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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 2022**

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 2022 (the “Period”), together with the comparative figures for the corresponding period in 2021 as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2022 — unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2022	2021
	Note	\$'000	\$'000
Revenue	3	1,622,035	1,460,430
Direct costs		<u>(1,599,371)</u>	<u>(1,409,307)</u>
Gross profit		22,664	51,123
Other revenue		18,762	2,055
Other net gain		1,057	2,582
Administrative expenses		<u>(27,510)</u>	<u>(42,507)</u>
Profit from operations		14,973	13,253
Finance costs		(1,764)	(1,123)
Share of results of a joint venture		<u>(854)</u>	<u>(270)</u>
Profit before taxation	4	12,355	11,860
Income tax	5	<u>1,388</u>	<u>(2,037)</u>
Profit for the period		<u>13,743</u>	<u>9,823</u>
Attributable to:			
Equity shareholders of the Company		13,152	9,289
Non-controlling interests		<u>591</u>	<u>534</u>
Profit for the period		<u>13,743</u>	<u>9,823</u>
Earnings per share — Basic/Diluted	6	<u>3.29 cents</u>	<u>2.32 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022 — unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
Profit for the period	13,743	9,823
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>(1)</u>	<u>2</u>
Total comprehensive income for the period	<u>13,742</u>	<u>9,825</u>
Attributable to:		
Equity shareholders of the Company	13,152	9,291
Non-controlling interests	<u>590</u>	<u>534</u>
Total comprehensive income for the period	<u>13,742</u>	<u>9,825</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 — unaudited

(Expressed in Hong Kong dollars)

		30 June	31 December
		2022	2021
	<i>Note</i>	\$'000	\$'000
Non-current assets			
Property, plant and equipment	7	47,168	57,306
Goodwill		1,209	1,209
Deferred tax assets		59,268	57,445
		<u>107,645</u>	<u>115,960</u>
Current assets			
Contract assets		846,503	1,033,739
Trade and other receivables	8	221,829	387,563
Amount due from a joint venture		2,340	2,996
Current tax recoverable		444	3,514
Pledged deposits		20,113	20,113
Cash and cash equivalents	9	261,898	236,837
		<u>1,353,127</u>	<u>1,684,762</u>
Current liabilities			
Interest in a joint venture		21,272	20,419
Contract liabilities		144,860	160,533
Trade and other payables	10	795,077	1,120,943
Bank loans		90,000	82,121
Lease liabilities		10,171	13,887
Derivatives financial instruments		249	2,805
Current tax payable		2,542	1,139
		<u>1,064,171</u>	<u>1,401,847</u>
Net current assets		<u>288,956</u>	<u>282,915</u>
Total assets less current liabilities		<u>396,601</u>	<u>398,875</u>

	30 June 2022 \$'000	31 December 2021 \$'000
Non-current liabilities		
Lease liabilities	17,359	20,595
Deferred tax liabilities	2,406	2,686
	<u>19,765</u>	<u>23,281</u>
NET ASSETS	<u>376,836</u>	<u>375,594</u>
CAPITAL AND RESERVES		
Share capital	40,000	40,000
Reserves	336,243	335,091
Total equity attributable to equity shareholders of the Company	376,243	375,091
Non-controlling interests	593	503
TOTAL EQUITY	<u>376,836</u>	<u>375,594</u>

NOTES TO THE ANNOUNCEMENT

(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 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 2022 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 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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”).

The unaudited interim financial report has been approved for issue by the Board of Directors of the Company on 26 August 2022.

2 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: *Onerous contracts — cost of fulfilling a contract*

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, fresh water and flush water maintenance services, sewage water sampling services, electrical and mechanical engineering services and consultancy services

	General building \$'000	Civil engineering \$'000	Others \$'000	Total \$'000
For the six months ended 30 June 2022				
Reportable segment revenue (recognised over time)	<u>1,288,687</u>	<u>226,166</u>	<u>107,182</u>	<u>1,622,035</u>
Reportable segment profit	<u>27,400</u>	<u>(7,329)</u>	<u>19,562</u>	39,633
Other revenue and other net gain				1,819
Depreciation				(2,696)
Finance costs				(1,588)
Unallocated head office and corporate expenses				<u>(24,813)</u>
Consolidated profit before taxation				<u>12,355</u>
Share of results of a joint venture	<u>(854)</u>	<u>-</u>	<u>-</u>	<u>(854)</u>
Depreciation for the period	<u>9,098</u>	<u>1,308</u>	<u>806</u>	<u>11,212</u>
As at 30 June 2022				
Reportable segment assets	<u>747,023</u>	<u>301,267</u>	<u>43,932</u>	1,092,222
Deferred tax assets				59,268
Current tax recoverable				444
Unallocated head office and corporate assets				<u>308,838</u>
Consolidated total assets				<u>1,460,772</u>
Additions to non-current segment assets during the period	<u>3,082</u>	<u>400</u>	<u>190</u>	<u>3,672</u>
Reportable segment liabilities (including interest in a joint venture)	<u>655,204</u>	<u>244,124</u>	<u>22,877</u>	922,205
Current tax payable				2,542
Deferred tax liabilities				2,406
Unallocated head office and corporate liabilities				<u>156,783</u>
Consolidated total liabilities				<u>1,083,936</u>
Share of net liabilities in a joint venture	<u>21,272</u>	<u>-</u>	<u>-</u>	<u>21,272</u>

	General building \$'000	Civil engineering \$'000	Others \$'000	Total \$'000
For the six months ended 30 June 2021				
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>	50,954
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>
As at 31 December 2021				
Reportable segment assets	<u>975,705</u>	<u>439,028</u>	<u>36,387</u>	1,451,120
Deferred tax assets				57,445
Current tax recoverable				3,514
Unallocated head office and corporate assets				<u>288,643</u>
Consolidated total assets				<u>1,800,722</u>
Additions to non-current segment assets during the year	<u>16,438</u>	<u>1,808</u>	<u>1,300</u>	<u>19,546</u>
Reportable segment liabilities (including interest in a joint venture)	<u>915,458</u>	<u>325,338</u>	<u>18,082</u>	1,258,878
Current tax payable				1,139
Deferred tax liabilities				2,686
Unallocated head office and corporate liabilities				<u>162,425</u>
Consolidated total liabilities				<u>1,425,128</u>
Share of net liabilities in a joint venture	<u>20,419</u>	<u>–</u>	<u>–</u>	<u>20,419</u>

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

4 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
(a) Finance costs		
Interest on bank loans	1,368	334
Interest on lease liabilities	396	789
	<u>1,764</u>	<u>1,123</u>
(b) Staff costs		
Salaries, wages and other benefits	236,461	255,306
Contributions to defined contribution retirement plans	8,448	9,421
Less: Amount included in direct costs	(229,833)	(245,095)
	<u>15,076</u>	<u>19,632</u>
(c) Other items		
Depreciation charge		
— owned property, plant and equipment	6,012	7,159
— right-of-use assets	7,896	13,733
	<u>13,908</u>	<u>20,892</u>
Less: Amount included in direct costs	(10,159)	(13,264)
	<u>3,749</u>	<u>7,628</u>
Auditors' remuneration	812	879

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
Current tax — Hong Kong Profits Tax		
Provision for the period	1,234	1,538
(Over)/under provision in respect of prior periods	(519)	26
	<u>715</u>	<u>1,564</u>
Deferred tax		
Origination and reversal of temporary differences	(2,103)	473
	<u>(1,388)</u>	<u>2,037</u>

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$13,152,000 (30 June 2021: profit of \$9,289,000) and 400,000,000 shares (30 June 2021: 400,000,000 shares) in issue during the period.

(b) Diluted earnings per share

There were no potential dilutive shares in existence during the six months ended 30 June 2022 and 2021.

7 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired items of plant and equipment with a cost of \$2,970,000 (30 June 2021: \$3,686,000). Additions to right-of-use assets amounted to \$800,000 (30 June 2021: \$6,419,000) during the six months ended 30 June 2022. Also, the Group disposed items of plant and equipment with a carrying amount of \$Nil (30 June 2021: \$422,000).

8 TRADE AND OTHER RECEIVABLES

	30 June 2022 \$'000	31 December 2021 \$'000
Trade debtors	203,075	351,135
Deposits, prepayments and other receivables	18,754	36,155
Amounts due from a joint operation partner	–	273
	<u>221,829</u>	<u>387,563</u>

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

	30 June 2022 \$'000	31 December 2021 \$'000
Within 1 month	180,080	335,253
1 to 2 months	14,456	9,629
2 to 3 months	6,024	2,973
Over 3 months but within 6 months	2,515	3,280
	<u>203,075</u>	<u>351,135</u>

9 CASH AND CASH EQUIVALENTS

	30 June 2022 \$'000	31 December 2021 \$'000
Cash at bank and in hand	261,898	236,837

10 TRADE AND OTHER PAYABLES

	30 June 2022 \$'000	31 December 2021 \$'000
Trade creditors	193,809	211,828
Accruals and other payables	253,259	535,998
Amounts due to joint operation partners	1,062	1,062
Provision for construction works	20,918	34,332
Retentions payable	326,029	337,723
	<u>795,077</u>	<u>1,120,943</u>

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

	30 June 2022 \$'000	31 December 2021 \$'000
Within 1 month	184,612	137,348
1 to 2 months	2,020	41,304
2 to 3 months	232	13,606
Over 3 months	6,945	19,570
	<u>193,809</u>	<u>211,828</u>

11 DIVIDENDS

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

	Six months ended 30 June	
	2022 \$'000	2021 \$'000
Interim dividend declared after the end of the reporting period of 2.5 cents per share (2021: 2.0 cents)	<u>10,000</u>	<u>8,000</u>

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

Final dividend of 3.0 cents per share, amounting to \$12,000,000, was declared for the year ended 31 December 2021 and paid in June 2022.

12 MATERIAL RELATED PARTY TRANSACTIONS

The Group did not enter into any material related party transactions during the six months ended 30 June 2022 and 2021.

13 FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

- (a) As at 30 June 2022, approximately \$344,006,000 (31 December 2021: \$280,579,000) 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 2022, the Group had provided guarantees of \$177,951,000 (31 December 2021: \$177,951,000) representing a 50% proportionate guarantee in respect of certain banking facilities of \$355,902,000 (31 December 2021: \$355,902,000) granted to its joint ventures in Macau. The 50% proportionate facilities were utilised to the extent of \$109,731,000 (31 December 2021: \$124,979,000), of which amounts of \$72,352,000 (31 December 2021: \$92,090,000) represent performance bonds given by financial institutions to customers of the joint venture.

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.

- (c) 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), fresh water and flush water maintenance services, sewage water sampling services, electrical and mechanical engineering services and building information modeling (“BIM”) services to real estates in Hong Kong.

BUSINESS REVIEW

Our overall revenue for the Period amounted to HK\$1,622.04 million as compared with that of HK\$1,460.43 million for the corresponding period last year, representing an increase of approximately 11.07%. 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 2022, we had a total of 12 projects for general building works and 18 projects for civil engineering works on hand. The total original contract sum of these projects amounted to approximately HK\$15 billion (31 December 2021: 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 2022 was approximately HK\$8.0 billion (31 December 2021: HK\$6.3 billion). The following table sets forth the particulars of some of the sizeable construction and maintenance projects for general building works and civil engineering works awarded and undertaken by us as a main contractor and remained ongoing as at 30 June 2022:

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 2022 (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	65.5
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	28.5

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 2022 (approximate HK\$' million)
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	352.3
Construction of Subsidised Sale Flats Development of the Housing Authority	General building works	Construction of Subsidised Sale Flats	October 2022	1,911.0	377.0
Construction Managed by the Architectural Services Department	Civil engineering works	Construction of Open Space at Hung Hom Waterfront	December 2023	193.0	20.7
Management and maintenance of roads in Kowloon East for the Highways Department	Civil engineering works — maintenance project	Management and maintenance of public roads, including associated slopes, highway structures, tunnels and landscaping, and minor improvement works in Kowloon East but excluding Expressways and High Speed Roads	March 2024	482.6	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	13.7
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	101.3
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	164.0
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	70.3
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	84.9

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 2022 (approximate HK\$' million)
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	March 2025	477.7	9.1
Construction of public housing developments of Kai Tak Sites 2B5 and 2B6	General building works	Construction of public housing developments	January 2026	2,624.0	31.8

* The actual contract completion date was postponed and the project was still ongoing as at 30 June 2022.

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\$1,288.69 million and HK\$226.17 million (30 June 2021: HK\$1,190.90 million and HK\$183.47 million), respectively, representing approximately 79.45% and 13.94% (30 June 2021: 81.54% and 12.56%), 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), fresh water and flush water maintenance services, sewage water sampling services, electrical and mechanical engineering services and BIM services to real estates in Hong Kong. Revenue attributable to these other services amounted to approximately 6.61% of the total revenue of the Group for the Period (30 June 2021: 5.90%).

FINANCIAL REVIEW

Revenue

Our overall revenue increased by approximately HK\$161.61 million, or approximately 11.07%, from HK\$1,460.43 million for the six months ended 30 June 2021 to HK\$1,622.04 million for the six months ended 30 June 2022. The increase in our revenue was mainly due to the combined effect of the increase in revenue from general building business of HK\$97.79 million and the increase in revenue from civil engineering business of HK\$42.70 million for the reasons set out below.

Revenue from general building business increased by approximately HK\$97.79 million, or approximately 8.21%, from HK\$1,190.90 million for the six months ended 30 June 2021 to HK\$1,288.69 million for the six months ended 30 June 2022. The increase in revenue from general building business was mainly due to the increase in revenue between periods in accordance with the work progress of certain general building contracts, including the transport infrastructure works, water feature park and landscaped walk for non-public housing facilities for the Hong Kong Housing Authority.

Revenue from civil engineering business increased by approximately HK\$42.70 million, or approximately 23.27%, from HK\$183.47 million for the six months ended 30 June 2021 to HK\$226.17 million for the six months ended 30 June 2022. The increase in revenue from civil engineering business was mainly due to the inclusion of certain new civil engineering contracts, including the construction of open space at Hung Hom Waterfront for the Architectural Services Department. In addition, the increase in revenue was attributable to the increase in revenue between periods in accordance with the work progress of a maintenance term contract for piers for the Civil Engineering & Development Department.

Revenue from other services (which mainly comprised housing and property management services, fresh water and flush water maintenance services, sewage water sampling services, electrical and mechanical engineering services and BIM services) for the six months ended 30 June 2022 amounted to HK\$107.18 million (30 June 2021: HK\$86.06 million), representing 6.61% (30 June 2021: 5.90%) of the total revenue of the Group. Revenue from other services increased between the periods mainly due to the increase in sewage water sampling services, electrical and mechanical engineering services and BIM services provided.

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

Gross profit and gross profit margin

Our overall gross profit decreased by HK\$28.46 million, or approximately 55.67%, from HK\$51.12 million for the six months ended 30 June 2021 to HK\$22.66 million for the six months ended 30 June 2022. The decrease in gross profit was mainly due to the inclusion of approximately HK\$25 million gross loss for the building and civil works contract for new integrated airport centres in the current period. The gross loss of such contract was primarily resulted from the extra subcontractor costs and site overhead acceleration expenses incurred due to the delay in overall contract completion.

Our overall gross profit margin decreased from 3.50% for the six months ended 30 June 2021 to 1.40% for the six months ended 30 June 2022. The reduction in overall gross profit margin was mainly attributable to the inclusion of approximately HK\$25 million loss making contract relating to the building and civil works for new integrated airport centres leading to a drop in gross profit margin when compared to that of the previous period.

Other revenue

Our other revenue for the six months ended 30 June 2022 amounted to HK\$18.76 million, compared to that of HK\$2.06 million for the six months ended 30 June 2021. Other revenue mainly consisted of interest income and other sundry income. The relatively high balance of other revenue for the current period was explained by the inclusion of approximately HK\$18 million government subsidies relating to the 2022 Employment Support Scheme under the Anti-epidemic Fund to provide wage subsidies to employees for two months (i.e. May and June 2022).

Other net gain

Our other net gain for the six months ended 30 June 2022 amounted to HK\$1.06 million, compared to that of HK\$2.58 million for the six months ended 30 June 2021. 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 2022 amounted to HK\$27.51 million, compared to that of HK\$42.51 million for the six months ended 30 June 2021. The decrease in administrative expenses was mainly attributable to the decrease in staff costs, rental charges and repairs and maintenance charges between the periods.

Finance costs

Our finance costs for the six months ended 30 June 2022 amounted to HK\$1.76 million, compared to that of HK\$1.12 million for the six months ended 30 June 2021. The increase was primarily attributable to the increase in our bank borrowings and interest rates between the periods.

Income tax

Our income tax for the six months ended 30 June 2022 was a credit of HK\$1.39 million, compared to that of a charge of HK\$2.04 million for the six months ended 30 June 2021.

Profit 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 2022 of HK\$13.15 million, compared to a profit attributable to the equity shareholders of the Company of HK\$9.29 million for the six months ended 30 June 2021.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital Structure

As at 30 June 2022, the capital structure of the Group consisted of equity of HK\$376.84 million (31 December 2021: HK\$375.59 million) and bank loans of HK\$90.00 million (31 December 2021: HK\$82.12 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 2022, our cash and cash equivalents were HK\$261.90 million (31 December 2021: HK\$236.84 million).

As at 30 June 2022, the current ratio of the Group was 1.27 (31 December 2021: 1.20).

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

Borrowings

As at 30 June 2022, the Group had total bank loans of HK\$90.00 million (31 December 2021: approximately HK\$82.12 million), which is principally denominated in Hong Kong dollars. The balance increased compared to that of 31 December 2021, and was mainly used to finance the working capital of the ongoing projects.

As at 30 June 2022, the Group had approximately HK\$1,914 million (31 December 2021: HK\$1,917 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 2022, the Group’s gearing ratio was 23.88% (31 December 2021: 21.86%), 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\$2.97 million (30 June 2021: HK\$3.69 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 2022.

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 this announcements, the Group had no other financial guarantees and contingent liabilities as at 30 June 2022.

PLEDGE OF ASSETS

As at 30 June 2022, the Group had pledged deposits, amounting to HK\$20.11 million (31 December 2021: 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 2022, the Group did not have any capital commitments.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group had 1,531 employees in Hong Kong and total remuneration for the six months ended 30 June 2022 was approximately HK\$245 million. The Group entered into separate labour contracts with its employees in accordance with the applicable labour laws of Hong Kong. The remuneration offered to employees generally includes salaries, medical benefits and bonus. Share options may also be granted to eligible employees. In general, the Group determines salaries of its employees based on each employee's qualification, position, seniority and experience. The Directors recognise the importance of attracting and retaining staff. In order to promote employee loyalty and retention, the Group provides technical and operational on-job trainings to its employees covering various aspects of its operations including contract law, and workplace and occupational safety.

FUTURE PROSPECTS

COVID-19 has caused significant adverse impact on local and global economy which is expected to continue in the second half of 2022. As such, we expect that contractors in Hong Kong, including the Group, will continue to have pressure on profit margins. However, we believe that the Hong Kong Government will take more relief measures to try to overcome the challenges and to alleviate the financial burden suffered by the businesses from the COVID-19 outbreak. Together with the Government's continued commitment and efforts in land development and provision of public housing in Hong Kong, the Board remains confident of the Group's future development and will continue to build on our existing competitive strengths to achieve our long term business objectives.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Board recognises that corporate governance practices are crucial to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and 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 applicable 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 references to the code provisions in this announcement has been updated with reference to the amended CG Code effective on 1 January 2022. The Board is of the opinion that the Company has complied with all the applicable code provisions, except for the deviation from provisions C.2.1 and D.2.5 of the CG Code during the Period.

According to provision C.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 C.2.1 of the CG Code is appropriate in such circumstances.

According to code provision D.2.5 of the CG Code, the Company should have an internal audit function. The Company does 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 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 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 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 2022 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 interim financial report of the Group for the six months ended 30 June 2022.

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of HK2.5 cents per Share for the Period (30 June 2021: HK2.0 cents), amounting to approximately HK\$10 million (30 June 2021: HK\$8 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 Monday, 19 September 2022. It is expected that the proposed dividend will be paid on or about Friday, 30 September 2022.

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 Friday, 16 September 2022 to Monday, 19 September 2022 (both dates inclusive), during which period 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, 15 September 2022.

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 2022 Interim Report will be despatched to the shareholders of the Company and available on the above websites.

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

Hong Kong, 26 August 2022

As at the date of this announcement, the executive directors of the Company are Mr. Chan Ki Chun, 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.