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SFK Construction Holdings Limited

新福港建設集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1447)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

The board (the “Board”) of directors (the “Directors”) of SFK Construction Holdings Limited (the “Company”) hereby presents the consolidated annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2020 (the “Year” or “2020”), together with the comparative figures for the year ended 31 December 2019 (“2019”) as follow:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Revenue	3	3,772,118	5,461,871
Direct costs		<u>(3,812,035)</u>	<u>(5,386,722)</u>
Gross (loss)/profit		(39,917)	75,149
Other revenue		95,847	2,609
Other net loss		(7,433)	(530)
Administrative expenses		<u>(78,168)</u>	<u>(84,068)</u>
Loss from operations		(29,671)	(6,840)
Finance costs		(12,052)	(19,409)
Share of results of a joint venture		<u>1,343</u>	<u>(6,750)</u>
Loss before taxation		(40,380)	(32,999)
Income tax	4	<u>21,406</u>	<u>3,597</u>
Loss for the year		<u>(18,974)</u>	<u>(29,402)</u>
Attributable to:			
Equity shareholders of the Company		(19,027)	(28,827)
Non-controlling interests		<u>53</u>	<u>(575)</u>
Loss for the year		<u>(18,974)</u>	<u>(29,402)</u>
Loss per share — Basic/Diluted	5	<u>(4.8) cents</u>	<u>(7.2) cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

(Expressed in Hong Kong dollars)

	2020	2019
	\$'000	\$'000
Loss for the year	(18,974)	(29,402)
Other comprehensive income for the year (after tax)		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	<u>390</u>	<u>(209)</u>
Total comprehensive income for the year	<u>(18,584)</u>	<u>(29,611)</u>
Attributable to:		
Equity shareholders of the Company	(18,649)	(29,035)
Non-controlling interests	<u>65</u>	<u>(576)</u>
Total comprehensive income for the year	<u>(18,584)</u>	<u>(29,611)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

(Expressed in Hong Kong dollars)

	<i>Note</i>	2020 \$'000	2019 \$'000
Non-current assets			
Property, plant and equipment		95,670	110,296
Goodwill		1,209	1,209
Deferred tax assets		60,448	39,049
		<u>157,327</u>	<u>150,554</u>
Current assets			
Contract assets		1,115,690	1,422,493
Trade and other receivables	6	400,389	514,244
Amount due from a joint venture		4,107	3,010
Current tax recoverable		4,726	2,685
Pledged deposits		20,113	25,125
Cash and cash equivalents		449,827	263,505
		<u>1,994,852</u>	<u>2,231,062</u>
Current liabilities			
Interest in a joint venture		18,121	19,464
Contract liabilities		189,103	118,191
Trade and other payables	7	1,273,637	1,307,142
Bank loans	8	200,417	408,464
Lease liabilities		27,306	17,908
Current tax payable		1,853	8,025
		<u>1,710,437</u>	<u>1,879,194</u>
Net current assets		<u>284,415</u>	<u>351,868</u>
Total assets less current liabilities		<u>441,742</u>	<u>502,422</u>

	<i>Note</i>	2020 \$'000	2019 \$'000
Non-current liabilities			
Lease liabilities		40,057	49,711
Deferred tax liabilities		4,100	4,542
		<u>44,157</u>	<u>54,253</u>
NET ASSETS		<u>397,585</u>	<u>448,169</u>
CAPITAL AND RESERVES			
Share capital	<i>10</i>	40,000	40,000
Reserves		357,659	408,308
Total equity attributable to equity shareholders of the Company		397,659	448,308
Non-controlling interests		<u>(74)</u>	<u>(139)</u>
TOTAL EQUITY		<u>397,585</u>	<u>448,169</u>

Notes:

1 GENERAL INFORMATION

SFK Construction Holdings Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) are principally engaged in construction and maintenance projects in Hong Kong, construction projects in Macau, housing and property management services in Hong Kong and the People’s Republic of China (the “PRC”) and electrical and mechanical engineering services in Hong Kong. The Company was incorporated in Bermuda on 17 October 2007 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The Company’s shares were listed on The Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 10 December 2015.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Statement of compliance

The financial information set out in this announcement does not constitute the Group’s consolidated financial statements for the year ended 31 December 2020 but are extracted from those financial statements.

The Group’s consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Group’s consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries and the Group’s interest in a joint venture.

The measurement basis used in the preparation of these financial statements is the historical cost basis except that derivative financial instruments are stated at their fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) **Changes in accounting policies**

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

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

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

3 REVENUE AND SEGMENT REPORTING

(a) **Revenue**

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

(i) *Disaggregation of revenue*

Disaggregation of revenue from contracts with customers within the scope of HKFRS 15 by major service lines is as follows:

	2020	2019
	\$'000	\$'000
Disaggregated by major service lines		
— General building	2,908,809	4,288,187
— Civil engineering	648,803	988,803
— Housing management services	81,604	80,888
— Others	132,902	103,993
	<u>3,772,118</u>	<u>5,461,871</u>

(ii) *Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date*

As at 31 December 2020, the aggregated amount of revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at the reporting date is \$4,362,943,000 (2019: \$4,725,866,000). This analysis is solely for compliance with HKFRS 15 disclosure requirement in respect of transaction price allocated to the remaining performance obligations. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 60 months (2019: next 60 months).

The Group applies the practical expedient in paragraph 121 of HKFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations for contracts with an original expected duration of one year or less. In addition, contracts that include a promise to perform an undefined quantity of tasks at a fixed contractual rate per unit, with no contractual minimums that would make some or all of the consideration fixed, are not included as the possible transaction prices and the ultimate consideration for those contracts will depend on the occurrence or non-occurrence of future customer usage.

(b) Segment reporting

The Group manages its businesses by segments, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments.

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

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of deferred tax assets, current tax recoverable and other corporate assets. Segment liabilities include trade creditors, accruals, lease liabilities and other current and non-current liabilities attributable to the business activities of the individual segments.

Segment result includes revenue and expenses that are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

In addition, management is provided with segment information concerning revenue, share of results of a joint venture, depreciation, additions to non-current segment assets used by the segments in their operations and share of net liabilities in a joint venture. Inter-segment sales are priced with reference to prices charged to external price for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for each of the year ended 31 December 2020 and 2019 is set out below.

For the year ended 31 December 2020

	General building \$'000	Civil engineering \$'000	Others \$'000	Total \$'000
Reportable segment revenue (recognised over time)	<u>2,908,809</u>	<u>648,803</u>	<u>214,506</u>	<u>3,772,118</u>
Reportable segment profit/(loss)	<u>100,123</u>	<u>(71,966)</u>	<u>21,637</u>	<u>49,794</u>
Other revenue and other net income				(777)
Depreciation				(13,302)
Finance costs				(11,475)
Unallocated head office and corporate expenses				<u>(64,620)</u>
Consolidated loss before taxation				<u>(40,380)</u>
Share of results of a joint venture	<u>1,343</u>	<u>–</u>	<u>–</u>	<u>1,343</u>
Depreciation for the year	<u>21,062</u>	<u>3,326</u>	<u>2,527</u>	<u>26,915</u>
Reportable segment assets	<u>1,127,119</u>	<u>376,451</u>	<u>57,208</u>	<u>1,560,778</u>
Deferred tax assets				60,448
Current tax recoverable				4,726
Unallocated head office and corporate assets				<u>526,227</u>
Consolidated total assets				<u>2,152,179</u>
Additions to non-current segment assets during the year	<u>22,774</u>	<u>273</u>	<u>1,218</u>	<u>24,265</u>
Reportable segment liabilities (including interest in a joint venture)	<u>1,104,361</u>	<u>310,745</u>	<u>15,801</u>	<u>1,430,907</u>
Current tax payable				1,853
Deferred tax liabilities				4,100
Unallocated head office and corporate liabilities				<u>317,734</u>
Consolidated total liabilities				<u>1,754,594</u>
Share of net liabilities in a joint venture	<u>18,121</u>	<u>–</u>	<u>–</u>	<u>18,121</u>

For the year ended 31 December 2019

	General building \$'000	Civil engineering \$'000	Others \$'000	Total \$'000
Reportable segment revenue (recognised over time)	<u>4,288,187</u>	<u>988,803</u>	<u>184,881</u>	<u>5,461,871</u>
Reportable segment profit/(loss)	<u>62,632</u>	<u>(71)</u>	<u>5,666</u>	68,227
Other revenue and other net income				309
Depreciation				(13,680)
Finance costs				(19,409)
Unallocated head office and corporate expenses				<u>(68,446)</u>
Consolidated loss before taxation				<u>(32,999)</u>
Share of results of a joint venture	<u>(6,750)</u>	<u>–</u>	<u>–</u>	<u>(6,750)</u>
Depreciation for the year	<u>15,308</u>	<u>2,545</u>	<u>2,536</u>	<u>20,389</u>
Reportable segment assets	<u>1,402,714</u>	<u>524,133</u>	<u>52,815</u>	1,979,662
Deferred tax assets				39,049
Current tax recoverable				2,685
Unallocated head office and corporate assets				<u>360,220</u>
Consolidated total assets				<u>2,381,616</u>
Additions to non-current segment assets during the year	<u>8,175</u>	<u>3,518</u>	<u>2,379</u>	<u>14,072</u>
Reportable segment liabilities (including interest in a joint venture)	<u>1,014,307</u>	<u>347,129</u>	<u>19,439</u>	1,380,875
Current tax payable				8,025
Deferred tax liabilities				4,542
Unallocated head office and corporate liabilities				<u>540,005</u>
Consolidated total liabilities				<u>1,933,447</u>
Share of net liabilities in a joint venture	<u>19,464</u>	<u>–</u>	<u>–</u>	<u>19,464</u>

(ii) **Geographic information**

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

4 INCOME TAX

Taxation in the consolidated income statement represents:

	2020 \$'000	2019 \$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	481	1,027
Over provision in respect of prior years	(46)	(150)
	<u>435</u>	<u>877</u>
Deferred tax		
Origination and reversal of temporary differences	(21,841)	(4,474)
	<u>(21,406)</u>	<u>(3,597)</u>

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rates regime.

For this subsidiary, the first \$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated on the same basis in 2019.

5 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of \$19,027,000 (2019: \$28,827,000) and 400,000,000 shares (2019: 400,000,000 shares) in issue during the year.

(b) Diluted loss per share

There were no potential dilutive shares in existence during the years ended 31 December 2020 and 2019.

6 TRADE AND OTHER RECEIVABLES

	2020 \$'000	2019 \$'000
Trade debtors	373,590	457,079
Deposits, prepayments and other receivables	23,312	35,062
Amounts due from a joint operation partner (<i>note (i)</i>)	3,487	21,820
Derivative financial instrument	—	283
	<u>400,389</u>	<u>514,244</u>

Notes:

- (i) The amounts due from a joint operation partner are interest-free, unsecured and recoverable on demand.
- (ii) Except for the amounts of \$8,209,000 (2019: \$9,321,000) which are expected to be recovered after one year, all of the remaining balances of trade and other receivables are expected to be recovered within one year.

Ageing analysis

As at the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) is as follows:

	2020	2019
	\$'000	\$'000
Within 1 month	361,461	388,289
1 to 2 months	8,110	61,662
2 to 3 months	856	295
Over 3 months but within 6 months	3,163	6,833
	<u>373,590</u>	<u>457,079</u>

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or region in which the customers operate and therefore significant concentration of credit risk primarily arise when the Group has significant exposure to individual customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors are due within 14–45 days from the date of billing. Normally, the Group does not obtain collateral from customers.

7 TRADE AND OTHER PAYABLES

	2020	2019
	\$'000	\$'000
Trade creditors	238,852	354,720
Accruals and other payables	652,627	565,393
Amounts due to joint operation partners (<i>note (i)</i>)	1,062	1,062
Provision for construction works (<i>note (ii)</i>)	34,594	24,288
Retentions payable	340,335	361,679
Derivative financial instruments	6,167	–
	<u>1,273,637</u>	<u>1,307,142</u>

Notes:

- (i) The amounts due to joint operation partners are interest-free, unsecured and repayable on demand.
- (ii) As at 31 December 2020 and 2019, the Group recognises provision for construction works when the unavoidable costs of meeting the performance obligations under the construction contracts exceed the economic benefits expected to be received from the contracts. The amount of the provision is measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract. The amount of provision is reviewed on an ongoing basis.
- (iii) Except for the amounts of \$132,533,000 (2019: \$116,846,000), all of the remaining balances of trade and other payables are expected to be settled within one year.

Ageing analysis

As at the end of the reporting period, the ageing analysis of trade creditors, based on the invoice date, is as follows:

	2020 \$'000	2019 \$'000
Within 1 month	139,171	262,868
1 to 2 months	76,651	55,886
2 to 3 months	12,858	16,462
Over 3 months	10,172	19,504
	238,852	354,720

8 BANK LOANS

	2020 \$'000	2019 \$'000
Bank loans, repayable within 1 year — Unsecured	200,417	408,464

- (a) As at 31 December 2020, the bank loans bear interest ranging from 1.63% to 1.69% (2019: 3.75% to 5.45%) per annum.
- (b) As at 31 December 2020 and 2019, the banking facilities (including bank loans and performance bonds) granted to the Group, the Group's joint operations and the Group's joint venture jointly were secured by:
 - (i) Assignment of project proceeds from certain construction contracts of the Group, the Group's joint operations and the Group's joint venture;
 - (ii) Pledged deposits of the Group of \$20,113,000 (2019: \$25,125,000);
 - (iii) Corporate guarantees provided by a subsidiary and the joint venture partner, personal properties and pledged deposits owned by the joint venture partner; and
 - (iv) Corporate guarantees provided by the Company and cross corporate guarantees provided by the Company and certain subsidiaries.

9 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year:

	2020	2019
	\$'000	\$'000
Interim dividend declared and paid of 4.0 cents (2019: Nil) per ordinary share	16,000	–
Final dividend proposed after the end of the reporting period of 8.0 cents (2019: 4.0 cents) per ordinary share	32,000	16,000
	<u>48,000</u>	<u>16,000</u>

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

10 SHARE CAPITAL

	2020		2019	
	No. of shares	Amount	No. of shares	Amount
		\$		\$
Authorised:				
Ordinary shares of \$0.1 each				
At 1 January and 31 December	<u>10,000,000,000</u>	<u>1,000,000,000</u>	<u>10,000,000,000</u>	<u>1,000,000,000</u>
Issued and fully paid:				
Ordinary shares of \$0.1 each				
At 1 January and 31 December	<u>400,000,000</u>	<u>40,000,000</u>	<u>400,000,000</u>	<u>40,000,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's revenue for the Year decreased by 30.94% to HK\$3,772.12 million (2019: HK\$5,461.87 million). The Group recorded a net loss attributable to equity shareholders of the Company of HK\$19.03 million in the Year (2019: a net loss of HK\$28.83 million). The results for the Year were adversely affected by a number of factors. Certain projects with relatively high profit margin were completed or nearly completed in both 2019 and 2020 resulting in a reduction of contributions to revenue and profit by such projects for the Year. In addition, the outbreak of COVID-19 decelerated the progress of existing projects, resulting in a reduction in revenue, an increase in project overhead costs and subcontracting costs and hence a reduction in gross profit for those projects. The competition across the construction market remained intense, leading to a decrease in revenue and an increase in overall operating costs during the Year.

Major projects awarded and undertaken in 2020

During the Year, we were awarded 9 projects as a main contractor in Hong Kong (out of which 2 and 7 are from the public sector and private sector, respectively), with total original contract sum of approximately HK\$1,933 million. The table below sets out the summary of our construction and maintenance projects for general building and civil engineering works that were awarded during the Year:

	Number of projects	Total original contract sum <i>(approximate HK\$'million)</i>
Original contract sum at or above HK\$500 million	1	1,911
Original contract sum below HK\$500 million but at or above HK\$200 million	Nil	Nil
Original contract sum below HK\$200 million but at or above HK\$50 million	Nil	Nil
Original contract sum less than HK\$50 million	8	22
	<u>9</u>	<u>1,933</u>

As at 31 December 2020, we had a total of 12 projects for general building works and 15 projects for civil engineering works on hand. The total original contract sum of these projects was approximately HK\$12 billion. The outstanding value (defined as the difference between revenue recognised and the original contract sum) of our ongoing projects as at 31 December 2020 was approximately HK\$5.3 billion. The following table sets forth the particulars of some of the sizeable construction and maintenance projects for general building works and civil engineering works awarded and undertaken by us as a main contractor and remained ongoing as at 31 December 2020:

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum	Revenue recognised during the financial year 2020
				(approximate HK\$'million)	(approximate HK\$'million)
Maintenance of properties managed by the Architectural Services Department	General building works — maintenance project	Alterations, additions, maintenance and repair of buildings and lands and properties in (i) Hong Kong Island Eastern and Outlying Islands (South); and (ii) Hong Kong Island Western, Southern and Lantau Island for which Architectural Services Department (Property Services Branch) is responsible	March 2021	1,471.8	421.9
Site Formation and Infrastructure Works for Civil Engineering and Development Department	Civil engineering works	Site formation and infrastructure works for development at Kam Tin South, Yuen Long — Advance works	July 2021	409.0	84.3
Maintenance of properties managed by the Housing Authority	General building works — maintenance project	Maintenance, improvement and vacant flat refurbishment for properties in (i) Wong Tai Sin, Tsing Yi and Tsuen Wan; and (ii) Hong Kong Island & Islands	September 2021	863.2	289.8
Piers maintenance for Civil Engineering and Development Department	Civil engineering works — maintenance project	To carry out maintenance works for piers	March 2022	150.1	57.0
Design and Construction managed by the Architectural Services Department	General building works — maintenance project	Design and Construction of Minor Works to Government and Subvented Properties for Architectural Services Department — New Territories and Outlying Islands (North)	August 2022	531.1	155.3
Construction of Public Rental Housing Development and Subsidised Sale Flats Development of the Housing Authority	General building works	Construction of Public Rental Housing Development and Subsidised Sale Flats Development	October 2022	3,740.0	859.7

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum	Revenue recognised during the financial year 2020
				(approximate HK\$'million)	(approximate HK\$'million)
Construction of Subsidised Sale Flats Development of the Housing Authority	General building works	Construction of Subsidised Sale Flats	October 2022	1,911.0	298.4
Management and maintenance of roads in Kowloon East for the Highways Department	Civil engineering works — maintenance project	Management and maintenance of public roads, including associated slopes, highway structures, tunnels, landscaping and minor improvement works, in Kowloon East but excluding Expressways and High Speed Roads	March 2024	482.6	256.3
Electrical and Mechanical Works for Sewage Treatment Facilities of the Drainage Services Department	Civil engineering works	Electrical and Mechanical works for sewage treatment facilities in Shek Wu Hui Effluent Polishing Plant (Main Works Stage 1)	May 2024	557.6	21.5
Three Runway System Project for the Hong Kong International Airport	General building works	Building and Civil Works for New Integrated Airport Centres	September 2024	440.7	89.3

Major projects completed in 2020

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

Project type	Business segment	Scope of works	Original contract period	Original contract sum	Revenue recognised during the financial year 2020
				(approximate HK\$'million)	(approximate HK\$'million)
Main contract for the Park for the West Kowloon Cultural District Authority	General building works	Construction of the Art Park in West Kowloon Cultural District	July 2016 to December 2018***	1,140.2	64.1

Project type	Business segment	Scope of works	Original contract period	Revenue recognised during the financial year 2020	
				Original contract sum (approximate HK\$'million)	(approximate HK\$'million)
Proposed subsidised housing development of the Hong Kong Housing Society	General building works	To build a 31-storey residential block, a single storey commercial block, an open car park and slope improvement	June 2017 to June 2019***	464.0	4.3
Kai Tak Development for Civil Engineering and Development Department	Civil engineering works	Infrastructure works for developments at the southern part of the former runway	November 2015 to September 2019***	1,947.0*1	48.5**
Construction of Public Rental Housing Development of the Housing Authority	General building works	Construction of Public Rental Housing Development	August 2017 to December 2019***	707.0	73.2
Construction of Subsidised Sale Flats Development of the Housing Authority	General building works	Construction of Subsidised Sale Flats Development	November 2017 to February 2020	513.0	88.9
Main Contract for Global Graduate Tower of the Hong Kong University of Science and Technology (“HKUST”)	General building works	Construction of Global Graduate Tower in HKUST	December 2017 to February 2020	316.4	108.3
Works Contract for the M+ Waterfront Promenade of the West Kowloon Cultural District Authority	General building works	Construction of M+ Waterfront Promenade	January 2018 to February 2020	69.7	28.8
Maintenance of hydraulic and pumping system and buildings managed by the Airport Authority	General building works — maintenance project	Maintenance, improvement and refurbishment for hydraulic and pumping system and various buildings managed by the Airport Authority	January 2015 to March 2020	221.8	6.0
Maintenance of properties managed by the Housing Authority	General building works — maintenance project	Maintenance, improvement and vacant flat refurbishment for properties managed by the Housing Authority in Tuen Mun and Yuen Long	April 2017 to March 2020	246.7	26.0
Infrastructure Works for Architectural Services Department	General building works	Construction of Station Square at Kai Tak (Phase 1)	February 2019 to November 2020	283.6*2	55.1**

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

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

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

*** The original contract completion date was postponed and the contract was completed during the year ended 31 December 2020.

A majority of our revenue is generated from our general building and civil engineering works. During the Year, the revenue attributable to our general building and civil engineering business amounted to HK\$2,908.81 million and HK\$648.80 million (2019: HK\$4,288.19 million and HK\$988.80 million), respectively, representing approximately 77.11% and 17.20% (2019: 78.51% and 18.10%), respectively, of the total revenue of the Group for the Year.

During the Year, other than general building and civil engineering works, we also provided other services which comprised mainly housing and property management services (such as the provision of cleaning services and security management services), electrical and mechanical engineering services and BIM services to real estates in Hong Kong and the PRC. Revenue attributable to these other services amounted to approximately 5.69% of the total revenue of the Group for the Year (2019: 3.39%).

Award of Contract after the Reporting Period

The Group has been awarded and undertaken the following contract for general building works after the reporting period and the table below sets forth the particulars of the project:

Project type	Business segment	Scope of works	Contract period	Original contract sum (approximate HK\$'million)
Infrastructure Works for Non-public Housing Facilities of Hong Kong Housing Authority	General Building Works	Non-public Housing Facilities – Transport Infrastructure Works, Water Feature Park and Landscaped Walk	March 2021 to December 2024	1,497
Maintenance of properties managed by the Architectural Services Department	General building works — Maintenance projects	Alterations, additions, maintenance and repair of buildings and lands and other properties in Hong Kong Island Western, Southern and Lantau Islands for which Architectural Services Department (Property Services Branch) is responsible	April 2021 to March 2025	830

Project type	Business segment	Scope of works	Contract period	Original contract sum (approximate HK\$'million)
Maintenance of properties managed by the Architectural Services Department	General building works — Maintenance projects	Alterations, additions, maintenance and repair of buildings and lands and other properties in Tuen Mun and Yuen Long for which Architectural Services Department (Property Services Branch) is responsible	April 2021 to March 2025	785

FINANCIAL REVIEW

Revenue

Our revenue decreased by approximately HK\$1,689.75 million, or approximately 30.94%, from HK\$5,461.87 million for 2019 to HK\$3,772.12 million for 2020. The decrease in our revenue was mainly due to the decrease in our revenue from general building business of HK\$1,379.38 million and the decrease in our revenue from civil engineering business of HK\$340.00 million.

Revenue from general building business decreased by approximately HK\$1,379.38 million, or approximately 32.17%, from HK\$4,288.19 million for 2019 to HK\$2,908.81 million for 2020. The decrease in revenue between years was primarily due to the completion of certain general building contracts, including mainly the construction of public rental housing developments for the Housing Authority, and a proposed subsidised housing development for the Hong Kong Housing Society. In addition, the outbreak of COVID-19 decelerated the progress of existing projects, resulting in a reduction in revenue between the years. This was partly offset by the increase in revenue between years in accordance with the work progress of other general building contracts, including the construction of a public rental housing development for the Housing Authority. In addition, the decrease in revenue between the years was also partly offset by the revenue recognised from certain new general building contracts awarded during the Year, including the construction of subsidised sale flats development for the Housing Authority.

Revenue from civil engineering business decreased by approximately HK\$340.00 million, or approximately 34.39%, from HK\$988.80 million for 2019 to HK\$648.80 million for 2020. The decrease in revenue between years was primarily due to the completion of certain civil engineering contracts, including the infrastructure works for developments at the southern part of the former runway at Kai Tak. This was partly offset by the increase in revenue between years in accordance with the work progress of other civil engineering contracts, including the management and maintenance of roads in Kowloon East for the Highways Department.

Revenue from other services (which mainly comprised housing and property management services, electrical and mechanical engineering services and BIM services) for 2020 amounted to HK\$214.51 million (2019: HK\$184.88 million), representing 5.69% (2019: 3.39%) of the total revenue of the Group.

Our business remained to be primarily focusing in the Hong Kong market during the Year.

Gross (loss)/profit and gross profit margin

The Group recorded a gross loss of HK\$39.92 million for the Year, as compared with a gross profit of HK\$75.15 million for 2019. The gross loss for the Year was mainly due to the combined effect of (i) a HK\$55.68 million loss for the Year in one of our civil engineering contracts (“Project A”) and (ii) a HK\$48.56 million loss in another civil engineering contract (“Project B”). The progress of Project A was negatively affected by the outbreak of COVID-19 pandemic, leading to a significant delay in the supply of materials and equipment, an increase in site overhead costs and subcontracting costs for Project A which could not be recovered. Project B encountered a significant delay in work progress due to unforeseeable circumstances, including the delay in obtaining approval for tree felling works. This resulted in an increase in overall construction and overhead costs for Project B which could not be recovered. In addition, the valuation of compensation events was also lower than expected for Project B, leading to a shortfall in estimated income.

Excluding the loss recorded for Project A and Project B, there was a decrease of approximately HK\$10.83 million or 14.41% in our overall gross profit between years. This was attributable to a number of factors, including the outbreak of COVID-19 which decelerated the progress of existing projects and intense competition across the construction market leading to a reduction in revenue, an increase in project overhead costs and subcontracting costs, and a reduction in gross profit in general.

The Group recorded a gross loss margin of -1.06% for 2020, compared to a gross profit margin of 1.38% for 2019. The overrun of subcontracting costs and overhead costs in certain civil engineering contracts negatively impacted the gross profit margin of the Group for 2020. In addition, the intense competition across the construction market in general led to an increase in the overall construction costs and affected the profitability.

Other revenue

Other revenue mainly consisted of interest income and sundry income. Our other revenue for 2020 amounted to HK\$95.85 million, which comprised a one-off lump sum government subsidy of approximately HK\$91.98 million under the Employment Support Scheme. Excluding the government subsidy, our other revenue for 2020 was about in line with that of HK\$2.61 million for 2019.

Other net loss

Our other net loss for 2020 amounted to HK\$7.43 million, compared to that of HK\$0.53 million for 2019. The difference was mainly due to the inclusion of a net realised and unrealised loss of HK\$7.73 million on interest rate swaps in 2020.

Administrative expenses

Administrative expenses mainly consisted of staff costs and rental charges. Our administrative expenses for 2020 amounted to HK\$78.17 million, compared to that of HK\$84.07 million for 2019. The decrease was mainly due to the decrease in staff costs between years.

Finance costs

Our finance costs for 2020 amounted to HK\$12.05 million, compared to that of HK\$19.41 million for 2019. The decrease was primarily associated with the decrease in bank interest expenses arising from the decrease in average bank loan balances and average interest rates.

Share of results of a joint venture

Our share of results of a joint venture for 2020 was a net profit of HK\$1.34 million, compared to that of a net loss of HK\$6.75 million for 2019. The net profit recorded in 2020 was mainly generated from certain casino and resort projects, whereas the net loss recorded in 2019 was mainly attributable to the losses recorded for one of the Cotai Resort projects.

Income tax

Our income tax for 2020 was a credit of HK\$21.41 million, compared to a credit of HK\$3.60 million for 2019. The net credit balance in 2020 was mainly explained by the recognition of deferred tax from tax losses in certain subsidiaries' books that are expected to be utilised in future years.

Loss attributable to the equity shareholders of the Company

Based on the above factors, there was a loss attributable to the equity shareholders of the Company amounting to HK\$19.03 million for 2020, compared to a loss attributable to the equity shareholders of the Company of HK\$28.83 million for 2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital Structure

As at 31 December 2020, the capital structure of the Group consisted of equity of HK\$397.59 million (2019: HK\$448.17 million) and bank loans of HK\$200.42 million (2019: HK\$408.46 million) as more particularly described in the paragraph headed "Borrowings" below.

Cash position and fund available

During the Year, the Group maintained a healthy liquidity position, with working capital being financed by our operating cash flows and bank borrowings. As at 31 December 2020, our cash and cash equivalents were HK\$449.83 million (2019: HK\$263.51 million).

As at 31 December 2020, the current ratio of the Group was 1.17 (2019: 1.19).

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

Borrowings

As at 31 December 2020, the Group had bank loans, which are repayable within one year, of approximately HK\$200.42 million (2019: HK\$408.46 million). As at 31 December 2020, the bank loans bear interest ranging from 1.63% to 1.73% (2019: 3.75% to 5.45%) per annum. The decrease in bank loans between years was mainly due to the improved liquidity position of the Group. The Group's net borrowings position (i.e. total borrowings minus total cash and cash equivalents) improved between years from a net borrowings position of HK\$145 million as at 31 December 2019 to a net cash position of HK\$249 million as at 31 December 2020.

As at 31 December 2020, the Group had approximately HK\$2,540 million (2019: HK\$2,205 million) of unutilised banking facilities in Hong Kong and Macau (including loans, letter of credit and letter of guaranteed facilities). All of the Group's banking facilities are subject to the fulfilment of certain covenants as are commonly found in lending arrangements with financial institutions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group remains in compliance with its loan covenants during the Year.

GEARING RATIO

As at 31 December 2020, the Group's gearing ratio was 50.41% (2019: 91.14%), calculated based on the interest-bearing borrowings divided by the total equity as at the respective year end.

NET CURRENT ASSETS

As at 31 December 2020, the Group had net current assets of HK\$284.42 million (2019: HK\$351.87 million).

The Board regularly reviewed the maturity analysis of the Group's contractual liabilities and concluded that the Group had no liquidity issue that may cast significant doubt on the Group's ability to continue as a going concern.

CAPITAL EXPENDITURES

The Group's capital expenditures primarily comprise purchase of plant and equipment, such as motor vehicles and equipment, which were funded, and are expected to continue to be funded, by internal resources and cash flow generated from our operation. For the Year, the Group has incurred HK\$2.36 million (2019: HK\$15.45 million) on acquiring items of plant and equipment.

FOREIGN EXCHANGE EXPOSURE

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

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

There were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Year and no future plan for material investments or capital assets as at 31 December 2020.

SIGNIFICANT INVESTMENTS HELD

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

FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

Save as disclosed below, the Group had no other financial guarantees and contingent liabilities as at 31 December 2020:

- (a) As at 31 December 2020, approximately HK\$271,757,000 (2019: HK\$387,310,000) of performance bonds were given by financial institutions to the Group in favour of the Group's customers as security for the due performance and observance of the Group's obligation under the contracts entered into between the Group and their customers. The Group has provided guarantees of the above performance bonds. If the Group fails to provide satisfactory performance to its customers to whom performance bonds have been given, such customers may demand the financial institutions to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such financial institutions accordingly. The performance bonds will be released upon completion of the contract works.

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

- (b) As at 31 December 2020, the Group has provided guarantees of HK\$141,544,000 (2019: HK\$166,447,000) representing a 50% proportionate guarantee in respect of certain banking facilities of HK\$283,087,000 (2019: HK\$332,893,000) granted to its joint venture in Macau. The 50% proportionate facilities were utilised to the extent of HK\$55,656,000 (2019: HK\$88,530,000), of which amounts of HK\$51,044,000 (2019: HK\$60,756,000) represent performance bonds given by financial institutions to the customers of the joint venture.
- (c) The Group has not recognised any deferred income in respect of these guarantees as their fair values cannot be reliably measured using observable market data and no transaction price was incurred.
- (d) The subsidiaries of the Group are defendants in a number of claims, lawsuits and potential claims relating to employee's compensation cases and personal injuries claims. The directors of the Company considered that the possibility of any economic outflow in settling the legal claims is remote as these claims are all well covered by insurance. Accordingly, no provision for the contingent liabilities in respect of these litigations is necessary, after due consideration of each case.

PLEDGE OF ASSETS

At 31 December 2020, the Group had pledged deposits, amounting to HK\$20.11 million (2019: HK\$25.13 million) and assignment of project proceeds from certain construction contracts of the Group, the Group's joint operations and the Group's joint venture to banks as security of banking facilities (including bank loans and performance bonds). Pledged deposits remained relatively stable between years.

CAPITAL COMMITMENTS

As at 31 December 2020, our Group did not have any capital commitments (2019: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group has 1,698 employees in Hong Kong, Macau and the PRC.

The Group entered into separate labour contracts with its employees in accordance with the applicable labour laws of Hong Kong, Macau and the PRC. The remuneration offered to employees generally includes salaries, medical benefits and bonus. Share options may also be granted to eligible employees. In general, the Group determines salaries of its employees based on each employee's qualification, position, seniority and experience.

FUTURE PROSPECTS

COVID-19 has caused significant adverse impact on local and global economy which is expected to continue in 2021. As such, we expect that contractors in Hong Kong, including the Group, will continue to have pressure on profit margins. However, we believe that the Hong Kong Government will take more relief measures to try to overcome the challenges and to alleviate the financial burden suffered by the businesses from the COVID-19 outbreak. Together with the Government's continued commitment and efforts in land development and provision of public housing in Hong Kong, the Board remains confident of the Group's future development and will continue to build on our existing competitive strengths to achieve our long term business objectives.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

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

According to code provision C.2.5 of the CG Code, the Company should have an internal audit function. The Company does not establish a standalone internal audit department, however, the Board has put in place adequate measures to perform the internal audit function in relation to different aspects of the Group. In 2020, the Company appointed an external internal control adviser to perform periodic review of our internal control system to evaluate the effectiveness and formulate plans and recommendations for improvement of our internal control measures and policies. It is intended to review the effectiveness of the Group's material internal controls so as to provide assurance that key internal control measures are carried out appropriately and are functioning as intended.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2020 and up to the date of this announcement.

AUDIT COMMITTEE REVIEW

The Company has established the audit committee (the "Audit Committee") on 19 November 2015 with written terms of reference in compliance with the Listing Rules as amended from time to time. The Audit Committee consists of three independent non-executive Directors. The Audit Committee has, inter alia, reviewed the consolidated financial statements of the Group for the Year, including the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group.

SCOPE OF WORK OF KPMG

The financial figures in respect of Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on Tuesday, 25 May 2021 (the "2021 AGM"). A notice convening the 2021 AGM will be published and despatched to the Shareholders in accordance with the bye-laws of the Company, the Listing Rules and other applicable laws and regulations.

FINAL DIVIDENDS

The Directors recommended the payment of a final dividend of HK8.0 cents per ordinary share of the Company (the "Share") for the Year (2019: HK4.0 cents per Share), amounting to HK\$32 million (2019: HK\$16 million). Such payment of dividends will be subject to the approval of the Shareholders at the 2021 AGM and if approved, will be payable to the Shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 3 June 2021. It is expected that the proposed final dividend will be paid on or about Thursday, 17 June 2021.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Thursday, 20 May 2021 to Tuesday, 25 May 2021 (both dates inclusive), during which no transfer of the Shares will be registered. Shareholders of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 18 May 2021.

In order to establish entitlements to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 2 June 2021 to Thursday, 3 June 2021 (both dates inclusive), during which no transfer of the Shares of the Company will be registered. Shareholders of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 1 June 2021.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

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 the shareholders of the Company, business associates and other professional parties for their continuous support to the Group throughout the Year.

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

Hong Kong, 25 March 2021

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