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SUNDART HOLDINGS LIMITED

承達集團有限公司

(incorporated under the laws of British Virgin Islands with limited liability)

(Stock Code: 1568)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

(in million HK dollars, unless otherwise stated)

	For the six months ended 30 June		Year-on- Year Decrease
	2017	2016	
	(Unaudited)	(Unaudited)	
Revenue	1,662.7	1,739.1	(4.4%)
Gross profit	220.6	319.6	(31.0%)
Gross profit margin	13.3%	18.4%	(27.7%)
Profit attributable to owners of the Company	152.1	246.5	(38.3%)
Basic earnings per share (<i>HK cents</i>)	7.05	12.32	(42.8%)
	30 June 2017	31 December 2016	Increase
	(Unaudited)	(Audited)	
Equity attributable to owners of the Company	2,200.4	2,096.0	5.0%

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK7 cents per Share.

The board (the “**Board**”) of directors (the “**Directors**”) of SUNDART HOLDINGS LIMITED 承達集團有限公司 (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2017 (the “**Period**”) together with the comparative figures for the corresponding six months ended 30 June 2016 (the “**Previous Period**”) as set out below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
	NOTES	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	3	1,662,744	1,739,141
Cost of sales		(1,442,119)	(1,419,556)
Gross profit		220,625	319,585
Other income, other gains and losses	4	9,612	6,310
Selling expenses		(2,337)	(4,098)
Administrative expenses		(59,856)	(46,532)
Other expenses		(775)	(432)
Share of profits of associates		7,309	5,245
Finance costs		–	(843)
Profit before taxation		174,578	279,235
Income tax expense	5	(22,509)	(32,761)
Profit for the period	6	152,069	246,474
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value change on available-for-sale investments		19,291	(17,351)
Release of investment revaluation reserve upon disposal of available-for-sale investments		(4,900)	–
Exchange differences arising on translation of foreign operations		2,261	(999)
Share of other comprehensive income (expense) of an associate		473	(644)
Release of translation reserve upon deregistration of a subsidiary		23	–
Other comprehensive income (expense) for the period		17,148	(18,994)
Total comprehensive income for the period		169,217	227,480
Earnings per share			
Basic (HK cents)	7	7.05	12.32

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

		At 30 June 2017 HK\$'000 (Unaudited)	At 31 December 2016 HK\$'000 (Audited)
	NOTES		
Non-current assets			
Property, plant and equipment		18,274	15,638
Goodwill		1,510	1,510
Available-for-sale investments		157,814	136,854
Interests in associates		124,575	116,793
		<u>302,173</u>	<u>270,795</u>
Current assets			
Inventories		64,088	21,972
Trade and other receivables	9	795,890	531,738
Bills receivable		–	2,799
Amount due from a related company		823	823
Amount due from a fellow subsidiary	10	1,163	3,981
Amounts due from customers for contract work		951,425	725,890
Retentions receivable	9	417,001	354,907
Tax recoverable		1,112	1,085
Bank balances and cash		869,086	1,192,560
		<u>3,100,588</u>	<u>2,835,755</u>
Current liabilities			
Trade and other payables	11	1,025,797	938,237
Amounts due to fellow subsidiaries		972	4,205
Amount due to ultimate holding company		–	371
Amounts due to customers for contract work		45,735	15,429
Tax payable		65,089	52,357
Dividend payable		64,746	–
		<u>1,202,339</u>	<u>1,010,599</u>
Net current assets		<u>1,898,249</u>	<u>1,825,156</u>
Total assets less current liabilities		<u>2,200,422</u>	<u>2,095,951</u>
Capital and reserves			
Share capital	12	1,246,815	1,246,815
Reserves		953,607	849,136
Total equity		<u>2,200,422</u>	<u>2,095,951</u>

NOTES

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for available-for-sale investments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the Period are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the Period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 to 2016 Cycle

The application of the amendments to HKFRSs in the Period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The executive Directors are the chief operating decision makers. Information reported to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance focuses on three principal business activities.

Specifically, the Group’s reportable and operating segments under HKFRS 8 are as follows:

- (a) Fitting-out works in Hong Kong;
- (b) Fitting-out works in Macau;
- (c) Alteration and addition and construction works in Hong Kong; and
- (d) Manufacturing, sourcing and distribution of interior decorative materials.

Information regarding the above segments was reported below:

Segment revenue and results

For the six months ended 30 June 2017

	Fitting-out works in Hong Kong HK\$'000 (Unaudited)	Fitting-out works in Macau HK\$'000 (Unaudited)	Alteration and addition and construction works in Hong Kong HK\$'000 (Unaudited)	Manufacturing, sourcing and distribution of interior decorative materials HK\$'000 (Unaudited)	Segment total HK\$'000 (Unaudited)	Elimination HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Revenue							
External revenue	778,751	525,282	348,078	10,633	1,662,744	-	1,662,744
Inter-segment revenue	49	-	-	40,299	40,348	(40,348)	-
Segment revenue	<u>778,800</u>	<u>525,282</u>	<u>348,078</u>	<u>50,932</u>	<u>1,703,092</u>	<u>(40,348)</u>	<u>1,662,744</u>
Segment profit (loss)	<u>75,422</u>	<u>102,154</u>	<u>5,818</u>	<u>(1,448)</u>	<u>181,946</u>	<u>-</u>	<u>181,946</u>
Corporate expenses							(22,319)
Corporate income							7,642
Share of profits of associates							7,309
Profit before taxation							<u>174,578</u>

For the six months ended 30 June 2016

	Fitting-out works in Hong Kong HK\$'000 (Unaudited)	Fitting-out works in Macau HK\$'000 (Unaudited)	Alteration and addition and construction works in Hong Kong HK\$'000 (Unaudited)	Manufacturing, sourcing and distribution of interior decorative materials HK\$'000 (Unaudited)	Segment total HK\$'000 (Unaudited)	Elimination HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Revenue							
External revenue	313,455	1,169,958	223,435	32,293	1,739,141	-	1,739,141
Inter-segment revenue	70	-	-	203,741	203,811	(203,811)	-
Segment revenue	<u>313,525</u>	<u>1,169,958</u>	<u>223,435</u>	<u>236,034</u>	<u>1,942,952</u>	<u>(203,811)</u>	<u>1,739,141</u>
Segment profit	<u>38,981</u>	<u>199,325</u>	<u>4,953</u>	<u>50,612</u>	<u>293,871</u>	<u>-</u>	<u>293,871</u>
Corporate expenses							(20,163)
Corporate income							1,125
Share of profit of an associate							5,245
Finance costs							(843)
Profit before taxation							<u>279,235</u>

Inter-segment revenue was charged at prevailing market rates.

Segment profit (loss) represented the profit earned by (loss from) each segment, excluding income and expenses of the corporate function, which included certain other income, certain selling expenses, certain administrative expenses, certain other expenses, share of profits of associates and finance costs. This was the measure reported to the executive Directors for the purpose of resource allocation and assessment of segment performance.

4. OTHER INCOME, OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income		
Interest income	1,017	297
Consultancy fee, management fee and license fee income	1,268	5,192
Others	999	449
	<u>3,284</u>	<u>5,938</u>
Other gains and losses		
Net foreign exchange gain	1,470	387
Gain on disposal of available-for-sale investments	4,900	–
Loss on disposal of property, plant and equipment	(19)	(15)
Loss on deregistration of a subsidiary	(23)	–
	<u>6,328</u>	<u>372</u>
	<u>9,612</u>	<u>6,310</u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax	11,571	4,420
Macau Complementary Tax	12,501	27,934
PRC Enterprise Income Tax	–	830
	<u>24,072</u>	<u>33,184</u>
Overprovision in prior periods		
Hong Kong Profits Tax	–	(15)
PRC Enterprise Income Tax	(1,563)	(408)
	<u>(1,563)</u>	<u>(423)</u>
	<u>22,509</u>	<u>32,761</u>

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for both periods.

Macau Complementary Tax was calculated at 12% of the estimated assessable profits for both periods.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary was 25% for both periods.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	1,780	1,514
Cost of inventories recognised as expense	5,418	25,211
Allowance for inventories (included in cost of sales)	–	762
Contract costs recognised as expense		
Fitting-out works	1,101,001	1,179,910
Alteration and addition and construction works	335,700	213,673
	1,436,701	1,393,583
Staff costs		
Gross staff costs (including directors' emoluments)	124,057	105,772
Less: Staff costs capitalised to contract costs	(69,187)	(62,885)
	54,870	42,887

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company was based on the following data:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	152,069	246,474

	Number of shares	
	Six months ended 30 June	
	2017	2016
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,158,210	2,000,000

No diluted earnings per share were presented for both periods as there were no potential ordinary shares in issue.

8. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Dividends for ordinary shareholders of the Company recognised as distribution during the Period		
Final dividend for the year ended 31 December 2016: HK3 cents (year ended 31 December 2015: HK8 cents) per share	64,746	160,000

An interim dividend for the Period of HK7 cents (Previous Period: HK5 cents) per share of the Company (the “Share”, collectively, the “Shares”), amounting to approximately HK\$151,075,000 (Previous Period: HK\$107,911,000) in aggregate, has been declared in the meeting of the Board on 25 August 2017.

9. TRADE AND OTHER RECEIVABLES AND RETENTIONS RECEIVABLE

Trade and other receivables and retentions receivable at the end of each reporting period comprised receivables from third parties as follows:

Trade and other receivables

	At	At
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade receivables	418,281	316,414
Prepayments and deposits	367,030	210,740
Other receivables	10,579	4,584
	795,890	531,738

The Group allows an average credit period of 30 to 45 days to their trade customers. The following was an aged analysis of trade receivables presented based on invoice date at the end of each reporting period.

	At 30 June 2017 <i>HK\$'000</i> (Unaudited)	At 31 December 2016 <i>HK\$'000</i> (Audited)
1–30 days	246,658	217,831
31–60 days	42,349	72,037
61–90 days	16,773	1,240
Over 90 days	112,501	25,306
	<u>418,281</u>	<u>316,414</u>

Retentions receivable

	At 30 June 2017 <i>HK\$'000</i> (Unaudited)	At 31 December 2016 <i>HK\$'000</i> (Audited)
Retentions receivable which:		
– will be recovered within twelve months	334,793	305,389
– will be recovered more than twelve months after the end of the reporting period	82,208	49,518
	<u>417,001</u>	<u>354,907</u>

10. AMOUNT DUE FROM A FELLOW SUBSIDIARY

	At 30 June 2017 <i>HK\$'000</i> (Unaudited)	At 31 December 2016 <i>HK\$'000</i> (Audited)
Trade receivables	73	2,942
Retentions receivable	1,090	1,039
	<u>1,163</u>	<u>3,981</u>

The Group allows a credit period of 30 days to its trade receivables due from a fellow subsidiary. As at 30 June 2017, the trade receivables due from a fellow subsidiary were aged over 90 days (31 December 2016: within 30 days) based on invoice date and were subsequently settled. The retentions receivable due from a fellow subsidiary will be recovered more than twelve months after the end of the reporting period.

11. TRADE AND OTHER PAYABLES

Trade and other payables at the end of the reporting period comprised amounts outstanding for trade purposes and daily operating costs. The average credit period taken for trade purchase is 14 to 30 days.

	At 30 June 2017 <i>HK\$'000</i> (Unaudited)	At 31 December 2016 <i>HK\$'000</i> (Audited)
Contract creditors and suppliers	715,716	530,023
Retentions payable	168,276	190,023
	883,992	720,046
Deposits received	103,359	169,880
Other payables	38,446	48,311
Total	1,025,797	938,237

The aged analysis of contract creditors and suppliers was stated based on invoice date as follows:

	At 30 June 2017 <i>HK\$'000</i> (Unaudited)	At 31 December 2016 <i>HK\$'000</i> (Audited)
1–30 days	643,772	477,291
31–60 days	39,722	33,929
61–90 days	12,752	6,995
Over 90 days	19,470	11,808
	715,716	530,023

As at 30 June 2017, the Group's retentions payable of HK\$56,276,000 (31 December 2016: HK\$35,266,000) was expected to be paid after one year.

12. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Issued and fully paid ordinary shares with no par value		
At 1 January 2016	2,000,000,000	669,250
Placing of existing Shares and top-up subscription of new Shares (<i>note</i>)	<u>158,210,000</u>	<u>577,565</u>
At 31 December 2016 (Audited) and 30 June 2017 (Unaudited)	<u>2,158,210,000</u>	<u>1,246,815</u>

Note:

Pursuant to the placing and subscription agreement dated 20 July 2016, 158,210,000 existing Shares were placed by REACH GLORY INTERNATIONAL LIMITED (“**Reach Glory**”), immediate holding company of the Company, at HK\$3.80 per Share. After completion of the placing, 158,210,000 Shares were subscribed by Reach Glory on 28 July 2016 at HK\$3.80 per Share. The proceeds of HK\$601,198,000 from the subscription, net of transaction costs amounting to HK\$23,633,000, were credited to the Company’s share capital.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the Period, the Hong Kong economy maintained a moderate growth. According to the figures from the Census and Statistics Department (“**C&SD**”) of the government of Hong Kong, the gross domestic product (“**GDP**”) by expenditure component of Hong Kong increased by 4.3% year-on-year in real terms in the first quarter of 2017, which was higher than the growth of 3.2% in the last quarter of 2016.

According to the provisional results of the Quarterly Survey of Construction Output from C&SD, the total gross value of construction works performed by main contractors in Hong Kong in the first quarter of 2017 increased by 7.7% year-on-year in nominal terms to HK\$60.2 billion. The total gross value of construction works performed at private sector sites amounted to HK\$20.2 billion in the first quarter of 2017, representing an increase of 14.2% year-on-year in nominal terms. The gross value of construction works performed at construction sites in respect of residential building projects amounted to HK\$17.6 billion in the first quarter of 2017, representing an increase of 17.7% year-on-year in nominal terms. In addition, the gross value of construction works performed by main contractors at locations other than construction sites amounted to HK\$19.6 billion in the first quarter of 2017, representing an increase of 4.3% year-on-year in nominal terms. The continuous development of the Hong Kong economy and construction market may benefit the fitting-out market in Hong Kong.

According to the information from the Statistics and Census Service of the government of Macau, the number of new buildings constructed in the private sector decreased by 14.7% year-on-year in 2016. In the first quarter of 2017, the number of completion of buildings constructed in the private sector decreased by 17.4% year-on-year and the total gross floor area of new buildings constructed in the private sector decreased by 17.8% year-on-year. However, the GDP of Macau rose by 10.3% year-on-year in the first quarter of 2017 in real terms due to the continuous improvement in the total exports of services and investment and a relatively lower GDP base in the first quarter of 2016. Further, the Hong Kong-Zhuhai-Macau Bridge is expected to gradually strengthen the bonding among Pan-Pearl River Delta, speed up the process of economic diversification in Macau and drive the recovery of Macau’s hotel and leisure industries. These will stimulate the recovery of Macau’s fitting-out market.

In the PRC, the construction industry maintained a moderate development. According to the statistics from the National Bureau of Statistics of the PRC, the GDP of the PRC increased by 6.9% year-on-year to approximately Renminbi (“**RMB**”) 38.1 trillion during the Period, of which the total output value of construction rose by 10.9% year-on-year to RMB8.6 trillion. In addition, the floor area of the buildings under construction rose by 3.5% year-on-year to 9.7 billion square metres (“**m²**”). The de-stocking in the real estate market has a remarkable result, the floor area of the commercial houses sold in non-major cities increased by 24.5% year-on-year. Meanwhile, the overall investment scale was increased during the 13th Five-Year Plan period. With the introduction of “The Belt and Road” strategy, the National Development and Reform Commission together with 13 departments and units have been actively promoting Public-Private-Partnership financing pattern and strengthening infrastructure construction. All these factors are expected to bring more economic opportunities to the construction industry in the PRC.

BUSINESS REVIEW

The Group is one of the leading integrated fitting-out contractors in Hong Kong and Macau, specialising in providing professional fitting-out works for residential property and hotel projects. In addition, the Group also generated revenue from alteration and addition and construction works in Hong Kong and from manufacturing, sourcing and distribution of interior decorative materials business for sales globally. During the Period, a majority of the Group's revenue was derived from its fitting-out works in the private sector.

Despite the fact that Macau's economy suffered a downturn in 2016 with negative impact on both the number of completion of buildings and the total gross floor area of new buildings constructed in the private sector in the first quarter of 2017, the Group still maintained a solid financial status during the Period. With its established reputation, proven track record and long business relationships with customers, the Group continued to obtain several sizeable new projects during the Period. The Directors believe that the Group's new projects will be able to support a stable and healthy development of the Group in the coming years.

Fitting-out works

The Group's fitting-out business primarily includes the fitting-out works carried out for hotels, serviced apartments, residential properties and other properties in Hong Kong and Macau. During the Period, the fitting-out business remained as the key contributor to the Group's revenue and profit.

During the Period, the Group completed a total of five fitting-out projects, including three and two fitting-out projects in Hong Kong and Macau, respectively, with an individual contract sum of not less than HK\$50.0 million. As at 30 June 2017, the Group had a total of 26 projects in progress, including 21 and five fitting-out projects in Hong Kong and Macau, respectively, with an individual contract sum of not less than HK\$50.0 million. The total contract sum and the value of remaining works for such projects in progress as at 30 June 2017 amounted to approximately HK\$5,052.9 million and HK\$3,467.4 million, respectively.

During the Period, the Group's revenue derived from its fitting-out business amounted to HK\$1,304.0 million (Previous Period: HK\$1,483.4 million), representing a decrease of HK\$179.4 million or 12.1% year-on-year. In 2016, Macau's construction market in the private sector has experienced a downturn, and hence the number of completion of buildings constructed in the private sector decreased in the first quarter of 2017. As a result, the Group's revenue derived from its fitting-out business in Macau decreased by HK\$644.7 million when compared to the Previous Period. Such impact was not fully mitigated by the increase of HK\$465.3 million in the revenue brought by the fitting-out projects in Hong Kong, and thus leading to the decrease in the Group's revenue derived from its fitting-out business.

The Group's gross profit derived from its fitting-out business during the Period amounted to HK\$203.0 million (Previous Period: HK\$303.5 million), representing a decrease of HK\$100.5 million or 33.1%. In addition, the Group's gross profit margin also decreased to 15.6% (Previous Period: 20.5%). Such decrease was primarily due to a relatively higher profit margin in the Previous Period as a result of the use of the interior decorative materials manufactured by the Group in its fitting-out works for several sizeable hotel and casino fitting-out projects in Macau which were almost completed in 2016 while the new projects using the interior decorative materials manufactured by the Group were still at an early stage, resulting in a decrease in gross profit margin during the Period. Further, the construction market in Macau became highly competitive since Macau's economy has experienced a downturn in 2016. As such, the gross profit margin of the Group's newly awarded projects in the second half of 2016 and the first half of 2017 sustained at a normal market level.

Alteration and addition and construction works

The Group carries out alteration and addition and construction business in Hong Kong through Kin Shing (Leung's) General Contractors Limited ("**Kin Shing**"), a registered general building contractor in Hong Kong. Kin Shing's key services include construction, interior decoration, repair, maintenance and alteration and addition works for residential properties, hotels, factories and commercial buildings in Hong Kong.

During the Period, Kin Shing completed a total of 12 alteration and addition and construction projects, with a total revenue of HK\$4.5 million recognised for those projects. As at 30 June 2017, Kin Shing had 19 projects on hand (including contracts in progress and contracts which are yet to commence) with a total contract sum of approximately HK\$2,653.8 million. The value of the remaining works for those projects as at 30 June 2017 amounted to approximately HK\$1,903.0 million.

During the Period, the Group's revenue derived from its alteration and addition and construction business amounted to HK\$348.1 million (Previous Period: HK\$223.4 million), representing an increase of HK\$124.7 million or 55.8% when compared to the Previous Period. Such increase in revenue was primarily resulted from the increased number of projects undertaken by the Group. During the Period, the 19 projects on hand contributed HK\$319.6 million to the revenue while during the Previous Period, there were only seven projects on hand which contributed HK\$125.0 million to the then revenue.

The Group's gross profit derived from its alteration and addition and construction business increased by 26.5% year-on-year to HK\$12.4 million (Previous Period: HK\$9.8 million) whereas the gross profit margin decreased slightly to 3.6% (Previous Period: 4.4%).

Manufacturing, sourcing and distribution of interior decorative materials

One of the Group's core competencies lies in its manufacturing base and research and development centre in the PRC. Through its subsidiary, 東莞承達家居有限公司 Dongguan Sundart Home Furnishing Co., Ltd. ("**Dongguan Sundart**"), the Group operates a manufacturing plant and a warehouse located in Dongguan, Guangdong Province, the PRC

with an aggregate gross floor area of over 40,000 m². Dongguan Sundart manufactures interior decorative timber products such as fire-rated timber doors and wooden furniture, and provides quality and reliable re-engineering and pre-fabrication services for sizeable fitting-out projects undertaken by the Group.

During the Period, the Group's revenue derived from its manufacturing, sourcing and distribution of interior decorative materials business decreased by 67.2% year-on-year to HK\$10.6 million (Previous Period HK\$32.3 million). Such decrease was primarily attributable to the decreased sales of wooden furniture to Macau and Hong Kong.

In addition, the Group's gross profit derived from its manufacturing, sourcing and distribution of interior decorative materials business decreased to HK\$5.2 million (Previous Period: HK\$6.3 million) whereas the gross profit margin increased to 49.1% (Previous Period: 19.5%). Such increase was primarily resulted from an order from the Philippines with a high gross profit margin.

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

During the Period, the Group's revenue decreased by HK\$76.4 million or 4.4% year-on-year to HK\$1,662.7 million (Previous Period: HK\$1,739.1 million). The Group's gross profit decreased by HK\$99.0 million or 31.0% year-on-year to HK\$220.6 million (Previous Period: HK\$319.6 million). The Group's gross profit margin decreased to 13.3% (Previous Period: 18.4%). Such decrease in the Group's gross profit margin was primarily due to a relatively higher profit margin in the Previous Period as a result of the use of the interior decorative materials manufactured by the Group in its fitting-out works for several sizeable hotel and casino fitting-out projects in Macau which were almost completed in 2016 while the new projects using the interior decorative materials manufactured by the Group were still at an early stage, resulting in a decrease in gross profit margin during the Period. Further, the construction market in Macau became highly competitive since Macau's economy has experienced a downturn in 2016. As such, the gross profit margin of the Group's newly awarded projects in the second half of 2016 and the first half of 2017 sustained at a normal market level.

Other income, other gains and losses

The Group recorded other income, other gains and losses of HK\$9.6 million for the Period (Previous Period: HK\$6.3 million), which were primarily derived from gain on disposal of available-for-sale investments of HK\$4.9 million.

Profit for the period

The Group's profit for the period amounted to HK\$152.1 million (Previous Period: HK\$246.5 million), representing a decrease of HK\$94.4 million or 38.3% year-on-year as a result of the decrease in gross profit as discussed above and the increase in staff costs.

Basic earnings per share

The Company's basic earnings per share for the Period was HK7.05 cents (Previous Period: HK12.32 cents), decreased by HK5.27 cents or 42.8% year-on-year and was in line with the decrease in profit for the period. In addition, the basic earnings per share for the Period was calculated based on the weighted average number of 2,158,210,000 Shares in issue during the Period, whilst the basic earnings per share for the Previous Period was calculated based on the weighted average number of 2,000,000,000 Shares then in issue. As such, the basic earnings per share for the Period was relatively lower than those for the Previous Period. For details, please see Note 7 — Earnings per share to the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income of this announcement.

Material acquisition and disposal

On 17 May 2017, an equity transfer agreement was entered into among Sundart Engineering Investments Limited ("**Sundart Engineering**"), an indirect wholly-owned subsidiary of the Company, Jangho Curtain Wall Hongkong Limited ("**Jangho Hongkong**"), an intermediate holding company of the Company, and Jangho Group Co., Ltd. ("**Jangho Co**"), ultimate holding company of the Company, pursuant to which Sundart Engineering has agreed to acquire, and Jangho Hongkong and Jangho Co have agreed to transfer, in aggregate 100% equity interest in Sundart Engineering & Contracting (Beijing) Limited ("**Sundart Beijing**") at a total consideration of HK\$520 million (the "**Acquisition**"). For details of the Acquisition, please refer to the announcement and the circular of the Company dated 17 May 2017 and 30 June 2017, respectively. The completion of the Acquisition took place on 10 August 2017.

The Directors considered that the Acquisition will provide the Group with an opportunity to tap into the fitting-out industry in the PRC, expand its income stream as well as improve its financial performance. It is a valuable opportunity to capitalise on the results of the economic development in the PRC.

Save as disclosed herein, no other material acquisition and disposal were conducted by the Group during the Period.

Available-for-sale investments

As at 30 June 2017, the Group's available-for-sale investments amounted to HK\$157.8 million (31 December 2016: HK\$136.9 million).

During the Period, the Group purchased available-for-sale investments in senior notes due on 8 December 2019 with an interest rate of 6.95% per annum, listed on Singapore Exchange Securities Trading Limited, at a total consideration of HK\$50.1 million. The Group also disposed of one of the available-for-sale investments in equity securities listed on the Main Board (the "**Main Board**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and generated a gain of HK\$4.9 million during the Period. As at 30 June 2017, the Group recorded a net increase in fair value change of HK\$14.4 million in investment revaluation reserve compared to that as at 31 December 2016. However, up to the date of this announcement, there was a decline in the value of the investments as the share price retreated. The Group is subject to the market risks associated with its investments. The management of the Group will closely monitor the performance of the Group's investments from time to time and would consider taking risk management actions should the need arise.

Future plans for material investments or capital assets

As at the date of this announcement, the Group did not have any plans for material investments or capital assets.

CORPORATE FINANCE AND RISK MANAGEMENT

Liquidity and financial resources and capital structure

The management and control of the Group's financial, capital management and external financing functions are centralised at its headquarters in Hong Kong. The Group adheres to the principle of prudent financial management to minimise financial and operational risks. During the Period, the Group mainly relies upon internally generated funds and net proceeds from the issue of Shares by way of Hong Kong public offering and the international placing on 29 December 2015 (the “**Global Offering**”) and the placing of existing Shares and top-up subscription of new Shares on 25 July 2016 and 28 July 2016, respectively (the “**Placing and Subscription**”), to finance its operations.

The Group continued to maintain a solid financial and cash position. As at 30 June 2017, the Group's working capital stood at HK\$1,898.2 million, representing a slight increase of 4.0% over HK\$1,825.2 million as recorded as at 31 December 2016. Bank balances and cash in total amounted to HK\$869.1 million, representing a decrease of HK\$323.5 million over HK\$1,192.6 million as recorded as at 31 December 2016. Such decrease was mainly due to the increase in trade and other receivables and amounts due from customers for contract work of HK\$264.2 million and HK\$225.5 million, respectively.

No bank borrowings were recorded as at 30 June 2017 and 31 December 2016, and hence no gearing ratio (total debts to total equity) was available as at 30 June 2017 and 31 December 2016.

The Group continued to maintain a healthy liquidity position. As at 30 June 2017, the Group's current assets and current liabilities amounted to HK\$3,100.5 million and HK\$1,202.3 million, respectively (31 December 2016: HK\$2,835.8 million and HK\$1,010.6 million, respectively). The Group's current ratio decreased slightly to 2.6 times (31 December 2016: 2.8 times) and it has maintained sufficient liquid assets to finance its operations.

As at 30 June 2017, the share capital and equity attributable to owners of the Company amounted to HK\$1,246.8 million and HK\$2,200.4 million, respectively (31 December 2016: HK\$1,246.8 million and HK\$2,096.0 million, respectively).

Charge on the Group's assets

The Group did not charge or pledge any assets as at 30 June 2017 and 31 December 2016.

Contingent liabilities and capital commitments

The Group did not have any significant contingent liabilities as at 30 June 2017 and 31 December 2016, respectively.

Save as the Acquisition disclosed under the paragraph headed “Material acquisition and disposal” above, the Group had capital commitments of HK\$1.6 million in relation to acquisition of property, plant and equipment as at 30 June 2017 (31 December 2016: HK\$1.0 million).

Exposure to fluctuations in exchange rates and corresponding hedging arrangements

The Group operates in various regions with different foreign currencies including Macau Pataca, Euro, RMB and United States Dollars. As at the date of this announcement, the Group had not implemented any foreign currency hedging policies. However, the Group’s management will closely monitor the exchange rate movement and will take appropriate measures to reduce the risks.

Credit risk exposure

During the Period, the Group has adopted prudent credit policies to deal with credit risk exposure. The Group’s major customers include reputable property developers, hotel owners and main contractors. Save as the Arbitrations disclosed under the paragraph headed “Events after the reporting period” below, the Group was not exposed to significant credit risk. The Group’s management reviews the recoverability of trade receivables and closely monitors the financial position of the customers from time to time with a view to keeping the credit risk exposure of the Group at a relatively low level.

EVENTS AFTER THE REPORTING PERIOD

On 17 August 2017, Sundart Engineering Services (Macau) Limited, an indirect wholly-owned subsidiary of the Company, served two notices of arbitration to the main contractor of two fitting-out projects undertaken by the Group for a hotel in Macau, seeking outstanding payments pursuant to two letters of acceptance entered into in November 2014 and July 2015, respectively (the “**Arbitrations**”).

Save as the Arbitrations and the Acquisition disclosed under the paragraph headed “Material acquisition and disposal” above, there are no significant events subsequent to 30 June 2017 which may materially affect the Group’s operating and financial performance as at the date of the condensed consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group employed 883 full-time employees (31 December 2016: 819). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Discretionary bonus and share options will also be granted to eligible staff based on individual performance in recognition of their contribution and hard work. The Group also provides training programmes to its employees to equip themselves with requisite skills and knowledge.

The Group's gross staff costs (including the directors' emoluments) was HK\$124.1 million for the Period (Previous Period: HK\$105.8 million).

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares have been listed and traded on the Main Board since 29 December 2015. The net proceeds from the Global Offering amounted to HK\$627.8 million (after deducting underwriting fees and commissions and all related expenses). Such net proceeds are intended to be applied in accordance with the proposed application as disclosed in the Company's prospectus in connection with the Global Offering dated 11 December 2015. As at 30 June 2017, the net proceeds received were applied as follows:

	Net proceeds (HK\$ million)		
	Available	Utilised	Unutilised
To expand the Group's fitting-out projects in Hong Kong	307.6	307.6	–
To expand the Group's alteration and addition and construction business in Hong Kong	182.0	147.8	34.2
To expand the Group's fitting-out projects in Macau	62.8	62.8	–
To hire additional staff for the Group's business expansion	12.6	12.6	–
To finance the procurement of upgraded equipment and machinery for Dongguan Sundart and strengthen the Group's research and development capabilities in re-engineering and pre-fabrication	6.3	6.3	–
General working capital	56.5	56.5	–
Total	<u>627.8</u>	<u>593.6</u>	<u>34.2</u>

As at 30 June 2017, the unutilised net proceeds from the Global Offering were deposited in the bank accounts of the Group.

USE OF PROCEEDS FROM THE PLACING AND SUBSCRIPTION

The Company completed the Placing and Subscription on 25 July 2016 and 28 July 2016, respectively.

The net proceeds from the Placing and Subscription amounted to HK\$577.6 million (after deducting all placing and related expenses). The Group intends to use the net proceeds in accordance with the proposed application as disclosed in the announcement of the Company dated 28 July 2016. As at 30 June 2017, the net proceeds received were applied as follows:

	Net proceeds (HK\$ million)		
	Available	Utilised	Unutilised
To expand the Group's fitting-out and alteration and addition and construction businesses	375.4	375.4	–
To finance any potential investment opportunities	144.4	50.1	94.3
General working capital	57.8	57.8	–
Total	577.6	483.3	94.3

As at 30 June 2017, the unutilised net proceeds from the Placing and Subscription were also deposited in the bank accounts of the Group.

PROSPECTS AND STRATEGIES

Hong Kong is currently under a protracted low-interest rate environment, and with the financial support from the PRC, the robust demands for new housing allow developers to provide ample supply of new properties in the market. From the perspective of the macro economy, “The Belt and Road Initiative” and the planning of “Guangdong-Hong Kong-Macau Bay Area” will become a new impetus for Hong Kong's economic development in the next decade. Participating in the construction of “Guangdong-Hong Kong-Macau Bay Area” will bring enormous development opportunities to the construction and real estate sectors.

In Macau, the gaming industry is now recovering and stabilising. Upon the completion of the Hong Kong-Zhuhai-Macau Bridge and the planning of “Guangdong-Hong Kong-Macau Bay Area”, Macau's prestigious position and its role in the PRC's economic development and openness to global commerce will be enhanced. “The Belt and Road Initiative” will promote the upgrading of diversified development of the convention and exhibition industry and the tourism industry in Macau, which is expected to lead to a significant increase of visitors. The Directors believe that all these factors will contribute significantly to the fitting-out business of the Group in Macau.

To further improve the profitability, Sundart Engineering entered into an equity transfer agreement with Jangho Hongkong and Jangho Co on 17 May 2017 to acquire 100% equity interest in Sundart Beijing at a total consideration of HK\$520 million during the Period. Upon completion of the Acquisition, the Group will conduct its fitting-out business in 12 selected provinces, municipalities and autonomous regions in the PRC, namely Inner Mongolia, Shanghai, Jiangsu, Zhejiang, Jiangxi, Hubei, Hunan, Guangdong, Chongqing, Sichuan, Yunnan and Beijing. In view of the prosperity in property and tourism markets in the PRC, and implementation of “13th Five-Year Plan”, the Group is particularly optimistic about the prospect of the fitting-out business for residential properties and hotels in the PRC. The completion of the urban floor space of residential buildings is expected to reach 14 billion m² between 2003 and 2020, affiliated with the current 11 billion m² awaiting repair stock house, the scale of the residential properties fitting-out market is growing continuously. In addition, Sundart Beijing has been building its reputation and developing its network as a fitting-out contractor in the PRC over the years. Benefited from the growth of the fitting-out market in the PRC and equipped with Sundart Beijing’s established reputation, proven track record and long business relationships with its customers, synergies are expected to be provided to the Group after the completion of the Acquisition.

Looking forward, the Group will strengthen its leading position in the fitting-out markets in Hong Kong and Macau by leading the development of various business sectors and benefiting each sector in a complementary manner. The Group will complete the glass fiber reinforced gypsum production line and enhance production efficiency, as well as seek out reconstruction projects. The Group expects to capitalise on the results of the economic development in the PRC by entering into the PRC market through the Acquisition. The Group strives to obtain a firm foothold in the PRC by displaying outstanding project management and adopting market positioning strategies on high-end residential property and hotel projects. In order to maintain continuous business growth and advantages, the Group will continue to enhance comprehensive integrated service capabilities. Moreover, the Group will optimise its project management ability and pay close attention to the cultivation of professional talents so as to enhance profitability, and thus improve reputation and business network in the PRC.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK7 cents per Share (the “**Interim Dividend**”) for the Period, amounting to approximately HK\$151.1 million and representing approximately 99.3% of the profit available for distribution of the Group for the Period. The Interim Dividend is payable to shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company at the close of business on Wednesday, 13 September 2017. The Interim Dividend will be paid on or about Friday, 22 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 11 September 2017 to Wednesday, 13 September 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be qualified for the Interim Dividend, all transfer of Shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 8 September 2017.

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

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. It also recognises that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of the Company and its ability to attract investment, protect the rights of shareholders and stakeholders, and create values for shareholders. The Group's corporate governance policy is designed to achieve these objectives and is maintained through a framework of processes, policies and guidelines.

In the opinion of the Directors, the Company has complied with the code provisions as set out in the Code of Corporate Governance Practices and Corporate Governance Report as contained in Appendix 14 to the Listing Rules (the "**Code Provisions**") during the Period, except for the following deviation:

Paragraph A.6.7 of the Code Provisions specifies that the independent non-executive Directors and other non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of the Shareholders. Two independent non-executive Directors were absent from the last annual general meeting held on 28 June 2017 due to other important business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made with all the Directors and all of them confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the Period. The Company has adopted the same Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company for the Period.

REVIEW OF INTERIM RESULTS

The interim results of the Group for the Period is unaudited, but has been reviewed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA, whose unmodified review report will be included in the interim report to be sent to the Shareholders.

The audit committee of the Board has reviewed with the Group's management and auditor the accounting principles and practices adopted by the Group, and the unaudited interim results of the Group for the Period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement will be published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sundart.com). The interim report for the Period containing all the information required by the Listing Rules will be published on the respective websites of the Stock Exchange and the Company and despatched to the Shareholders in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its Shareholders, business partners and other professional parties for their support throughout the Period.

By order of the Board
SUNDART HOLDINGS LIMITED
承達集團有限公司
NG Tak Kwan

Chief Executive Officer and Executive Director

Hong Kong, 25 August 2017

As of the date of this announcement, the executive Directors are Mr. NG Tak Kwan, Mr. LEUNG Kai Ming, Mr. XIE Jianyu, Mr. NG Chi Hang and Mr. PONG Kam Keung; the non-executive Director is Mr. LIU Zaiwang; and the independent non-executive Directors are Mr. TAM Anthony Chun Hung, Mr. HUANG Pu and Mr. LI Zheng.