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SFK Construction Holdings Limited

新福港建設集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1447)

**ANNOUNCEMENT OF INTERIM CONSOLIDATED RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The board (the “Board”) of directors (the “Directors”) of SFK Construction Holdings Limited (the “Company”) hereby announces the unaudited interim consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2020 (the “Period”), together with the comparative figures for the corresponding period in 2019 as follows:

CONSOLIDATED INCOME STATEMENT*For the six months ended 30 June 2020 — unaudited**(Expressed in Hong Kong dollars)*

		Six months ended 30 June	
		2020	2019
	<i>Note</i>	\$'000	\$'000
Revenue	3	1,591,854	2,759,676
Direct costs		<u>(1,585,533)</u>	<u>(2,690,515)</u>
Gross profit		6,321	69,161
Other revenue		5,673	429
Other net gain		64	201
Administrative expenses		<u>(39,001)</u>	<u>(44,898)</u>
(Loss)/profit from operations		(26,943)	24,893
Finance costs		(9,859)	(8,952)
Share of results of a joint venture		<u>—</u>	<u>(10)</u>
(Loss)/profit before taxation	4	(36,802)	15,931
Income tax	5	<u>6,601</u>	<u>(2,797)</u>
(Loss)/profit for the period		<u>(30,201)</u>	<u>13,134</u>
Attributable to:			
Equity shareholders of the Company		(30,478)	13,163
Non-controlling interests		<u>277</u>	<u>(29)</u>
(Loss)/profit for the period		<u>(30,201)</u>	<u>13,134</u>
(Loss)/earnings per share — Basic/Diluted	6	<u>(7.62) cents</u>	<u>3.29 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020 — unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
(Loss)/profit for the period	(30,201)	13,134
Other comprehensive income for the period (after tax)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	(168)	(39)
Total comprehensive income for the period	<u>(30,369)</u>	<u>13,095</u>
Attributable to:		
Equity shareholders of the Company	(30,646)	13,124
Non-controlling interests	<u>277</u>	<u>(29)</u>
Total comprehensive income for the period	<u>(30,369)</u>	<u>13,095</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 — unaudited

(Expressed in Hong Kong dollars)

		30 June 2020 \$'000	31 December 2019 \$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	7	97,331	110,296
Goodwill		1,209	1,209
Deferred tax assets		46,425	39,049
		144,965	150,554
Current assets			
Contract assets		1,147,453	1,422,493
Trade and other receivables	8	274,608	514,244
Amount due from a joint venture		3,929	3,010
Current tax recoverable		6,032	2,685
Pledged deposits		25,125	25,125
Cash and cash equivalents	9	245,109	263,505
		1,702,256	2,231,062
Current liabilities			
Interest in a joint venture		19,464	19,464
Contract liabilities		207,757	118,191
Trade and other payables	10	807,277	1,307,142
Bank loans		343,042	408,464
Lease liabilities		16,652	17,908
Current tax payable		2,954	8,025
		1,397,146	1,879,194
Net current assets		305,110	351,868
Total assets less current liabilities		450,075	502,422
Non-current liabilities			
Lease liabilities		44,114	49,711
Deferred tax liabilities		4,161	4,542
		48,275	54,253
NET ASSETS		401,800	448,169

	30 June 2020 \$'000	31 December 2019 \$'000
<i>Note</i>		
CAPITAL AND RESERVES		
Share capital	40,000	40,000
Reserves	361,662	408,308
Total equity attributable to equity shareholders of the Company	401,662	448,308
Non-controlling interests	138	(139)
TOTAL EQUITY	401,800	448,169

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION AND BASIS OF PREPARATION

SFK Construction Holdings Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) are principally engaged in construction and maintenance projects in Hong Kong, construction projects in Macau, housing and property management services in Hong Kong and the People’s Republic of China (the “PRC”) and electrical and mechanical engineering services in Hong Kong. The Company was incorporated in Bermuda on 17 October 2007 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended).

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 10 December 2015.

The interim results set out in this announcement do not constitute the Group’s interim financial report for the six months ended 30 June 2020 but are extracted from the interim financial report.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

These unaudited consolidated interim financial statements have been approved for issue by the Board of Directors of the Company on 26 August 2020.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in the interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are general building, civil engineering and the provision of other services.

Revenue mainly represents the revenue derived from general building and civil engineering.

Further details regarding the Group's principal activities are disclosed below.

(b) Segment reporting

The Group manages its businesses by segments, and has presented the following three reportable segments.

- General building : this segment provides engineering services of substructure or superstructure of building structures and maintenance, repairs, alterations services and additions to building structures
- Civil engineering : this segment provides engineering services of infrastructure facilities and maintenance, repairs, alterations services to infrastructure facilities
- Others : this segment mainly provides housing management services, electrical and mechanical engineering services and consultancy services

For the six months ended 30 June 2020

	General building \$'000	Civil engineering \$'000	Others \$'000	Total \$'000
Reportable segment revenue (recognised over time)	<u>1,234,368</u>	<u>266,115</u>	<u>91,371</u>	<u>1,591,854</u>
Reportable segment profit/(loss)	<u>23,917</u>	<u>(21,072)</u>	<u>6,018</u>	<u>8,863</u>
Other revenue and other net gain				2,006
Depreciation				(7,264)
Finance costs				(9,859)
Unallocated head office and corporate expenses				<u>(30,548)</u>
Consolidated loss before taxation				<u>(36,802)</u>
Depreciation for the period	<u>7,963</u>	<u>1,589</u>	<u>1,462</u>	<u>11,014</u>
Reportable segment assets	<u>1,065,827</u>	<u>356,967</u>	<u>38,039</u>	<u>1,460,833</u>
Deferred tax assets				46,425
Current tax recoverable				6,032
Unallocated head office and corporate assets				<u>333,931</u>
Consolidated total assets				<u>1,847,221</u>
Additions to non-current segment assets during the period	<u>1,669</u>	<u>110</u>	<u>1,728</u>	<u>3,507</u>
Reportable segment liabilities (including interest in a joint venture)	<u>758,182</u>	<u>212,504</u>	<u>17,582</u>	<u>988,268</u>
Current tax payable				2,954
Deferred tax liabilities				4,161
Unallocated head office and corporate liabilities				<u>450,038</u>
Consolidated total liabilities				<u>1,445,421</u>
Share of net liabilities in a joint venture	<u>19,464</u>	<u>–</u>	<u>–</u>	<u>19,464</u>

For the six months ended 30 June 2019

	General building \$'000	Civil engineering \$'000	Others \$'000	Total \$'000
Reportable segment revenue (recognised over time)	<u>2,192,012</u>	<u>475,382</u>	<u>92,282</u>	<u>2,759,676</u>
Reportable segment profit	<u>63,210</u>	<u>2,711</u>	<u>2,699</u>	<u>68,620</u>
Other revenue and other net gain				184
Depreciation				(928)
Finance costs				(8,929)
Unallocated head office and corporate expenses				<u>(43,016)</u>
Consolidated profit before taxation				<u>15,931</u>
Share of results of a joint venture	<u>(10)</u>	<u>–</u>	<u>–</u>	<u>(10)</u>
Depreciation for the period	<u>7,132</u>	<u>1,118</u>	<u>1,690</u>	<u>9,940</u>
Reportable segment assets	<u>1,092,423</u>	<u>510,826</u>	<u>53,947</u>	<u>1,657,196</u>
Deferred tax assets				36,742
Current tax recoverable				2,706
Unallocated head office and corporate assets				<u>250,985</u>
Consolidated total assets				<u>1,947,629</u>
Additions to non-current segment assets during the period	<u>1,841</u>	<u>404</u>	<u>78</u>	<u>2,323</u>
Reportable segment liabilities (including interest in a joint venture)	<u>643,171</u>	<u>308,614</u>	<u>13,696</u>	<u>965,481</u>
Current tax payable				10,714
Deferred tax liabilities				5,035
Unallocated head office and corporate liabilities				<u>475,524</u>
Consolidated total liabilities				<u>1,456,754</u>
Share of net liabilities in a joint venture	<u>12,723</u>	<u>–</u>	<u>–</u>	<u>12,723</u>

No geographic information has been presented as most of the Group's operating activities are carried out in Hong Kong.

4 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
(a) Finance costs		
Interest on bank advances	9,062	8,657
Interest on lease liabilities	797	295
	<u>9,859</u>	<u>8,952</u>
(b) Staff costs		
Salaries, wages and other benefits	306,910	374,414
Contributions to defined contribution retirement plans	10,593	14,185
Less: Amount included in direct costs	<u>(298,095)</u>	<u>(367,332)</u>
	<u>19,408</u>	<u>21,267</u>
(c) Other items		
Depreciation charge		
— owned property, plant and equipment	7,831	7,468
— right-of-use assets	10,447	8,690
	<u>18,278</u>	<u>16,158</u>
Less: Amount included in direct costs	<u>(10,438)</u>	<u>(9,324)</u>
	<u>7,840</u>	<u>6,834</u>
Auditors' remuneration	<u>1,691</u>	<u>1,761</u>

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Current tax — Hong Kong Profits Tax		
Provision for the period	1,176	4,471
Over provision in respect of prior periods	<u>(20)</u>	<u>—</u>
	<u>1,156</u>	<u>4,471</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(7,757)</u>	<u>(1,674)</u>
	<u>(6,601)</u>	<u>2,797</u>

6 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of \$30,478,000 (30 June 2019: profit of \$13,163,000) and 400,000,000 shares (30 June 2019: 400,000,000 shares) in issue during the period.

(b) Diluted (loss)/earnings per share

There were no potential dilutive shares in existence during the six months ended 30 June 2020 and 2019.

7 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of plant and equipment with a cost of \$1,911,000 (30 June 2019: \$11,831,000). Additions to right-of-assets amounted to \$3,430,000 during the six months ended 30 June 2020. Also, the Group disposed items of plant and equipment with a carrying amount of \$27,000 (30 June 2019: \$165,000).

8 TRADE AND OTHER RECEIVABLES

	30 June 2020 \$'000	31 December 2019 \$'000
Trade debtors	249,043	457,079
Deposits, prepayments and other receivables	17,184	35,345
Amounts due from a joint operation partner	8,381	21,820
	274,608	514,244

The ageing analysis of trade debtors and trade balances due from related companies based on the invoice date is as follows:

	30 June 2020 \$'000	31 December 2019 \$'000
Within 1 month	226,812	388,289
Over 1 to 2 months	15,278	61,662
Over 2 to 3 months	1,577	295
Over 3 months but within 6 months	5,376	6,833
	249,043	457,079

9 CASH AND CASH EQUIVALENTS

	30 June 2020 \$'000	31 December 2019 \$'000
Deposits with banks within three months of maturity at acquisition	151,018	101,418
Cash at bank and in hand	94,091	162,087
	<u>245,109</u>	<u>263,505</u>

10 TRADE AND OTHER PAYABLES

	30 June 2020 \$'000	31 December 2019 \$'000
Trade creditors	194,145	354,720
Accruals and other payables	230,773	565,393
Amounts due to joint operation partners	1,062	1,062
Provision for construction works	30,070	24,288
Retentions payable	351,227	361,679
	<u>807,277</u>	<u>1,307,142</u>

The ageing analysis of trade creditors based on the invoice date is as follows:

	30 June 2020 \$'000	31 December 2019 \$'000
Within 1 month	116,497	262,868
Over 1 to 2 months	51,024	55,886
Over 2 to 3 months	10,349	16,462
Over 3 months	16,275	19,504
	<u>194,145</u>	<u>354,720</u>

11 DIVIDENDS

Dividend payable to equity shareholders of the Company attributable to the interim period:

	Six months ended 30 June 2020 \$'000	2019 \$'000
Interim dividend declared after the end of reporting period of 4.0 cents per share (2019: Nil)	<u>16,000</u>	<u>—</u>

The interim dividend declared after the end of reporting period has not been recognised as a liability at the end of reporting period.

Final dividend of 4.0 cents per share, amounting to \$16,000,000, was declared for the year ended 31 December 2019 and paid in June 2020.

12 MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following transactions with the related parties during the period which the directors consider to be material:

	Six months ended 30 June	
	2020 \$'000	2019 \$'000
Rental expenses, license fees, air-conditioning and service charges (<i>note (i)</i>)	–	2,198
Property management services and property consultancy services income (<i>note (ii)</i>)	<u>–</u>	<u>2,319</u>

The ultimate controlling party of the Group is a substantial shareholder of Great Eagle Holdings Limited.

Notes:

- (i) During the six months ended 30 June 2019, the Group paid rental expenses to a subsidiary of Great Eagle Holdings Limited.
- (ii) During the six months ended 30 June 2019, the Group provided property management services and property consultancy services to subsidiaries of Sun Fook Kong Group Limited.

13 FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

- (a) As at 30 June 2020, approximately \$427,269,000 (31 December 2019: \$387,310,000) of performance bonds were given by financial institutions to the Group in favour of the Group's customers as security for the due performance and observance of the Group's obligation under the contracts entered into between the Group and their customers. The Group has provided guarantees of the above performance bonds. If the Group fails to provide satisfactory performance to their customers to whom performance bonds have been given, such customers may demand the financial institutions to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such financial institutions accordingly. The performance bonds will be released upon completion of the contract work.

At the end of the reporting period, the directors of the Company do not consider it probable that a claim will be made against the Group.

- (b) As at 30 June 2020, the Group had provided guarantees of \$166,212,000 (31 December 2019: \$166,447,000) in respect of certain banking facilities of \$332,424,000 (31 December 2019: \$332,893,000) granted to its joint ventures in Macau. The facilities were utilised to the extent of \$64,141,000 (31 December 2019: \$88,530,000), of which amounts of \$61,290,000 (31 December 2019: \$60,756,000) represent performance bonds given by financial institutions to customers of the joint venture.
- (c) The Group has not recognised any deferred income in respect of these guarantees as their fair values cannot be reliably measured using observable market data and no transaction price was incurred.
- (d) The subsidiaries of the Group are defendants in a number of claims, lawsuits and potential claims relating to employee's compensation cases and personal injuries claims. The directors of the Company considered that the possibility of any economic outflow in settling the legal claims is remote as these claims are all well covered by insurance. Accordingly, no provision for the contingent liabilities in respect of these litigations is necessary, after due consideration of each case.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in construction and maintenance projects in Hong Kong and construction projects in Macau under our brand “SFK (新福港)”. In addition, the Group provides other services, which comprise mainly housing and property management services (such as the provision of cleaning services and security management services), electrical and mechanical engineering services and building information modeling (“BIM”) services to real estates in Hong Kong and the People’s Republic of China (the “PRC”).

BUSINESS REVIEW

Our overall revenue for the Period amounted to HK\$1,591.85 million as compared with that of HK\$2,759.68 million for the corresponding period last year, representing a decrease of approximately 42.32%. The result was mainly due to the combined effect of a mix of projects from our general building works and civil engineering works undertaken during the Period, with the major projects being outlined in the following sections.

As at 30 June 2020, we had a total of 12 projects for general building works and 17 projects for civil engineering works on hand. The total original contract sum of these projects amounted to approximately HK\$14 billion (31 December 2019: HK\$17 billion). The outstanding value (defined as the difference between revenue recognised and the original contract sum) of our projects on hand as at 30 June 2020 was approximately HK\$6.9 billion (31 December 2019: HK\$6.3 billion). The following table sets forth the particulars of some of the sizeable construction and maintenance projects for general building works and civil engineering works awarded and undertaken by us as a main contractor and remained ongoing as at 30 June 2020:

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum (approximate HK\$'million)	Revenue recognised during the six months ended 30 June 2020 (approximate HK\$'million)
Kai Tak Development for the Civil Engineering and Development Department	Civil engineering works	Infrastructure works for developments at the southern part of the former runway	September 2019***	1,947.0* ¹	55.4**
Infrastructure Works for the Architectural Services Department	General building works	Construction of Station Square at Kai Tak (Phase 1)	November 2020	283.6* ²	14.9**
Maintenance of properties managed by the Architectural Services Department	General building works — maintenance project	Alterations, additions, maintenance and repair of buildings and lands and properties in (i) Hong Kong Island Eastern and Outlying Islands (South); and (ii) Hong Kong Island Western, Southern and Lantau Island for which the Architectural Services Department (Property Services Branch) is responsible	March 2021	1,471.8	142.0

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum (approximate HK\$'million)	Revenue recognised during the six months ended 30 June 2020 (approximate HK\$'million)
Site Formation and Infrastructure Works for the Civil Engineering and Development Department	Civil engineering works	Site formation and infrastructure works for development at Kam Tin South, Yuen Long — Advance works	July 2021	409.0	40.0
Maintenance of properties managed by the Housing Authority	General building works — maintenance project	Maintenance, improvement and vacant flat refurbishment for properties in (i) Wong Tai Sin, Tsing Yi and Tsuen Wan; and (ii) Hong Kong Island & Islands	September 2021	863.2	81.2
Piers maintenance for the Civil Engineering and Development Department	Civil engineering works — maintenance project	Maintenance works for piers	March 2022	150.1	13.8
Design and Construction managed by the Architectural Services Department	General building works — maintenance project	Design and Construction of Minor Works to the Government and Subvented Properties for the Architectural Services Department — New Territories and Outlying Islands (North)	August 2022	531.1	86.5
Construction of Public Rental Housing Development and Subsidised Sale Flats Development of the Housing Authority	General building works	Construction of Public Rental Housing Development and Subsidised Sale Flats Development	October 2022	3,740.0	386.3
Construction of Subsidised Sale Flats Development of the Housing Authority	General building works	Construction of Subsidised Sale Flats	October 2022	1,911.0	63.7
Management and maintenance of roads in Kowloon East for the Highways Department	Civil engineering works — maintenance project	Management and maintenance of public roads, including associated slopes, highway structures, tunnels and landscaping, and minor improvement works in Kowloon East but excluding Expressways and High Speed Roads	March 2024	482.6	82.7
Electrical and Mechanical Works for Sewage Treatment Facilities of the Drainage Services Department	Civil engineering works	Electrical and Mechanical works for sewage treatment facilities in Shek Wu Hui Effluent Polishing Plant (Main Works Stage 1)	May 2024	557.6	29.6
Three Runway System Project for the Hong Kong International Airport	General building works	Building and Civil Works for New Integrated Airport Centres	September 2024	440.7	37.5

*¹ In a form of joint operation in which the Company participates in 40% of the contract.

*² In a form of joint operation in which the Company participates in 51% of the contract.

** The revenue recognised represented our shares of the contract.

*** The original contract completion date has been postponed and the contract was still ongoing as at 30 June 2020.

Major projects completed during the six months ended 30 June 2020

Completed projects refer to the projects for which we have received the completion certificates from the respective customers or the terms of year of the contracts expired. Details of the major projects completed by the Group as a main contractor during the six months ended 30 June 2020 are as follows:

Project type	Business segment	Scope of works	Original contract period	Original contract sum (approximate HK\$'million)	Revenue recognised during the six months ended 30 June 2020 (approximate HK\$'million)
Main contract for the Park for the West Kowloon Cultural District Authority	General building works	Construction of the Art Park in West Kowloon Cultural District	July 2016 to December 2018*	1,140.2	18.2
Proposed subsidised housing development of the Hong Kong Housing Society	General building works	To build a 31-storey residential block, a single storey commercial block, an open car park and slope improvement	June 2017 to June 2019*	464.0	12.0
Construction of Public Rental Housing Development of the Housing Authority	General building works	Construction of Public Rental Housing Development	August 2017 to December 2019*	707.0	69.4
Construction of Subsidised Sale Flats Development of the Housing Authority	General building works	Construction of Subsidised Sale Flats Development	November 2017 to February 2020	513.0	77.2
Main Contract for Global Graduate Tower of the Hong Kong University of Science and Technology ("HKUST")	General building works	Construction of Global Graduate Tower in HKUST	December 2017 to February 2020	316.4	94.7
Works Contract for the M+ Waterfront Promenade of the West Kowloon Cultural District Authority	General building works	Construction of M+ Waterfront Promenade	January 2018 to February 2020	69.7	13.3
Maintenance of hydraulic and pumping system and buildings managed by the Airport Authority	General building works — maintenance project	Maintenance, improvement and refurbishment for hydraulic and pumping system and various buildings managed by the Airport Authority	January 2015 to March 2020	221.8	7.9
Maintenance of properties managed by the Housing Authority	General building works — maintenance project	Maintenance, improvement and vacant flat refurbishment for properties managed by the Housing Authority in Tuen Mun and Yuen Long	April 2017 to March 2020	246.7	6.7

* The original contract completion date was postponed and the contract was completed during the six months ended 30 June 2020.

A majority of our revenue is generated from our general building and civil engineering works. During the Period, the revenue attributable to our general building and civil engineering business amounted to HK\$1,234.37 million and HK\$266.11 million (30 June 2019: HK\$2,192.02 million and HK\$475.38 million), respectively, representing approximately 77.54% and 16.72% (30 June 2019: 79.43% and 17.23%), respectively, of the total revenue of the Group for the Period.

During the Period, other than general building and civil engineering works, we also provided other services which comprised mainly housing and property management services (such as the provision of cleaning services and security management services), electrical and mechanical engineering services and BIM services to real estates in Hong Kong and the PRC. Revenue attributable to these other services amounted to approximately 5.74% of the total revenue of the Group for the Period (30 June 2019: 3.34%).

FINANCIAL REVIEW

Revenue

Our overall revenue decreased by approximately HK\$1,167.83 million, or approximately 42.32%, from HK\$2,759.68 million for the six months ended 30 June 2019 to HK\$1,591.85 million for the six months ended 30 June 2020. The decrease in our revenue was mainly due to the combined effect of the decrease in revenue from general building business of HK\$957.65 million and the decrease in revenue from civil engineering business of HK\$209.27 million for the reasons set out below.

Revenue from general building business decreased by approximately HK\$957.65 million, or approximately 43.69%, from HK\$2,192.02 million for the six months ended 30 June 2019 to HK\$1,234.37 million for the six months ended 30 June 2020. The decrease in revenue was primarily due to the completion of certain general building contracts in the previous year and the Period, resulting in a reduction of contributions in revenue by such projects for the Period. These completed projects mainly include the construction of two public rental housing developments and two home ownership scheme developments for the Hong Kong Housing Authority, and the construction of a proposed subsidised housing development for the Hong Kong Housing Society. In addition, the outbreak of the novel coronavirus disease (COVID-19) (“COVID-19”) decelerated the progress of existing projects, resulting in a reduction in revenue between the periods.

Revenue from civil engineering business decreased by approximately HK\$209.27 million, or approximately 44.02%, from HK\$475.38 million for the six months ended 30 June 2019 to HK\$266.11 million for the six months ended 30 June 2020. The decrease was partly due to the completion of certain civil engineering contracts in the previous year, resulting in a reduction of contributions in revenue by such projects for the Period. In addition, the outbreak of COVID-19 decelerated the progress of existing projects, resulting in a reduction in revenue between the periods.

Revenue from other services (which mainly comprised housing and property management services, electrical and mechanical engineering services and BIM services) for the six months ended 30 June 2020 amounted to HK\$91.37 million (30 June 2019: HK\$92.28 million), representing 5.74% (30 June 2019: 3.34%) of the total revenue of the Group. Revenue from other services remained relatively stable between the periods.

Our business remains to be primarily focusing in the Hong Kong market during the Period.

Gross profit and gross profit margin

Our overall gross profit decreased by HK\$62.84 million, or approximately 90.86%, from HK\$69.16 million for the six months ended 30 June 2019 to HK\$6.32 million for the six months ended 30 June 2020. The decrease in gross profit was partly due to the completion of certain projects with relatively high profit margins in the previous year, resulting in a reduction of profit by such projects for the Period. In addition, the outbreak of COVID-19 decelerated the progress of existing projects, resulting in a reduction in revenue, an increase in project overhead costs and subcontracting costs and hence a reduction in gross profit for those projects.

Our overall gross profit margin decreased from 2.51% for the six months ended 30 June 2019 to 0.40% for the six months ended 30 June 2020. The decrease in gross profit margin was attributable to factors including the completion of certain projects with relatively high profit margin in the previous year; and the outbreak of COVID-19 decelerated the progress of existing projects, resulting in a reduction in revenue and an increase in project overhead costs and subcontracting costs.

Other revenue

Our other revenue for the six months ended 30 June 2020 amounted to HK\$5.67 million, compared to that of HK\$0.43 million for the six months ended 30 June 2019. Other revenue mainly consisted of interest income and other sundry income.

Other net gain

Our other net gain for the six months ended 30 June 2020 amounted to HK\$0.06 million, compared to that of HK\$0.20 million for the six months ended 30 June 2019. Our other net gain mainly comprised gain on disposal of property, plant and equipment and exchange differences.

Administrative expenses

Administrative expenses mainly consisted of staff costs and rental charges. Our administrative expenses for the six months ended 30 June 2020 amounted to HK\$39.00 million, compared to that of HK\$44.90 million for the six months ended 30 June 2019. The decrease in administrative expenses was mainly attributable to the decrease in staff costs and rental charges between the periods.

Finance costs

Our finance costs for the six months ended 30 June 2020 amounted to HK\$9.86 million, compared to that of HK\$8.95 million for the six months ended 30 June 2019. The increase was primarily attributable to the increase in bank interest expenses between the periods arising from the increase in average bank loan balances.

Income tax

Our income tax for the six months ended 30 June 2020 was a credit of HK\$6.60 million, compared to that of a charge of HK\$2.80 million for the six months ended 30 June 2019.

(Loss)/profit attributable to the equity shareholders of the Company

Based on the above factors, there was a loss attributable to the equity shareholders of the Company for the six months ended 30 June 2020 of HK\$30.48 million, compared to a profit attributable to the equity shareholders of the Company of HK\$13.16 million for the six months ended 30 June 2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital Structure

As at 30 June 2020, the capital structure of the Group consisted of equity of HK\$401.80 million (31 December 2019: HK\$448.17 million) and bank loans of HK\$343.04 million (31 December 2019: HK\$408.46 million) as more particularly described in the paragraph headed “Borrowings” below.

Cash position and fund available

During the Period, the Group maintained a healthy liquidity position, with working capital being financed by our operating cash flows and bank borrowings. As at 30 June 2020, our cash and cash equivalents were HK\$245.11 million (31 December 2019: HK\$263.51 million).

As at 30 June 2020, the current ratio of the Group was 1.22 (31 December 2019: 1.19).

Our principal uses of cash have been, and are expected to continue to be, operational costs.

Borrowings

As at 30 June 2020, the Group had total bank loans of HK\$343.04 million (31 December 2019: approximately HK\$408.46 million). The balance decreased compared to that of 31 December 2019, and was mainly used to finance the working capital of the ongoing projects.

As at 30 June 2020, the Group had approximately HK\$2,232 million (31 December 2019: HK\$2,205 million) of unutilised banking facilities in Hong Kong and Macau (including loans, letter of credit and letter of guaranteed facilities). All of the Group's banking facilities are subject to the fulfilment of certain covenants as are commonly found in lending arrangements with financial institutions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group remained in compliance with its loan covenants during the Period and up to the date of this announcement.

GEARING RATIO

As at 30 June 2020, the Group's gearing ratio was 85.38% (31 December 2019: 91.14%), calculated based on the interest-bearing liabilities (bank loans) divided by the total equity as at the respective period end.

CAPITAL EXPENDITURES

The Group's capital expenditures primarily comprise purchase of plant and equipment, such as motor vehicles and equipment, which were funded, and are expected to continue to be funded, by internal resources and cash flow generated from our operation. During the Period, the Group has incurred approximately HK\$1.91 million (30 June 2019: HK\$11.83 million) on acquiring items of plant and equipment.

FOREIGN EXCHANGE EXPOSURE

The functional currency to which the Group's operations and assets and liabilities are denominated is Hong Kong dollars. The Group has cash balances that is denominated in the United States dollars, Renminbi and British Pound. Given that Hong Kong dollars are pegged with the United States dollars, there is no currency risk exposure to the United States dollars. The Board considers that the Group was not exposed to significant foreign exchange risk. The Board will review the Group's foreign exchange risk and exposure from time to time.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Period. There was no future plan for material investments or capital assets as at 30 June 2020.

SIGNIFICANT INVESTMENTS HELD

Except for investments in the subsidiaries, a joint venture and joint operations, the Group did not hold any significant investments during the Period.

FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

Save as disclosed in note 13 to the condensed consolidated financial statements, the Group had no other financial guarantees and contingent liabilities as at 30 June 2020.

PLEDGE OF ASSETS

As at 30 June 2020, the Group had pledged deposits, amounting to HK\$25.13 million (31 December 2019: HK\$25.13 million), and assignment of project proceeds from certain construction contracts of the Group, the Group's joint operations and the Group's joint venture to banks as security of banking facilities (including bank loans and performance bonds). Pledged deposits remained stable between the periods.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group did not have any capital commitments.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had 1,921 employees in Hong Kong, Macau and the PRC and total remuneration for the six months ended 30 June 2020 was approximately HK\$318 million. The Group entered into separate labour contracts with its employees in accordance with the applicable labour laws of Hong Kong, Macau and the PRC. The remuneration offered to employees generally includes salaries, medical benefits and bonus. Share options may also be granted to eligible employees. In general, the Group determines salaries of its employees based on each employee's qualification, position, seniority and experience. The Directors recognise the importance of attracting and retaining staff. In order to promote employee loyalty and retention, the Group provides technical and operational on-job trainings to its employees covering various aspects of its operations including contract law, and workplace and occupational safety.

FUTURE PROSPECTS

COVID-19 has caused significant adverse impact on local and global economy which is expected to continue in the second half of 2020. As such, we expect that contractors in Hong Kong, including the Group, will continue to have pressure on profit margins. However, we believe that the Hong Kong Government will take more relief measures to try to overcome the challenges and to alleviate the financial burden suffered by the businesses from the COVID-19 outbreak. Together with the Government's continued commitment and efforts in land development and provision of public housing in Hong Kong, the Board remains confident of the Group's future development and will continue to build on our existing competitive strengths to achieve our long term business objectives.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Board recognises that corporate governance practices are crucial to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders, and enhance shareholders' value. The Board is committed to achieving and maintaining a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). For the Period, the Board is of the opinion that the Company has complied with all the code provisions of the CG Code, except for the deviation from code provisions A.2.1 and C.2.5 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have a chief executive officer and such role has been assumed by the managing director of the Company. Mr. Chan Ki Chun is the chairman and the managing director of the Company. In the view that Mr. Chan has been assuming day-to-day responsibilities in operating and managing the Group since 1999, the Board believes that it is in the best interest of the Group to have Mr. Chan taking up both roles for effective management and business development. Therefore, the Board considers that the deviation from provision A.2.1 of the CG Code is appropriate in such circumstances.

According to code provision C.2.5 of the CG Code, the Company should have an internal audit function. The Company has not established a standalone internal audit department, however, the Board has put in place adequate measures to perform the internal audit function in relation to different aspects of the Group. The Company has appointed an external internal control adviser to perform ongoing review of our internal control system to evaluate its effectiveness and formulate plans and recommendations for improvement of our internal control measures and policies. It is intended to review the effectiveness of the Group's material internal controls so as to provide assurance that key internal control measures are carried out appropriately and are functioning as intended.

Notwithstanding the above, the Board is of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place. The Board will continue to review its corporate governance practices in order to enhance the corporate governance standard of the Group, to comply with regulatory requirements and to meet the growing expectations of the shareholders of the Company and investors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all the Directors, each of the Directors confirmed that he has complied with the required standard set out in the Model Code during the Period.

Pursuant to Rule B.13 of the Model Code, the Directors have also requested any employee of the Company or director or employee of a subsidiary of the Company who, because of his office or employment in the Company or a subsidiary, is likely to possess inside information in relation to the securities of the Company, not to deal in securities of the Company when he would be prohibited from dealing by the Model Code as if he were a Director.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the Period.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 30 June 2020 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Board has reviewed the accounting principles and practices adopted by the Group and has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020.

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of HK4.0 cents per Share for the Period (30 June 2019: Nil), amounting to approximately HK\$16 million (30 June 2019: Nil). Such payment of interim dividend will be payable to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on Friday, 18 September 2020. It is expected that the proposed dividend will be paid on or about Monday, 28 September 2020.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlements to the proposed interim dividend, the register of members of the Company will be closed from Thursday, 17 September 2020 to Friday, 18 September 2020, during which period no transfer of the Shares will be registered. Shareholders of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 16 September 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim consolidated results announcement is published on the Company's website at <http://www.sfkchl.com.hk> and the Stock Exchange's website at www.hkexnews.hk. The 2020 Interim Report will be despatched to the shareholders of the Company and will be available on the above websites.

By order of the Board
SFK Construction Holdings Limited
Chan Ki Chun
Chairman

Hong Kong, 26 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. Chan Ki Chun, Mr. Chan Chor Tung, Mr. Yung Kim Man and Mr. Yeung Cho Yin, William; and the independent non-executive directors of the Company are Mr. Lam Leung Tsun, Mr. Jim Fun Kwong, Frederick and Mr. Chan Kim Hung, Simon.