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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 2018

FINANCIAL HIGHLIGHTS

(in million HK dollars, unless otherwise stated)

	Six months ended 30 June 2018		Year-on- Year Increase (Decrease)
	(Unaudited)	2017 (Unaudited and restated)	
Revenue	2,703.6	2,194.8	23.2%
Gross profit	337.8	278.5	21.3%
Gross profit margin	12.5%	12.7%	(1.6%)
Profit attributable to owners of the Company	206.9	174.4	18.6%
Basic earnings per share (<i>HK cents</i>)	9.59	8.08	18.7%
	30 June 2018 (Unaudited)	31 December 2017 (Audited)	Increase
Equity attributable to owners of the Company	2,189.4	2,031.8	7.8%

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2 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 2018 (the “**Period**”) together with the comparative figures for the corresponding six months ended 30 June 2017 (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 2018

		Six months ended 30 June	
	Notes	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited and restated)
Revenue	3A	2,703,586	2,194,752
Cost of sales		(2,365,784)	(1,916,265)
Gross profit		337,802	278,487
Other income, other gains and losses	4	27,553	10,923
Selling expenses		(7,714)	(3,614)
Administrative expenses		(114,991)	(90,910)
Other expenses		(288)	(775)
Share of profits of associates		3,677	7,309
Finance costs		(4,154)	–
Profit before taxation		241,885	201,420
Income tax expense	5	(34,980)	(27,042)
Profit for the period attributable to owners of the Company	6	206,905	174,378
Other comprehensive (expense) income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value change on available-for-sale investments		–	19,291
Investment revaluation reserve reclassified to profit or loss upon disposal of available-for-sale investments		–	(4,900)
Exchange differences arising on translation of foreign operations		(5,475)	13,513
Share of other comprehensive (expense) income of an associate		(617)	473
Release of translation reserve upon deregistration of a subsidiary		–	23
Other comprehensive (expense) income for the period		(6,092)	28,400
Total comprehensive income for the period attributable to owners of the Company		200,813	202,778
Earnings per share			
Basic (HK cents)	8	9.59	8.08

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

		At 30 June 2018 <i>HK\$'000</i> (Unaudited)	At 31 December 2017 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		36,194	33,518
Investment properties		10,475	10,545
Goodwill		1,510	1,510
Financial assets at fair value through profit or loss		280,535	–
Available-for-sale investments		–	252,229
Interests in associates		136,276	133,216
		<u>464,990</u>	<u>431,018</u>
Current assets			
Inventories		55,448	69,722
Trade and other receivables and bills receivable	9	1,642,905	1,799,053
Amounts due from related companies	10	45,836	49,334
Amounts due from fellow subsidiaries		129	915
Amount due from ultimate holding company		49	–
Contract assets		1,820,929	–
Amounts due from customers for contract work		–	1,077,085
Retentions receivable		–	710,093
Tax recoverable		41	65
Note receivable		80,000	50,000
Pledged bank deposits		24,432	63,273
Bank balances and cash		273,722	627,658
		<u>3,943,491</u>	<u>4,447,198</u>

		At 30 June 2018 <i>HK\$'000</i> (Unaudited)	At 31 December 2017 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Current liabilities			
Trade and other payables	11	1,773,896	2,024,842
Bills payable	11	81,507	233,753
Amount due to a related company	10	1,268	–
Amount due to a fellow subsidiary	12	2,591	2,613
Contract liabilities		91,833	–
Amounts due to customers for contract work		–	197,258
Tax payable		63,432	45,274
Bank borrowings	13	151,304	307,557
Other borrowings	14	52,229	34,139
		<u>2,218,060</u>	<u>2,845,436</u>
Net current assets		<u>1,725,431</u>	<u>1,601,762</u>
Total assets less current liabilities		<u>2,190,421</u>	<u>2,032,780</u>
Capital and reserves			
Share capital		1,246,815	1,246,815
Reserves		942,605	784,956
Equity attributable to owners of the Company		<u>2,189,420</u>	<u>2,031,771</u>
Non-current liability			
Deferred tax liabilities		<u>1,001</u>	<u>1,009</u>
		<u>2,190,421</u>	<u>2,032,780</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**”) as well as 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**”).

Merger accounting for business combination involving entities under common control

北京承達創建裝飾工程有限公司 (Sundart Engineering & Contracting (Beijing) Limited) (“**Sundart Beijing**”) had been a wholly-owned subsidiary of the Group since its establishment until 26 November 2012 when Sundart Beijing increased its registered capital by HK\$26,700,000, representing approximately 25% of its enlarged registered capital after such capital was increased. Such increased capital was subscribed and fully contributed by 江河創建集團股份有限公司 (Jangho Group Co., Ltd.) (“**Jangho Co**”), ultimate holding company of the Company. Since then Sundart Beijing was beneficially owned as to 75% and 25% by the Group and Jangho Co, respectively. On 24 April 2015, the Group disposed of 50% equity interest it held in Sundart Beijing to Jangho Hong Kong Holdings Limited (江河香港控股有限公司) (“**Jangho HK**”), an intermediate holding company of the Company. Further, the Group disposed of the remaining 25% equity interest it held in Sundart Beijing to Jangho HK on 25 June 2015. Upon the change of the shareholding which was effective on 25 June 2015, the Group ceased to have any interest in Sundart Beijing.

On 17 May 2017, Sundart Engineering Investments Limited (“**Sundart Engineering**”), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Jangho HK and Jangho Co, pursuant to which Sundart Engineering has agreed to acquire, and Jangho HK and Jangho Co have agreed to transfer, in aggregate 100% equity interest in Sundart Beijing at a total consideration of HK\$520,000,000. The acquisition was completed on 10 August 2017. The principal activity of Sundart Beijing is provision of fitting-out works in the People’s Republic of China (the “**PRC**”).

The Group applied merger accounting to the acquisition of Sundart Beijing, being a business combination involving entities under common control, under Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA. The Group and the entities acquired are regarded as continuing entities.

The condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the prior period have been restated to include the revenue, cost of sales and other income, other gains and losses of Sundart Beijing as if the Group had not disposed of any equity interest of Sundart Beijing to its holding companies.

The effect of restatements described above on the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017 by line items is as follows:

	Six months ended 30 June 2017 <i>HK\$'000</i> (Unaudited and originally stated)	Business combination of entities under common control <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2017 <i>HK\$'000</i> (Unaudited and restated)
Revenue	1,662,744	532,008	2,194,752
Cost of sales	(1,442,119)	(474,146)	(1,916,265)
Gross profit	220,625	57,862	278,487
Other income, other gains and losses	9,612	1,311	10,923
Selling expenses	(2,337)	(1,277)	(3,614)
Administrative expenses	(59,856)	(31,054)	(90,910)
Other expenses	(775)	–	(775)
Share of profits of associates	7,309	–	7,309
Profit before taxation	174,578	26,842	201,420
Income tax expense	(22,509)	(4,533)	(27,042)
Profit for the period attributable to owners of the Company	152,069	22,309	174,378
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	–	19,291
Investment revaluation reserve reclassified to profit or loss upon disposal of available-for-sale investments	(4,900)	–	(4,900)
Exchange differences arising on translation of foreign operations	2,261	11,252	13,513
Share of other comprehensive income of an associate	473	–	473
Release of translation reserve upon deregistration of a subsidiary	23	–	23
Other comprehensive income for the period	17,148	11,252	28,400
Total comprehensive income for the period attributable to owners of the Company	169,217	33,561	202,778

The effect of the restatement on the Group's basic earnings per share for the six months ended 30 June 2017 is as follow:

Impact on basic earnings per share

	Six months ended 30 June 2017 HK cents
As unaudited and originally stated	7.05
Adjustments arising from business combination under common control	1.03
Unaudited and restated	8.08

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group provides fitting-out works and alteration and addition and construction works to its customers. Under the terms of contracts, the Group's performance creates and enhances the properties which the customers control during the course of work by the Group. Revenue from provision of contracting services is therefore recognised over time using input method. In addition, the Group also generates revenue from manufacturing, sourcing and distribution of interior decorative materials business. These revenue are recognised at a point of time when the customers obtain control of the materials.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed as at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9 *Financial Instruments*. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

2.1.2 Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

		Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
	Notes	HK\$'000	HK\$'000	HK\$'000
Current assets				
Contract assets	(a)	–	1,790,045	1,790,045
Retentions receivable from related companies	(a)	2,562	(2,562)	–
Retentions receivable from fellow subsidiaries	(a)	305	(305)	–
Amounts due from customers for contract work	(a)	1,077,085	(1,077,085)	–
Retentions receivable	(a)	710,093	(710,093)	–
		<u> </u>	<u> </u>	<u> </u>
Current liabilities				
Contract liabilities	(a)	–	243,943	243,943
Amounts due to customers for contract work	(a)	197,258	(197,258)	–
Advances received	(b)	50,801	(50,801)	–
		<u> </u>	<u> </u>	<u> </u>

Notes:

- (a) In relation to construction contracts previously accounted under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. Retentions receivable from related companies of HK\$2,562,000 and retentions receivable from fellow subsidiaries of HK\$305,000 previously included in amounts due from related companies and amounts due from fellow subsidiaries, respectively, amounts due from customers for contract work of HK\$1,077,085,000 and retentions receivable of HK\$710,093,000 were reclassified to contract assets, whilst amounts due to customers for contract work of HK\$197,258,000 were reclassified to contract liabilities.
- (b) As at 1 January 2018, advances received from customers of HK\$50,801,000 previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported HK\$'000	Adjustments HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Current assets			
Amounts due from related companies	45,836	2,540	48,376
Amounts due from fellow subsidiaries	129	181	310
Contract assets	1,820,929	(1,820,929)	–
Amounts due from customers for contract work	–	1,087,285	1,087,285
Retentions receivable	–	730,923	730,923
Current liabilities			
Trade and other payables	1,773,896	23,765	1,797,661
Contract liabilities	91,833	(91,833)	–
Amounts due to customers for contract work	–	68,068	68,068

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments*

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and contract assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (“FVTOCI”) or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

The Directors reviewed and assessed the Group’s financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group’s financial assets and the impacts thereof are detailed in note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bills receivable, amounts due from related companies, fellow subsidiaries and ultimate holding company, contract assets, note receivable, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and other receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings based on its historical default rates which are adjusted for forward-looking estimates.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available);
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No impairment allowance was recognised as at 1 January 2018.

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available- for-sale investments <i>HK\$'000</i>	Financial assets at FVTPL required by HKFRS 9 <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>
Closing balance at 31 December 2017				
– HKAS 39	252,229	–	6,921	–
Effect arising from initial application of HKFRS 9:				
Reclassification				
From available-for-sale (“AFS”) investments (<i>note</i>)	(252,229)	252,229	(6,921)	6,921
Opening balance at 1 January 2018	–	252,229	–	6,921

Note: At the date of initial application of HKFRS 9, the Group's equity investments of HK\$252,229,000 were reclassified from AFS investments to financial assets at FVTPL. The fair value gain of HK\$6,921,000 relating to those equity investments previously carried at fair value were transferred from investment revaluation reserve to accumulated profits.

Except as described above, the application of the other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3A. REVENUE

An analysis of the Group's revenue was as follows:

	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Contract revenue from fitting-out works	2,063,293
Contract revenue from alteration and addition and construction works	629,639
Manufacturing, sourcing and distribution of interior decorative materials	10,654
	<u>2,703,586</u>

For the six months ended 30 June 2018

	Fitting-out works HK\$'000 (Unaudited)	Alteration and addition and construction works HK\$'000 (Unaudited)	Manufacturing, sourcing and distribution of interior decorative materials HK\$'000 (Unaudited)
Geographical markets			
Hong Kong	804,032	629,639	8,147
Macau	699,648	–	719
The PRC	559,613	–	1,788
Total	<u>2,063,293</u>	<u>629,639</u>	<u>10,654</u>
Timing of revenue recognition			
A point in time	–	–	10,654
Over time	2,063,293	629,639	–
Total	<u>2,063,293</u>	<u>629,639</u>	<u>10,654</u>

3B. 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:

- Fitting-out works in Hong Kong;
- Fitting-out works in Macau;
- Fitting-out works in the PRC;
- Alteration and addition and construction works in Hong Kong; and
- Manufacturing, sourcing and distribution of interior decorative materials.

Information regarding the above segments was reported below:

For the six months ended 30 June 2018

	Fitting-out works in Hong Kong HK\$'000 (Unaudited)	Fitting-out works in Macau HK\$'000 (Unaudited)	Fitting-out works in the PRC 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	804,032	699,648	559,613	629,639	10,654	2,703,586	-	2,703,586
Inter-segment revenue	-	-	-	88	190,177	190,265	(190,265)	-
Segment revenue	<u>804,032</u>	<u>699,648</u>	<u>559,613</u>	<u>629,727</u>	<u>200,831</u>	<u>2,893,851</u>	<u>(190,265)</u>	<u>2,703,586</u>
Segment profit	<u>62,626</u>	<u>111,461</u>	<u>47,906</u>	<u>14,173</u>	<u>32,070</u>	<u>268,236</u>	<u>-</u>	<u>268,236</u>
Corporate expenses								(38,151)
Corporate income								12,277
Share of profits of associates								3,677
Finance costs								(4,154)
Profit before taxation								<u>241,885</u>

For the six months ended 30 June 2017

	Fitting-out works in Hong Kong HK\$'000 (Unaudited and restated)	Fitting-out works in Macau HK\$'000 (Unaudited and restated)	Fitting-out works in the PRC HK\$'000 (Unaudited and restated)	Alteration and addition and construction works in Hong Kong HK\$'000 (Unaudited and restated)	Manufacturing, sourcing and distribution of interior decorative materials HK\$'000 (Unaudited and restated)	Segment total HK\$'000 (Unaudited and restated)	Elimination HK\$'000 (Unaudited and restated)	Consolidated HK\$'000 (Unaudited and restated)
Revenue								
External revenue	778,751	525,282	532,711	348,078	9,930	2,194,752	-	2,194,752
Inter-segment revenue	49	-	-	-	41,002	41,051	(41,051)	-
Segment revenue	<u>778,800</u>	<u>525,282</u>	<u>532,711</u>	<u>348,078</u>	<u>50,932</u>	<u>2,235,803</u>	<u>(41,051)</u>	<u>2,194,752</u>
Segment profit (loss)	<u>75,422</u>	<u>102,154</u>	<u>25,636</u>	<u>5,818</u>	<u>(1,448)</u>	<u>207,582</u>	<u>-</u>	<u>207,582</u>
Corporate expenses								(22,319)
Corporate income								8,848
Share of profits of associates								7,309
Profit before taxation								<u>201,420</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	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Other income		
Interest income	2,126	2,739
Consultancy fee, design fee and entrustment fee income	786	457
Rental income	281	440
Relocation compensation income (<i>note</i>)	16,259	–
Others	669	1,004
	<u>20,121</u>	<u>4,640</u>
Other gains and losses		
Net foreign exchange gain	265	1,425
Fair value gain on financial assets at FVTPL	9,205	–
Gain on disposal of AFS investments	–	4,900
Loss on disposal of property, plant and equipment	(2,038)	(19)
Loss on deregistration of a subsidiary	–	(23)
	<u>7,432</u>	<u>6,283</u>
	<u>27,553</u>	<u>10,923</u>

Note: In accordance with the requirements of the urban development plans in Yongdeng Road, Putuo District, Shanghai, China, Shanghai branch of Sundart Beijing entered into a relocation compensation agreement with its landlord on 9 May 2018 in order to cooperate with the planning arrangements of the Shanghai Municipal People's Government. The landlord agreed to pay Shanghai branch of Sundart Beijing a relocation compensation amounting to Renminbi ("RMB") 13,229,000 (approximately HK\$16,259,000) in relation to the expenses of removal to new office and interruptions to the operations during relocation.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Current tax		
Hong Kong Profits Tax	10,290	11,571
Macau Complementary Tax	16,489	12,501
PRC Enterprise Income Tax	8,463	4,533
	<u>35,242</u>	<u>28,605</u>
Overprovision in prior periods		
Hong Kong Profits Tax	(19)	–
PRC Enterprise Income Tax	(243)	(1,563)
	<u>(262)</u>	<u>(1,563)</u>
	<u>34,980</u>	<u>27,042</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 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. A PRC subsidiary obtained approval from the relevant tax bureau and is qualified as High and New Technology Enterprise which is entitled to a tax reduction from 25% to 15% since 2014 and renewed in 2017.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	3,773	2,775
Gross rental income from investment property	281	440
Less: Direct operating expenses incurred for investment property that generated rental income during the Period	(33)	(37)
	248	403
Cost of inventories recognised as expense	9,729	4,803
Reversal of allowance for inventories (included in cost of sales)	(2)	–
Contract costs recognised as expense		
Fitting-out works	1,748,020	1,575,762
Alteration and addition and construction works	608,037	335,700
	2,356,057	1,911,462
Staff costs		
Gross staff costs (including Directors' emoluments)	198,018	154,881
Less: Staff costs capitalised to contract costs	(114,683)	(87,984)
	83,335	66,897

7. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Dividends for ordinary shareholders of the Company recognised as distribution during the Period:		
Final dividend for the year ended 31 December 2017: HK2 cents (year ended 31 December 2016: HK3 cents) per share	43,164	64,746
Dividend declared by Sundart Beijing (<i>note</i>)	–	100,000
	43,164	164,746

Subsequent to the end of the reporting period, an interim dividend for the Period of HK2 cents (Previous Period: HK7 cents) per share of the Company (the “Share”, collectively, the “Shares”), amounting to approximately HK\$43,164,000 (Previous Period: HK\$151,075,000) in aggregate, has been declared in the meeting of the Board on 28 August 2018.

Note: On 22 June 2017, the dividend in a sum of HK\$100,000,000 was declared by Sundart Beijing to Jangho HK and Jangho Co, the then shareholders of Sundart Beijing, before the completion of the combination of entities under common control by the Group on 10 August 2017 as described in note 1. Sundart Beijing paid the dividend on 27 July 2017.

8. 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	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	206,905	174,378
	Number of shares	
	Six months ended 30 June	
	2018	2017
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,158,210	2,158,210

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

9. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

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

	At	At
	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade receivable	483,868	546,644
Unbilled receivable (<i>note</i>)	752,220	779,785
Prepayments and deposits	387,519	449,083
Other receivables	14,596	10,548
Bills receivable	4,702	12,993
	1,642,905	1,799,053

Note: Unbilled receivable represented the remaining balances of contract receivable to be billed for completed portion of construction contracts according to the contract terms.

Trade receivable

The Group allows an average credit period of 30 to 90 days to its trade customers. The following was an aged analysis of trade receivable presented based on invoice date at the end of each reporting period.

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
1–30 days	213,416	272,401
31–60 days	16,478	90,908
61–90 days	34,138	8,295
Over 90 days	219,836	175,040
	<u>483,868</u>	<u>546,644</u>

Bills receivable

The bills receivable was aged within 180 days (31 December 2017: 60 days).

10. AMOUNTS DUE FROM/TO RELATED COMPANIES

Amounts due from related companies

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Trade receivable (<i>note</i>)	45,557	45,949
Retentions receivable	–	2,562
Other receivables	279	823
	<u>45,836</u>	<u>49,334</u>

Note: The amount due from a related company in which Mr. Liu Zaiwang, the non-executive Director, and his spouse have 95% beneficial interest.

Trade receivable from a related company

The Group allows a credit period of 30 days to its trade receivable due from a related company. As at 30 June 2018 and 31 December 2017, the trade receivable due from a related company was aged within 30 days based on invoice date.

Amount due to a related company

As at 30 June 2018, the amount represented trade payable due to a related company, a subsidiary of Rykadan Capital Limited, of which Mr. Ng Tak Kwan, the chief executive officer of the Company, is the substantial shareholder.

The related company does not allow a credit period to the Group. The trade payable due to the related company was aged within 30 days based on invoice date.

11. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

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 90 days.

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Contract creditors and suppliers	1,327,753	1,550,152
Retentions payable	311,040	286,698
	1,638,793	1,836,850
Advances received	4,219	50,801
Other tax payable	65,125	61,964
Other payables and accruals	65,759	75,227
	1,773,896	2,024,842

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

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
1–30 days	874,572	1,156,003
31–60 days	190,045	126,115
61–90 days	60,038	82,823
Over 90 days	203,098	185,211
	1,327,753	1,550,152

As at 30 June 2018, the Group's retentions payable of HK\$138,234,000 (31 December 2017: HK\$111,401,000) was expected to be paid after one year.

Bills payable

As at 30 June 2018 and 31 December 2017, bills payable were secured by pledged bank deposits and were repayable as follows:

	At 30 June 2018 <i>HK\$'000</i> (Unaudited)	At 31 December 2017 <i>HK\$'000</i> (Audited)
1–30 days	26,586	25,889
31–60 days	12,270	77,906
61–90 days	7,279	49,825
Over 90 days	35,372	80,133
	<u>81,507</u>	<u>233,753</u>

12. AMOUNT DUE TO A FELLOW SUBSIDIARY

	At 30 June 2018 <i>HK\$'000</i> (Unaudited)	At 31 December 2017 <i>HK\$'000</i> (Audited)
Trade payable	1,741	1,756
Retentions payable	850	857
	<u>2,591</u>	<u>2,613</u>

The fellow subsidiary allows a credit period of 30 days to the Group.

The trade payable due to the fellow subsidiary was aged over 90 days (31 December 2017: within 30 days) based on invoice date.

Retentions payable to a fellow subsidiary

The retentions payable due to the fellow subsidiary was expected to be paid after one year.

13. BANK BORROWINGS

	At 30 June 2018 <i>HK\$'000</i> (Unaudited)	At 31 December 2017 <i>HK\$'000</i> (Audited)
Bank borrowings – unsecured (<i>note a</i>)	151,304	307,557
Carrying amount of the above bank borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable as follows (<i>note b</i>):		
– within one year	61,304	187,557
– more than one year but not exceeding two years	60,000	60,000
– more than two years but not exceeding five years	30,000	60,000
	151,304	307,557

Notes:

- (a) As at 30 June 2018 and 31 December 2017, all of the Group's bank borrowings were unsecured. The bank borrowings bore interest at 1.50% (31 December 2017: 1.35% to 1.50%) over Hong Kong Interbank Offered Rate per annum or 1.50% (31 December 2017: 1.50%) over London Interbank Offered Rate per annum and interest was repriced from 1 to 4 months. As at 30 June 2018, the average and the ranges of effective interest rate (which is also equal to contracted interest rate) on the Group's bank borrowings was 3.54% and 3.44% to 3.74% (31 December 2017: 2.61% and 1.50% to 2.95%) per annum, respectively.
- (b) The amounts due are based on scheduled repayment dates as set out in the banking facility letters.

14. OTHER BORROWINGS

	At 30 June 2018 <i>HK\$'000</i> (Unaudited)	At 31 December 2017 <i>HK\$'000</i> (Audited)
Carrying amount of secured other borrowings that contain a repayment on demand clause (shown under current liabilities)	52,229	34,139

As at 30 June 2018 and 31 December 2017, the Group had fixed rate other borrowings which bore interest at 8.00% per annum and secured by certain financial assets at FVTPL and AFS investments, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the Period, the Hong Kong economy stayed vibrant in the first quarter of 2018. According to Census and Statistics Department of the government of Hong Kong (“C&SD”), the gross domestic product (“GDP”) increased by 4.7% year-on-year in real terms in the first quarter of 2018.

According to the provisional results of the “Report on 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 2018 amounted to HK\$65.9 billion, representing a year-on-year increase of 12.1% in nominal terms. The gross value of construction works performed at private sector sites in the first quarter of 2018 amounted to HK\$19.8 billion, representing a year-on-year increase of 8.9% in nominal terms. The gross value of construction works performed at construction sites in respect of residential buildings in the first quarter of 2018 amounted to HK\$17.9 billion, representing a year-on-year increase of 16.2% in nominal terms. Further, the gross value of construction works performed by main contractors at locations other than construction sites in the first quarter of 2018 amounted to HK\$22.7 billion, representing a year-on-year increase of 13.8% in nominal terms. The growth of construction activities in Hong Kong 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 gross floor area of new buildings constructed in the first six months of 2018 was 730,423 square meters (“m²”), representing a year-on-year increase of 28.0%. The Macau’s GDP increased by 6.0% year-on-year in real term which was mainly driven by export of service and individual consumption. The external demand of Macau has further expanded and boosting overall services, including gaming and tourism industries. Besides this, the opening of Hong Kong-Zhuhai-Macao Bridge is likely to bring more industrial impetus to Macau and such factors will also stimulate the interior fitting-out market in Macau.

According to the information from National Bureau of Statistics, the PRC’s GDP increased to approximately RMB41,896.1 billion in the first six months of 2018, representing a year-on-year increase of 10.0%. The gross output value of construction industry reached RMB9,479.0 billion, and the output value of fitting-out works reached RMB518.6 billion, representing year-on-year increase of 10.4% and 8.2%, respectively. During the Period, the floor area under construction by the PRC’s real estate development enterprises accounted for 7.1 billion m², representing a year-on-year increase of 2.5%, of which, the floor area of residential building construction area was 4.9 billion m², representing a year-on-year increase of 3.2%. During the Period, real estate regulation policies actively focused on solving the mismatch between supply and demand structures, thereby boosting the demand for construction activities and fitting-out works. Major cities in the PRC have issued various policies and open channels in terms of land supply, development, inventory and other aspects to further ensure effective supply. Construction industry is expected to remain stable in the second half of the year. Accordingly, the fitting-out works market is expected to experience stable growth.

BUSINESS REVIEW

The Group is one of the leading integrated fitting-out contractors in Hong Kong, Macau and the PRC, 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.

Benefitting from the economic growth, the Group continued to deliver solid financial performance during the Period. With its established reputation, proven track record and long working relationships with customers, the Group obtained several sizeable new fitting-out projects during the Period. These new projects will ensure 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, Macau and the PRC. 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 eight fitting-out projects, including one, three and four projects in Hong Kong, Macau and the PRC, respectively, with the individual contract sum being not less than HK\$50.0 million. The total contract sum of those projects amounted to HK\$2,048.5 million, out of which a total revenue of HK\$321.9 million was recognised during the Period. As at 30 June 2018, the Group had 49 projects on hand (including contracts in progress and signed contracts yet to commence), including 25, five and 19 projects in Hong Kong, Macau and the PRC, respectively, with the individual contract sum being not less than HK\$50.0 million. The total contract sum and the value of the remaining works for such projects as at 30 June 2018 amounted to approximately HK\$7,391.7 million and HK\$3,849.7 million, respectively.

During the Period, the Group's revenue derived from its fitting-out business increased by HK\$226.5 million or 12.3% year-on-year to HK\$2,063.3 million (Previous Period: HK\$1,836.8 million). Such increase was primarily attributable to (i) the recovery of Macau's construction market where the gross floor area of new buildings constructed has increased by 28.0% year-on-year in the first six months of 2018; and (ii) a relatively low revenue in the Previous Period as a result of the delay in progress of some projects in Macau, and thus leading to the increase in the Group's revenue derived from its fitting-out business during the Period.

The Group's gross profit derived from its fitting-out business during the Period increased by HK\$54.3 million or 20.8% year-on-year to HK\$315.3 million (Previous Period: HK\$261.0 million). The increase in gross profit was attributable to the increase in revenue and slight increase of gross profit margin for its fitting-out business from 14.2% for the Previous Period to 15.3% for the Period.

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 10 alteration and addition and construction projects, with a total contract sum of HK\$254.1 million, out of which a total revenue of HK\$36.4 million was recognised during the Period. As at 30 June 2018, Kin Shing had 13 projects on hand with a total contract sum of approximately HK\$2,440.8 million. The value of the remaining works for those projects as at 30 June 2018 amounted to approximately HK\$950.7 million.

During the Period, the Group's revenue derived from its alteration and addition and construction business increased by HK\$281.5 million or 80.9% year-on-year to HK\$629.6 million (Previous Period: HK\$348.1 million). Such increase primarily resulted from two projects located in Chai Wan and Ting Kau, which commenced in the second half of 2017 and were almost completed during the Period.

The Group's gross profit derived from its alteration and addition and construction business increased by HK\$9.2 million or 74.2% year-on-year to HK\$21.6 million (Previous Period: HK\$12.4 million), whilst the gross profit margin remained stable at 3.4% (Previous Period: 3.6%).

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 increased by HK\$0.8 million or 8.1% year-on-year to HK\$10.7 million (Previous Period: HK\$9.9 million). Such increase was primarily attributable to the increase in sales of wooden furniture to Hong Kong.

In addition, the Group's gross profit derived from its manufacturing, sourcing and distribution of interior decorative materials business decreased by HK\$4.2 million or 82.4% year-on-year to HK\$0.9 million (Previous Period: HK\$5.1 million), whilst the gross profit margin decreased to 8.4% (Previous Period: 51.5%). Such decrease was primarily due to completion of an order from the Philippines with relatively high gross profit margin in the Previous Period.

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

During the Period, the Group's revenue increased by HK\$508.8 million or 23.2% year-on-year to HK\$2,703.6 million (Previous Period: HK\$2,194.8 million). The Group's gross profit increased by HK\$59.3 million or 21.3% year-on-year to HK\$337.8 million (Previous Period: HK\$278.5 million). The Group's gross profit margin remained stable at 12.5% (Previous Period: 12.7%). Such increase in revenue was primarily due to the increase in its alteration and addition and construction business in Hong Kong and fitting-out business in Macau as discussed under the paragraph headed "Business review" in this announcement.

Other income, other gains and losses

The Group recorded other income, other gains and losses of HK\$27.6 million for the Period (Previous Period: HK\$10.9 million), which were primarily derived from a compensation received from the landlord for relocation of the Group's Shanghai office amounting to HK\$16.3 million. The Group's new Shanghai office commenced operations in June 2018.

Profit for the period

The Group's profit for the period increased by HK\$32.5 million or 18.6% year-on-year to HK\$206.9 million (Previous Period: HK\$174.4 million) as a result of the increase in gross profit as discussed above. However, it was partially offset by an increase in administrative expenses.

Basic earnings per share

The Company's basic earnings per share for the Period was HK9.59 cents (Previous Period: HK8.08 cents), increased by HK1.51 cents or 18.7% year-on-year and was in line with the increase in profit for the period. Details of earnings per share are set out in note 8 to the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income of this announcement.

Material acquisition and disposal

No material acquisition and disposal of subsidiaries were conducted by the Group during the Period.

Investments

Financial assets at FVTPL/AFS investments

As at 30 June 2018, the Group's financial assets at FVTPL/AFS investments comprised of HK\$153.2 million and HK\$127.3 million (31 December 2017: HK\$126.4 million and HK\$125.8 million) of listed equity securities and unlisted equity fund, respectively.

During the Period, the Group purchased HK\$27.4 million of listed equity securities and disposed of HK\$9.8 million of listed equity securities. Further, the Group recognised a net fair value gain of HK\$9.2 million in profit or loss compared to that as at 31 December 2017. Up to the date of this announcement, there was a decline in the value of certain listed equity securities as the market price of those listed equity securities held by the Group retreated.

Note receivable

During the Period, the Group subscribed for a short term note matured on 18 October 2018 with a fixed interest rate of 3.0% per annum at a consideration of HK\$30.0 million.

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 will 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 the financial and operational risks it is exposed to. During the Period, the Group mainly relies on internally generated funds, bank and other borrowings to finance its operations.

The Group continued to maintain a solid financial and cash position. As at 30 June 2018, the Group's working capital stood at HK\$1,725.4 million, representing an increase of HK\$123.6 million from HK\$1,601.8 million as recorded as at 31 December 2017. Bank balances and cash in total amounted to HK\$273.7 million, representing a decrease of HK\$354.0 million from HK\$627.7 million as recorded as at 31 December 2017. Such decrease was mainly due to the decrease in trade and other payables and bank borrowings.

As at 30 June 2018, the Group had bank borrowings and other borrowings of HK\$151.3 million and HK\$52.2 million, respectively (31 December 2017: HK\$307.6 million and HK\$34.1 million, respectively), of which HK\$113.5 million, HK\$60.0 million and HK\$30.0 million (31 December 2017: HK\$221.7 million, HK\$60.0 million and HK\$60.0 million) will be repayable within one year, one to two years and three to five years, respectively.

The Group continued to maintain a healthy liquidity position. As at 30 June 2018, the Group's current assets and current liabilities amounted to HK\$3,943.5 million and HK\$2,218.1 million, respectively (31 December 2017: HK\$4,447.2 million and HK\$2,845.4 million, respectively). The Group's current ratio increased slightly to 1.8 times (31 December 2017: 1.6 times) and it has maintained sufficient liquid assets to finance its operations.

As at 30 June 2018, the Group's gearing ratio of total debts divided by total equity was 9.3% (31 December 2017: 16.8%). The decrease in gearing ratio was primarily due to the net decrease in the Group's borrowings.

As at 30 June 2018, the share capital and equity attributable to owners of the Company amounted to HK\$1,246.8 million and HK\$2,189.4 million, respectively (31 December 2017: HK\$1,246.8 million and HK\$2,031.8 million, respectively).

Charge on the Group's assets

As at 30 June 2018, the Group had pledged financial assets at FVTPL and bank deposits of HK\$153.2 million and HK\$24.4 million, respectively (31 December 2017: HK\$126.4 million and HK\$63.3 million, respectively) to secure other borrowings, certain performance bonds, certain advance payment bonds, certain tender bonds and certain bills payable for its operations.

Contingent liabilities and capital commitments

The Group did not have any significant contingent liabilities as at 30 June 2018 and 31 December 2017, respectively.

As at 30 June 2018, the Group had capital commitments of HK\$0.9 million in relation to acquisition of property, plant and equipment (31 December 2017: HK\$2.1 million) and HK\$20.7 million in relation to contribution to the capital of equity fund (31 December 2017: HK\$22.2 million).

Exposure to fluctuations in exchange rates and interest rates and corresponding hedging arrangements

The Group operates in various regions with different foreign currencies including Macau Pataca, Euro, RMB and United States Dollars. The Group's bank borrowings were made at floating rates. As at the date of this announcement, the Group had not implemented any foreign currencies and interest rates hedging policies. However, the Group's management will closely monitor exchange rate and interest 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 disclosed below, the Group was not exposed to any significant credit risk during the Period. 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.

In 2016, a dispute between the Group and a main contractor of two fitting-out projects undertaken by the Group for a hotel in Macau regarding amounts receivable in respect of such projects had arisen and the parties have almost agreed on the settlement during the Period.

EVENTS AFTER THE REPORTING PERIOD

Since 5 July 2018, the ordinary shares of Steve Leung Design Group Limited, a subsidiary of an associate of the Group, have been listed and traded on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Save as disclosed herein, there are no other significant events subsequent to 30 June 2018 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 2018, the Group employed 1,401 full-time employees (31 December 2017: 1,475). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Discretionary bonuses and share options may 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\$198.0 million for the Period (Previous Period: HK\$154.9 million). The increase in gross staff costs was mainly attributable to the increase of number of full-time employees.

PROSPECTS AND STRATEGIES

The Hong Kong property market is expected to maintain its positive development momentum in the first half of 2018, benefitting from a strong local consumption, rebound of the number of visitors in Hong Kong and a very low level of unemployment rate. The market holds an optimistic atmosphere. Moreover, following the proposed implementation of tax on vacant first-hand private residential properties, the real estate developers in the second half of 2018 may accelerate the sales of new properties. In addition, Hong Kong’s strategic position in the Guangdong-Hong Kong-Macao Greater Bay Area, along with the development of the Hong Kong-Zhuhai-Macao Bridge, the Shenzhen-Hong Kong high-speed rail and the Lok Ma Chau Loop, will also bring more development opportunities to Hong Kong’s real estate and construction industry. The Group believes that there is bright market prospect.

The Hong Kong-Zhuhai-Macao Bridge will commence operation soon. The government of Macau’s support policies for small and medium-sized enterprises over the years will play a positive role in promoting Macau’s economy. In addition to the benefits to the gaming industry and the tourism industry, Macau is positioned in the Guangdong-Hong Kong-Macao Greater Bay Area as “the World Tourism and Leisure Center”. Apart from visitors from the Mainland China, it will also be promoted to visitors from Asia, Europe, the United States, Australia and New Zealand. Macau’s economy is expected to be strengthened by its active cooperation with other cities in Guangdong-Hong Kong-Macao Greater Bay Area. The Group will seize the opportunities brought to the real estate, construction and decoration industry by the gaming, tourism, hotel and exhibition industry in Macau.

According to the information from China International Capital Corporation Limited, the fundamentals of the real estate industry in the PRC are stable, and the growth rate of the national sales area will increase steadily in the second half of 2018. The performance of the first- and second-tier markets will be better than that of the third- and fourth-tier market. It is expected that revenue of the leading real estate companies will grow at a rate of 30%-40% this year. The PRC's domestic consumption will also maintain its growth momentum in the second half of the year. The Group strives to expand its business in the PRC riding on the growth of the real estate market in the future.

Looking ahead, the Group will continue to benefit from the opportunities in Hong Kong, Macau and the PRC. With the policy of the PRC's "One Belt, One Road" and Guangdong-Hong Kong-Macau Greater Bay Area, the Group will also build a one-stop construction industry chain in Hong Kong and Macau. The business model with continuous optimisation and integration will be developed. The Group will also combine the advantages of different regions to continuously improve product and services in the future, strictly control the quality of fitting-out projects, expand business and enhance profitability to create more value for the shareholders of the Company (the "**Shareholders**").

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

Pursuant to a meeting held on 28 August 2018, the Board has resolved to declare an interim dividend of HK2 cents per Share (the "**Interim Dividend**") for the Period, amounting to approximately HK\$43.2 million. The Interim Dividend is payable to the Shareholders whose names appear on the register of members of the Company at the close of business on 14 September 2018. The Interim Dividend will be paid on or about 26 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 September 2018 to 14 September 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the Interim Dividend, all transfers 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 Tuesday, 11 September 2018.

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

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

CORPORATE GOVERNANCE

The Company is committed to achieving and 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 Corporate Governance Code 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. The non-executive Director and one independent non-executive Director were absent from the last annual general meeting of the Company held on 31 May 2018 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 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 with 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 policies 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, 28 August 2018

As of the date of this announcement, the executive Directors are Mr. NG Tak Kwan, Mr. LEUNG Kai Ming, Mr. XIE Jianyu and Mr. NG Chi Hang; 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.