the asset enhancement programme of four shopping malls with a combined developable GFA of 189,800 square metres, both rental and occupancy rates grew. As of 31 December 2018, occupancy rates for Chengdu Centropolitan, Chongqing Creative Concepts Center, Shenyang Tiandi and Tianjin Veneto Phase 1, were 83%, 93%, 80% and 83%, respectively. Leasing of the Chengdu office tower was satisfactory. As at 31 December 2018, the tower was 91% let, compared with 56% as at 31 December 2017.



Total gross rental income of our retail and office properties, stated before deduction of applicable taxes, was approximately RMB50 million during the year, up from RMB24 million in 2017. This was mainly due to the leasing of the office tower and mall at Chengdu Centropolitan and the improved contribution from Tianjin Veneto's retail mall following its refurbishment.

On the back of the more favourable market conditions, SOCAM is progressing with the construction and development of Tianjin Veneto Phase 2 and Nanjing Scenic Villa Phase 3. The Group began construction of Phase 2 of Tianjin Veneto with a further 49,400 square metres GFA of retail and SOHO space to be developed. Strata-title sales of approximately 300 retail shops out of a total of 486 units were launched in stages in January 2019. To date, committed sales revenue has exceeded RMB100 million, in line with expectations. Construction of Phase 3 of Nanjing Scenic Villa, consisting of six commercial blocks with a developable GFA of approximately 17,000 square metres, is underway.

Construction – Improved Profit

Profit of SOCAM's construction business increased 49% to HK\$201 million in 2018, compared to HK\$135 million in 2017. Turnover was HK\$4.9 billion, down from HK\$6.4 billion in the previous year. The decrease in turnover was mainly attributable to the completion of the substantial contract for the construction of the Hong Kong Children's Hospital in late 2017 and the completion of the Public Rental Housing Development at So Uk Estate Phase 2 in 2018.

The gross value of contracts on-hand was approximately HK\$14.1 billion as at 31 December 2018, with contracts to be completed of HK\$7.3 billion, compared with HK\$18.5 billion and HK\$9.8 billion respectively as at 31 December 2017.

Over the year, SOCAM secured a total of HK\$2.0 billion new contracts, compared with new contracts of HK\$6.8 billion in 2017. This significant fall in value of new construction business was largely due to there being fewer sizeable projects available in the market over the reporting year. The highlight of tender success was the award of the main contract works for the Central Market by the Urban Renewal Authority, worth HK\$494 million. Pat Davie, our interior fit-out arm, secured a total of 28 new contracts with an aggregate value of around HK\$666 million across the commercial, retail and hospitality sectors.

SOCAM's existing projects continued to make progress in 2018, including the design and construction of the Junior Police Officers Married Quarters at Fan Garden, Fanling; public housing projects in Wai Tai Sin, Shek Kip Mei and Chai Wan, and several maintenance contracts. As at 31 December 2018, a total of 62 contracts were underway in Hong Kong, as well as 19 contracts in Macau.



Major construction contracts completed during the year included the construction of Public Rental Housing at So Uk Phases 1 & 2 and construction of a Home Ownership Scheme at Kai Tak Site. Pat Davie completed contracts worth a total of HK\$851 million during the year, for clients including City of Dreams and Wynn Palace in Macau, and for projects including Nova City Phase 5, and the HK\$310 million refurbishment and fit-out contract for Taikoo Place Phase 2A.

OUTLOOK

China's economy is expected to slow slightly in 2019 in the wake of growing global headwinds and unresolved trade tensions with the US. The residential property market is predicted to cool as control measures of the Central Government continue to bite, but demand for high-quality developments is likely to remain firm. Retail sales are expected to remain relatively strong in 2019, although the traditional retail sector faces ongoing challenges from e-commerce. The economies of both Hong Kong and Macau are likely to be impacted by the slowdown of China's economy and growing tensions with its trading partners.

SOCAM intends to build on its asset enhancement strategy in 2019 and has identified a number of key disposal targets, namely the office tower at Chengdu Centropolitan, as well as interests in the Nanjing cement grinding mill and the Kaili cement plant in Guizhou. In addition, the Group has launched sales of car parking spaces at Chengdu Centropolitan and will conduct further strata-title sales of retail units at Tianjin Veneto Phase 2. In the retail sector, the Group is well positioned to deal with increased competition following the revamp of its malls in the Chinese Mainland, bringing consumers a 'lifestyle experience' with enhanced leisure and food & beverages offerings. SOCAM will strive to refine its tenant mix further in order to increase occupancy rates and rental income.

The construction sector in Hong Kong continues to face issues, namely manpower shortage, rising material costs and high level of competition. Despite these market challenges, SOCAM foresees tendering opportunities ahead. The HKSAR Government has set a target to provide 315,000 public housing units over 10 years, which is expected to lead to a steady flow of new public housing contracts from the Hong Kong Housing Authority. Tenders for government offices, schools and hospitals are also in the pipeline, from which the Group's construction division is well-placed to benefit, although competition will be intense. In Macau, gaming is expected to remain the main driver of the economy, supported by the tourism and retail sectors, which will create ongoing opportunities for Pat Davie with its long-established fit-out experience in these sectors.



Summary of Financial Results for the Year Ended 31 December

	2018 HK\$ million	2017* HK\$ million
Property		
Profit on property sales	215	6
Net rental expenses	(76)	(33)
Fair value changes on investment properties, net of deferred tax provision	106	3
Share of results of joint ventures	-	(149)
Net gain on acquisitions of interests in joint ventures	-	141
Share of results of associates – Dalian Tiandi	-	(82)
Disposal of interest in Dalian Tiandi	74	(127)
Operating expenses, net of project fee income	(122)	(179)
	197	(420)
Construction	201	135
Venture capital investments	(12)	(8)
Net finance costs		
Senior notes	(145)	(93)
Bank borrowings	(70)	(91)
Corporate overheads and others	(35)	(30)
Marked-to-market loss of currency hedging contracts	(57)	(174)
Foreign exchange (loss) gain	(115)	143
Taxation	(47)	(32)
Non-controlling interests	(56)	(43)
Total	(139)	(613)

(* Re-presented)

Turnover for the Year Ended 31 December

	2018 HK\$ million	2017 HK\$ million
Turnover		
SOCAM and subsidiaries		
Construction and building maintenance	4,914	6,403
Property	1,214	69
Total	6,128	6,472
Joint ventures and associates		
Property	-	448
Others	34	33
Total	34	481
Total	6,162	6,953

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