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SFK Construction Holdings Limited

新福港建設集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1447)

**ANNOUNCEMENT OF INTERIM CONSOLIDATED RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

The board (the “Board”) of directors (the “Directors”) of SFK Construction Holdings Limited (the “Company”) hereby announces the unaudited interim consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2021 (the “Period”), together with the comparative figures for the corresponding period in 2020 as follows:

CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2021 — unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	<i>Note</i>	2021	2020
		\$'000	\$'000
Revenue	3	1,460,430	1,591,854
Direct costs		<u>(1,409,307)</u>	<u>(1,585,533)</u>
Gross profit		51,123	6,321
Other revenue		2,055	5,673
Other net gain		2,582	64
Administrative expenses		<u>(42,507)</u>	<u>(39,001)</u>
Profit/(loss) from operations		13,253	(26,943)
Finance costs		(1,123)	(9,859)
Share of results of a joint venture		<u>(270)</u>	<u>—</u>
Profit/(loss) before taxation	4	11,860	(36,802)
Income tax	5	<u>(2,037)</u>	<u>6,601</u>
Profit/(loss) for the period		<u>9,823</u>	<u>(30,201)</u>
Attributable to:			
Equity shareholders of the Company		9,289	(30,478)
Non-controlling interests		<u>534</u>	<u>277</u>
Profit/(loss) for the period		<u>9,823</u>	<u>(30,201)</u>
Earnings/(loss) per share — Basic/Diluted	6	<u>2.32 cents</u>	<u>(7.62) cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021 — unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2021	2020
	\$'000	\$'000
Profit/(Loss) for the period	9,823	(30,201)
Other comprehensive income for the period (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>2</u>	<u>(168)</u>
Total comprehensive income for the period	<u>9,825</u>	<u>(30,369)</u>
Attributable to:		
Equity shareholders of the Company	9,291	(30,646)
Non-controlling interests	<u>534</u>	<u>277</u>
Total comprehensive income for the period	<u>9,825</u>	<u>(30,369)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021 — unaudited

(Expressed in Hong Kong dollars)

		30 June	31 December
		2021	2020
	<i>Note</i>	\$'000	\$'000
Non-current assets			
Property, plant and equipment	7	84,461	95,670
Goodwill		1,209	1,209
Deferred tax assets		59,692	60,448
		<u>145,362</u>	<u>157,327</u>
Current assets			
Contract assets		913,541	1,115,690
Trade and other receivables	8	252,762	400,389
Amount due from a joint venture		3,025	4,107
Current tax recoverable		2,818	4,726
Pledged deposits		20,113	20,113
Cash and cash equivalents	9	247,615	449,827
		<u>1,439,874</u>	<u>1,994,852</u>
Current liabilities			
Interest in a joint venture		18,391	18,121
Contract liabilities		210,778	189,103
Trade and other payables	10	848,584	1,273,637
Bank loans		65,282	200,417
Lease liabilities		25,153	27,306
Current tax payable		2,704	1,853
		<u>1,170,892</u>	<u>1,710,437</u>
Net current assets		<u>268,982</u>	<u>284,415</u>
Total assets less current liabilities		<u>414,344</u>	<u>441,742</u>

	30 June 2021 \$'000	31 December 2020 \$'000
	<i>Note</i>	
Non-current liabilities		
Lease liabilities	35,117	40,057
Deferred tax liabilities	3,817	4,100
	<u>38,934</u>	<u>44,157</u>
NET ASSETS	<u>375,410</u>	<u>397,585</u>
CAPITAL AND RESERVES		
Share capital	40,000	40,000
Reserves	334,950	357,659
Total equity attributable to equity shareholders of the Company	374,950	397,659
Non-controlling interests	460	(74)
TOTAL EQUITY	<u>375,410</u>	<u>397,585</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION AND BASIS OF PREPARATION

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

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

The interim results set out in this announcement do not constitute the Group’s interim financial report for the six months ended 30 June 2021 but are extracted from the interim financial report.

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

These unaudited consolidated interim financial statements have been approved for issue by the Board of Directors of the Company on 26 August 2021.

2 CHANGES IN ACCOUNTING POLICIES

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

- Amendment to HKFRS 16, *COVID-19-Related Rent Concessions*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform — Phase 2*

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

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

(b) Segment reporting

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

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

For the six months ended 30 June 2021

	General building \$'000	Civil engineering \$'000	Others \$'000	Total \$'000
Reportable segment revenue (recognised over time)	<u>1,190,900</u>	<u>183,469</u>	<u>86,061</u>	<u>1,460,430</u>
Reportable segment profit	<u>37,873</u>	<u>842</u>	<u>12,239</u>	<u>50,954</u>
Other revenue and other net gain				4,114
Depreciation				(6,486)
Finance costs				(824)
Unallocated head office and corporate expenses				<u>(35,898)</u>
Consolidated profit before taxation				<u>11,860</u>
Share of results of a joint venture	<u>(270)</u>	<u>–</u>	<u>–</u>	<u>(270)</u>
Depreciation for the period	<u>12,195</u>	<u>1,197</u>	<u>1,014</u>	<u>14,406</u>
Reportable segment assets	<u>877,691</u>	<u>263,437</u>	<u>33,901</u>	<u>1,175,029</u>
Deferred tax assets				59,692
Current tax recoverable				2,818
Unallocated head office and corporate assets				<u>347,697</u>
Consolidated total assets				<u>1,585,236</u>
Additions to non-current segment assets during the period	<u>6,088</u>	<u>539</u>	<u>1,099</u>	<u>7,726</u>
Reportable segment liabilities (including interest in a joint venture)	<u>835,912</u>	<u>163,640</u>	<u>13,883</u>	<u>1,013,435</u>
Current tax payable				2,704
Deferred tax liabilities				3,817
Unallocated head office and corporate liabilities				<u>189,870</u>
Consolidated total liabilities				<u>1,209,826</u>
Share of net liabilities in a joint venture	<u>18,391</u>	<u>–</u>	<u>–</u>	<u>18,391</u>

For the six months ended 30 June 2020

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

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

4 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2021	2020
	\$'000	\$'000
(a) Finance costs		
Interest on bank advances	334	9,062
Interest on lease liabilities	789	797
	<u>1,123</u>	<u>9,859</u>
(b) Staff costs		
Salaries, wages and other benefits	255,306	306,910
Contributions to defined contribution retirement plans	9,421	10,593
Less: Amount included in direct costs	<u>(245,095)</u>	<u>(298,095)</u>
	<u>19,632</u>	<u>19,408</u>
(c) Other items		
Depreciation charge		
— owned property, plant and equipment	7,159	7,831
— right-of-use assets	13,733	10,447
	<u>20,892</u>	<u>18,278</u>
Less: Amount included in direct costs	<u>(13,264)</u>	<u>(10,438)</u>
	<u>7,628</u>	<u>7,840</u>
Auditors' remuneration	<u>879</u>	<u>1,691</u>

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2021	2020
	\$'000	\$'000
Current tax — Hong Kong Profits Tax		
Provision for the period	1,538	1,176
Under/(over) provision in respect of prior periods	26	(20)
	<u>1,564</u>	<u>1,156</u>
Deferred tax		
Origination and reversal of temporary differences	473	(7,757)
	<u>2,037</u>	<u>(6,601)</u>

6 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of \$9,289,000 (30 June 2020: loss of \$30,478,000) and 400,000,000 shares (30 June 2020: 400,000,000 shares) in issue during the period.

(b) Diluted earnings/(loss) per share

There were no potential dilutive shares in existence during the six months ended 30 June 2021 and 2020.

7 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired items of plant and equipment with a cost of \$3,686,000 (30 June 2020: \$1,911,000). Additions to right-of-use assets amounted to \$6,419,000 (30 June 2020: \$3,430,000) during the six months ended 30 June 2021. Also, the Group disposed items of plant and equipment with a carrying amount of \$422,000 (30 June 2020: \$27,000).

8 TRADE AND OTHER RECEIVABLES

	30 June 2021 \$'000	31 December 2020 \$'000
Trade debtors	224,920	373,590
Deposits, prepayments and other receivables	26,192	23,312
Amounts due from a joint operation partner	1,650	3,487
	<u>252,762</u>	<u>400,389</u>

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

	30 June 2021 \$'000	31 December 2020 \$'000
Within 1 month	216,896	361,461
1 to 2 months	4,562	8,110
2 to 3 months	216	856
Over 3 months but within 6 months	3,246	3,163
	<u>224,920</u>	<u>373,590</u>

9 CASH AND CASH EQUIVALENTS

	30 June 2021 \$'000	31 December 2020 \$'000
Deposits with banks within three months of maturity at acquisition	–	5,000
Cash at bank and in hand	247,615	444,827
	<u>247,615</u>	<u>449,827</u>

10 TRADE AND OTHER PAYABLES

	30 June 2021 \$'000	31 December 2020 \$'000
Trade creditors	202,966	238,852
Accruals and other payables	283,273	652,627
Amounts due to joint operation partners	1,062	1,062
Provision for construction works	25,406	34,594
Retentions payable	331,061	340,335
Derivative financial instruments	4,816	6,167
	<u>848,584</u>	<u>1,273,637</u>

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

	30 June 2021 \$'000	31 December 2020 \$'000
Within 1 month	144,258	139,171
1 to 2 months	38,025	76,651
2 to 3 months	7,671	12,858
Over 3 months	13,012	10,172
	<u>202,966</u>	<u>238,852</u>

11 DIVIDENDS

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

	Six months ended 30 June	
	2021 \$'000	2020 \$'000
Interim dividend declared after the end of reporting period of 2.0 cents per share (2020: 4.0 cents)	<u>8,000</u>	<u>16,000</u>

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

Final dividend of 8.0 cents per share, amounting to \$32,000,000, was declared for the year ended 31 December 2020 and paid in June 2021.

12 MATERIAL RELATED PARTY TRANSACTIONS

The Group did not enter into any material related party transactions during the six months ended 30 June 2021 and 2020.

13 FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

- (a) As at 30 June 2021, approximately \$252,355,000 (31 December 2020: \$271,757,000) of performance bonds were given by financial institutions to the Group in favour of the Group's customers as security for the due performance and observance of the Group's obligation under the contracts entered into between the Group and their customers. The Group has provided guarantees of the above performance bonds. If the Group fails to provide satisfactory performance to their customers to whom performance bonds have been given, such customers may demand the financial institutions to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such financial institutions accordingly. The performance bonds will be released upon completion of the contract work.

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

- (b) As at 30 June 2021, the Group had provided guarantees of \$177,951,000 (31 December 2020: \$141,544,000) representing a 50% proportionate guarantee in respect of certain banking facilities of \$355,902,000 (31 December 2020: \$283,087,000) granted to its joint ventures in Macau. The 50% proportionate facilities were utilised to the extent of \$107,151,000 (31 December 2020: \$55,656,000), of which amounts of \$75,704,000 (31 December 2020: \$51,044,000) represent performance bonds given by financial institutions to customers of the joint venture.
- (c) The Group has not recognised any deferred income in respect of these guarantees as their fair values cannot be reliably measured using observable market data and no transaction price was incurred.
- (d) The subsidiaries of the Group are defendants in a number of claims, lawsuits and potential claims relating to employee's compensation cases and personal injuries claims. The directors of the Company considered that the possibility of any economic outflow in settling the legal claims is remote as these claims are all well covered by insurance. Accordingly, no provision for the contingent liabilities in respect of these litigations is necessary, after due consideration of each case.

MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW

Our overall revenue for the Period amounted to HK\$1,460.43 million as compared with that of HK\$1,591.85 million for the corresponding period last year, representing a decrease of approximately 8.26%. The result was mainly due to the combined effect of a mix of projects from our general building works and civil engineering works undertaken during the Period, with the major projects being outlined in the following sections.

As at 30 June 2021, we had a total of 14 projects for general building works and 10 projects for civil engineering works on hand. The total original contract sum of these projects amounted to approximately HK\$13 billion (31 December 2020: HK\$12 billion). The outstanding value (defined as the difference between revenue recognised and the original contract sum) of our projects on hand as at 30 June 2021 was approximately HK\$7.9 billion (31 December 2020: 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 30 June 2021:

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum (approximate HK\$'million)	Revenue recognised during the six months ended 30 June 2021 (approximate HK\$'million)
Site Formation and Infrastructure Works for the Civil Engineering and Development Department	Civil engineering works	Site formation and infrastructure works for development at Kam Tin South, Yuen Long — Advance works	July 2021	409.0	68.1
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	25.1
Piers maintenance for the Civil Engineering and Development Department	Civil engineering works — maintenance project	To carry out maintenance works for piers	March 2022	150.1	8.6

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum (approximate HK\$'million)	Revenue recognised during the six months ended 30 June 2021 (approximate HK\$'million)
Design and Construction managed by the Architectural Services Department	General building works — maintenance project	Design and Construction of Minor Works to the Government and Subvented Properties for Architectural Services Department — New Territories and Outlying Islands (North)	August 2022	531.1	95.9
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	369.8
Construction of Subsidised Sale Flats Development of the Housing Authority	General building works	Construction of Subsidised Sale Flats	October 2022	1,911.0	370.2
Management and maintenance of roads in Kowloon East for the Highways Department	Civil engineering works — maintenance project	Management and maintenance of public roads, including associated slopes, highway structures, tunnels and landscaping, and minor improvement works in Kowloon East but excluding Expressways and High Speed Roads	March 2024	482.6	22.2
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	63.0
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	92.4
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	December 2024	1,497.0	29.2
Maintenance of properties managed by the Architectural Services Department	General building works — maintenance project	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	March 2025	830.4	8.0

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum (approximate HK\$'million)	Revenue recognised during the six months ended 30 June 2021 (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 other properties in Tuen Mun and Yuen Long for which Architectural Services Department (Property Services Branch) is responsible	March 2025	784.8	8.9

Major projects completed during the six months ended 30 June 2021

Completed projects refer to the projects for which we have received the completion certificates from the respective customers or the terms of year of the contracts expired. Details of the major projects completed by the Group as a main contractor during the six months ended 30 June 2021 are as follow:

Project type	Business segment	Scope of works	Original contract period	Original contract sum (approximate HK\$'million)	Revenue recognised during the six months ended 30 June 2021 (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	April 2017 to March 2021	1,471.8	115.0

A majority of our revenue is generated from our general building and civil engineering business. During the Period, the revenue attributable to our general building and civil engineering business amounted to HK\$1,190.90 million and HK\$183.47 million (30 June 2020: HK\$1,234.37 million and HK\$266.11 million), respectively, representing approximately 81.54% and 12.56% (30 June 2020: 77.54% and 16.72%), respectively, of the total revenue of the Group for the Period.

During the Period, other than general building and civil engineering business, 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. Revenue attributable to these other services amounted to approximately 5.90% of the total revenue of the Group for the Period (30 June 2020: 5.74%).

FINANCIAL REVIEW

Revenue

Our overall revenue decreased by approximately HK\$131.42 million, or approximately 8.26%, from HK\$1,591.85 million for the six months ended 30 June 2020 to HK\$1,460.43 million for the six months ended 30 June 2021. The decrease in our revenue was mainly due to the combined effect of the decrease in revenue from general building business of HK\$43.47 million and the decrease in revenue from civil engineering business of HK\$82.64 million for the reasons set out below.

Revenue from general building business decreased by approximately HK\$43.47 million, or approximately 3.52%, from HK\$1,234.37 million for the six months ended 30 June 2020 to HK\$1,190.90 million for the six months ended 30 June 2021. The slight decrease in revenue from general building business was mainly due to the completion of certain general building contracts in the previous year, resulting in a reduction of contributions in revenue by such projects for the Period. These completed projects mainly include the construction of global graduate tower for the Hong Kong University of Science and Technology, the construction of a subsidised sale flats development for the Hong Kong Housing Authority and the construction of a public rental housing development for the Hong Kong Housing Authority. This was partly offset by the increase in revenue between periods in accordance with the work progress of other general building contracts, including the construction of another subsidised sale flats development for the Hong Kong Housing Authority. In general, the relative control of the COVID-19 epidemic in Hong Kong and the improvement of market conditions in Hong Kong during the Period had a positive impact on the progress of the existing projects of the Group during the Period as compared to that of the six months ended 30 June 2020.

Revenue from civil engineering business decreased by approximately HK\$82.64 million, or approximately 31.05%, from HK\$266.11 million for the six months ended 30 June 2020 to HK\$183.47 million for the six months ended 30 June 2021. The decrease in revenue from civil engineering business was mainly attributable to the reduction in contributions in revenue between periods in accordance with the work progress of a maintenance term contract 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 the six months ended 30 June 2021 amounted to HK\$86.06 million (30 June 2020: HK\$91.37 million), representing 5.90% (30 June 2020: 5.74%) of the total revenue of the Group. Revenue from other services remained relatively stable between the periods.

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

Gross profit and gross profit margin

Our overall gross profit increased by HK\$44.80 million, or approximately 708.78%, from HK\$6.32 million for the six months ended 30 June 2020 to HK\$51.12 million for the six months ended 30 June 2021. The increase in gross profit was mainly due to the relative control of the COVID-19 epidemic in Hong Kong and the improvement of market conditions in Hong Kong during the Period which had a positive impact on the progress of existing projects. This resulted in an increase in revenue, a decrease in project overhead costs and subcontracting costs and hence an increase in gross profit for those projects.

Our overall gross profit margin increased from 0.40% for the six months ended 30 June 2020 to 3.50% for the six months ended 30 June 2021. The improvement in overall gross profit margin was mainly attributable to the relative control of the COVID-19 epidemic in Hong Kong and the improvement of market conditions in Hong Kong during the Period which had a positive impact on the progress of existing projects. This led to an increase in revenue and a decrease in project overhead costs and subcontracting costs.

Other revenue

Our other revenue for the six months ended 30 June 2021 amounted to HK\$2.06 million, compared to that of HK\$5.67 million for the six months ended 30 June 2020. Other revenue mainly consisted of interest income and other sundry income.

Other net gain

Our other net gain for the six months ended 30 June 2021 amounted to HK\$2.58 million, compared to that of HK\$0.06 million for the six months ended 30 June 2020. Our other net gain mainly comprised gain on disposal of property, plant and equipment and exchange differences.

Administrative expenses

Administrative expenses mainly consisted of staff costs and rental charges. Our administrative expenses for the six months ended 30 June 2021 amounted to HK\$42.51 million, compared to that of HK\$39.00 million for the six months ended 30 June 2020. The increase in administrative expenses was mainly attributable to the increase in repairs and maintenance charges between the periods.

Finance costs

Our finance costs for the six months ended 30 June 2021 amounted to HK\$1.12 million, compared to that of HK\$9.86 million for the six months ended 30 June 2020. The decrease was primarily attributable to the improvement of our liquidity position and the decrease in our bank borrowings during the Period.

Income tax

Our income tax for the six months ended 30 June 2021 was a charge of HK\$2.04 million, compared to that of a credit of HK\$6.60 million for the six months ended 30 June 2020.

Profit/(loss) attributable to the equity shareholders of the Company

Based on the above factors, there was a profit attributable to the equity shareholders of the Company for the six months ended 30 June 2021 of HK\$9.29 million, compared to a loss attributable to the equity shareholders of the Company of HK\$30.48 million for the six months ended 30 June 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital Structure

As at 30 June 2021, the capital structure of the Group consisted of equity of HK\$375.41 million (31 December 2020: HK\$397.59 million) and bank loans of HK\$65.28 million (31 December 2020: HK\$200.42 million) as more particularly described in the paragraph headed “Borrowings” below.

Cash position and fund available

During the Period, the Group maintained a healthy liquidity position, with working capital being financed by our operating cash flows and bank borrowings. As at 30 June 2021, our cash and cash equivalents were HK\$247.62 million (31 December 2020: HK\$449.83 million).

As at 30 June 2021, the current ratio of the Group was 1.23 (31 December 2020: 1.17).

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

Borrowings

As at 30 June 2021, the Group had total bank loans of HK\$65.28 million (31 December 2020: approximately HK\$200.42 million), which is principally denominated in Hong Kong dollars. The balance decreased compared to that of 31 December 2020, and was mainly used to finance the working capital of the ongoing projects.

As at 30 June 2021, the Group had approximately HK\$2,463 million (31 December 2020: HK\$2,540 million) of unutilised banking facilities in Hong Kong and Macau (including loans, letter of credit and letter of guaranteed facilities). All of the Group’s banking facilities are subject to the fulfilment of certain covenants as are commonly found in lending arrangements with financial institutions. The Group’s policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group remained in compliance with its loan covenants during the Period and up to the date of this announcement.

GEARING RATIO

As at 30 June 2021, the Group's gearing ratio was 17.39% (31 December 2020: 50.41%), calculated based on the interest-bearing liabilities (bank loans) divided by the total equity as at the respective period end.

CAPITAL EXPENDITURES

The Group's capital expenditures primarily comprise purchase of plant and equipment, such as motor vehicles and equipment, which were funded, and are expected to continue to be funded, by internal resources and cash flow generated from our operation. During the Period, the Group has incurred approximately HK\$3.69 million (30 June 2020: HK\$1.91 million) on acquiring items of plant and equipment.

FOREIGN EXCHANGE EXPOSURE

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

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

There were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Period. There was no future plan for material investments or capital assets as at 30 June 2021.

SIGNIFICANT INVESTMENTS HELD

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

FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

Save as disclosed in note 13 to the condensed consolidated financial statements, the Group had no other financial guarantees and contingent liabilities as at 30 June 2021.

PLEDGE OF ASSETS

As at 30 June 2021, the Group had pledged deposits, amounting to HK\$20.11 million (31 December 2020: HK\$20.11 million), and assignment of project proceeds from certain construction contracts of the Group, the Group's joint operations and the Group's joint venture to banks as security of banking facilities (including bank loans and performance bonds). Pledged deposits remained stable between the periods.

CAPITAL COMMITMENTS

As at 30 June 2021, the Group did not have any capital commitments.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group had 1,665 employees in Hong Kong, Macau and the PRC and total remuneration for the six months ended 30 June 2021 was approximately HK\$265 million. The Group entered into separate labour contracts with its employees in accordance with the applicable labour laws of Hong Kong and Macau. The remuneration offered to employees generally includes salaries, medical benefits and bonus. Share options may also be granted to eligible employees. In general, the Group determines salaries of its employees based on each employee's qualification, position, seniority and experience. The Directors recognise the importance of attracting and retaining staff. In order to promote employee loyalty and retention, the Group provides technical and operational on-job trainings to its employees covering various aspects of its operations including contract law, and workplace and occupational safety.

FUTURE PROSPECTS

In the second half of 2021, it is expected that the outbreak of COVID-19 will continue to have a significant impact on the world, including the constant mutations of the virus. The world is still expected to face great challenges in the control of the pandemic, and the recovery of the global economy is still subject to uncertainties. As such, we expect that contractors in Hong Kong, including the Group, will continue to have pressure on profit margins. Nevertheless, as pandemic control measures in Hong Kong are gradually delivering results and more people in Hong Kong are vaccinated, Hong Kong's economy which has been suffering under the outbreak of COVID-19 is slowly regaining its momentum. Together with the Government's continued commitment and efforts in land development and provision of public housing in Hong Kong, the Board remains confident of the Group's future development and will continue to build on our existing competitive strengths to achieve our long term business objectives.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 30 June 2021 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Board has reviewed the accounting principles and practices adopted by the Group. The financial information contained in this announcement has not been audited by the auditor of the Company, but the audit committee of the Board has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2021.

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of HK2.0 cents per Share for the Period (30 June 2020: HK4.0 cents), amounting to approximately HK\$8 million (30 June 2020: HK\$16 million). Such payment of interim dividend will be payable to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on Friday, 17 September 2021. It is expected that the proposed dividend will be paid on or about Thursday, 30 September 2021.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlements to the proposed interim dividend, the register of members of the Company will be closed from Thursday, 16 September 2021 to Friday, 17 September 2021, during which period no transfer of the Shares will be registered. Shareholders of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 15 September 2021.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim consolidated results announcement is published on the Company's website at <http://www.sfkchl.com.hk> and the Stock Exchange's website at www.hkexnews.hk. The 2021 Interim Report will be despatched to the shareholders of the Company and will be available on the above websites.

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

Hong Kong, 26 August 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.