【For immediate release】 29 November 2019

沪港联合

# Hong Kong Shanghai Alliance Holdings Limited

**(Stock code: 1001.HK)**

## Announces FY2019/20 Interim Results

**Adjusted Net Profit Achieved Turnaround Results of HK$1.4 Million***
**Across-the-board Improvement for All Segments Amidst Challenging Environment**

**Financial Highlights**

| For the six months ended 30 September | 2019 *HK$ million (Unaudited)* | 2018 *HK$ million (Unaudited)* | Change |
|---|---|---|---|
| **Revenue** | **1,219.1** | 1,485.5 | -17.9% |
| **Gross profit** | **127.3** | 160.1 | -20.5% |
| **Adjusted net profit / (loss)*** | **1.4** | (13.1) | N/A |
| **Profit attributable to Owners of the Company** | **2.5** | 8.1 | -69.6% |
| **Basic earnings per share (HK cents)** | **0.4** | 1.3 | -69.2% |

**Adjusted net profit / (loss) = Profit for the Period – the write back of onerous contract provision (net of tax) - gain on bargain purchase from the acquisition of a subsidiary for Construction Materials Business + the professional fees associated with the formation of a joint venture*

**(29 November 2019 – HONG KONG) Hong Kong Shanghai Alliance Holdings Limited** (the "Company" or "HKSHA", together with its subsidiaries, collectively the "Group"; stock code: 1001.HK), a leading real estate investor/manager and regional construction materials processor, is pleased to announce its interim results for the six months ended 30 September 2019 (the "Period").

**<u>Achieved Operational Improvement Amidst a Challenging Environment</u>**

During the Period, business environment has been most challenging, as factors such as rising geopolitical tensions, Sino-USA trade tension, as well as a global economic downturn has resulted in pessimistic sentiment and overall prudence across the market. Despite this, the Company still managed to achieve significant operational improvements in several key business segments. Specifically, operating profit of the



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Property Investment and Project Management Business reached approximately HK$62.1 million for the Period, representing a 98% year-over-year ("YoY") increase from HK$31.4 million of the same period last year, partially attributable to the increasing contribution of the recurring management income. The Group was also able to achieve a 135% YoY increase in revenue regarding its reinforcing bar processing business, reaching approximately HK$97.8 million.

Gross profit for the Period is recorded as HK$127.3 million approximately, experiencing a YoY decrease of approximately 20.5%. When excluding one-off income and expense items incurred last year, including 1) the write back of onerous contract provision (net of tax) of approximately HK$33.8 million**; 2) gain on bargain purchase from the acquisition of a subsidiary for Construction Materials Business of approximately HK$18.6 million; and 3) the professional fees associated with the formation of a joint venture of approximately HK$37.4 million, the Company has an adjusted net loss of approximately HK$13.1 million in the same period last year and has turned around to a net profit of approximately HK$1.4 million in the Period.

***Approximately HK$40.7 million of write back of onerous contract provision was recorded in the same period last year. When deducting tax of 16.5%, the net write back amount would be HK$33.8 million.*

**<u>Effective Renovating Effort to Increase Rental Fee and Occupancy Rate of Central Park‧Jing'an</u>**

Following the formation of the co-investment venture (the "JV") with Reco Wisteria Private Limited (an indirectly wholly-owned subsidiary of GIC (Realty) Private Limited ("GIC") which is wholly-owned by the Minister for Finance of the Government of Singapore) last fiscal year, the Group has since identified and acquired a previously underperforming property. After renovation work, it is now rebranded as Central Park‧Jing'an (formerly known as Longyu International Plaza). Its revitalizing and ramp-up work only took 6 months to complete, beating initial estimates, while average rental fee of our newly entered leases also increased by approximately 20% and occupancy rate has now reached approximately 65% after a short few months of effort. This has further demonstrated the Group's capability in identifying underperforming properties, performing property upgrades with efficient time and cost management, and effectively raising rental fee and occupancy rate.

Central Park‧Jing'an's successful redevelopment has also attracted international tenants, such as a well-known Japanese company which manufactures beer and spirits, along with a leading French company in the environment-conservation industry. These two particular tenants altogether have taken up 10% of the entire tower's available space, reflecting strong confidence from international firms in the premium work environment that the Group was able to provide. Additionally, Central Park‧Pudong, a wholly-owned property of the Group, has been maintaining a high occupancy rate of approximately 85%.

During the Period, the property segment recorded a profit before income tax of approximately HK$37.6 million on revenue of approximately HK$43.5 million, versus a profit before income tax of approximately


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HK$13.1 million on revenue of approximately HK$56.3 million of the same period last year. The improvement was mainly due to the elimination of one-off professional fees incurred last year, amounting to approximately of HK$37.4 million, associated with the formation of the JV charged by several independent third parties.

**Economies of Scale with Favourable Policies to Support its Construction Materials Business**

The Group faced uncertainties over its Construction Materials Business, as delays for government projects became increasingly common due to the recent development in Hong Kong. Yet, the Group's Tsing Yi prefabrication plant has made great strides in achieving economies of scale, with Phase one of the plant already being fully utilized with successful bids for renowned projects including the Vehicle Examination Centre, an iconic residential project in Tseung Kwan O as well as the Tseung Kwan O – Lam Tin Tunnel. With a total of 10 first pilot government projects designated to use off-site prefabrication yards, the Group is expecting more of such projects in the future.

Meanwhile, the Hong Kong government was keen to promote innovative construction by rolling out the HK$1 billion "Construction Innovation and Technology Fund", aiming to support the adoption of new technology facilities such as off-site prefabrication plants. Currently, the Group is in the midst of applying for the fund, and remains optimistic towards the use of funding for further development.

Financially, if excluding the revenue contributed by the steel recycling business, which was disposed by the Group in April 2019, Construction Materials Business recorded a revenue of HK$939.8 million (1H18/19: HK$970.9 million), representing a YoY decrease of 3.2% as the noticeable improvement in Tsing Yi plant's output partially offsetting the decline in output in the PRC surface critical coil processing and distribution business. Excluding the one-off impact for the reversal of provision for onerous contract of approximately HK$40.7 million and gain on bargain purchase from the acquisition of a subsidiary of approximately HK$18.6 million in the same period of last year, the YoY results of Construction Materials Business has rebounded from a loss before income tax of approximately HK$36.5 million, to a profit before income tax of approximately HK$11.2 million.

**Improving Business Performance in Building and Design Solutions and Engineering Plastics**

The Building and Design Solutions Business recorded a profit before income tax of approximately HK$16.6 million on revenue of approximately HK$152.4 million for the Period, versus a profit before income tax of approximately HK$14.1 million on revenue of approximately HK$194.0 million of the same period last year, as the Group was able to benefit from the increase in gross margin and the reversal of provision of doubtful debt of approximately HK$2.0 million. The business segment enjoyed significant synergies with the Group's Property Investment and Project Management Business. It has also recorded a solid performance particularly in the Wuhan market.


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The Engineering Plastics Business recorded a profit before income tax of approximately HK$0.7 million on revenue of approximately HK$64.6 million in the Period, versus a loss before income tax of approximately HK$3.4 million on revenue of approximately HK$174.8 million of the same period last year. The significant improvement in net profit was primarily contributed by the reversal of provision of doubtful debts of approximately HK$1.5 million and a lower translation loss resulted from depreciation in RMB as compared to the same period of last year.

**Mr. Andrew Yao, Chairman and Chief Executive Officer of HKSHA**, said, "Leveraging the collaboration with GIC, the Group will continue to source projects through the JV, as this would lower the Group's capital commitment, maintain a light-asset model, and deliver sustainable fee income. The Group will also look for other strategic partners to further explore the market, as we remain confident in the growth in demand for premium office space especially in the Greater Bay Area and Yangtsz River Delta. Specifically, the Shanghai Municipal Government recently announced a guiding policy that more asset-light enterprises in the emerging sectors, including Internet and digitalization, will benefit from the relaxation of regional headquarters classification by receiving fiscal subsidy and enjoying tax reduction. This should lead to an influx of companies to the area, where the Group can leverage its strong local network in order to capture such market opportunities."

**Mr. Yao** further commented on the Hong Kong operations, "We are also delighted with the increase in efficiency of the Tsing Yi steel prefabrication plant, and will look to introduce Phase two in the coming April as Phase one slowly reaches its limit. We are delighted to see pipelines moving on, and with machines being installed and staff being recruited steadily, it is expected that several projects in the pipeline, which covers residential projects, and government-sanctioned infrastructural projects, would be benefitted by this increase in capacity, further solidifying our leading position in the market."

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This press release is issued by DLK Advisory Limited on behalf of **Hong Kong Shanghai Alliance Holdings Limited.**

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