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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 2022
AND PROPOSED AMENDMENTS TO THE BYE-LAWS**

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 2022 (the “Year” or “2022”), together with the comparative figures for the year ended 31 December 2021 (“2021”) as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

(Expressed in Hong Kong dollars)

	<i>Note</i>	2022 \$'000	2021 \$'000
Revenue	3	3,667,077	3,624,511
Direct costs		<u>(3,589,668)</u>	<u>(3,538,798)</u>
Gross profit		77,409	85,713
Other revenue		33,018	3,643
Other net gain		2,052	1,373
Administrative expenses		<u>(63,156)</u>	<u>(65,437)</u>
Profit from operations		49,323	25,292
Finance costs		(3,183)	(2,406)
Share of results of a joint venture		<u>(2,128)</u>	<u>(2,298)</u>
Profit before taxation		44,012	20,588
Income tax	4	<u>(24,261)</u>	<u>(2,587)</u>
Profit for the year		<u>19,751</u>	<u>18,001</u>
Attributable to:			
Equity shareholders of the Company		18,729	17,426
Non-controlling interests		<u>1,022</u>	<u>575</u>
Profit for the year		<u>19,751</u>	<u>18,001</u>
Earnings per share — Basic/Diluted	5	<u>4.7 cents</u>	<u>4.4 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(Expressed in Hong Kong dollars)

	2022	2021
	\$'000	\$'000
Profit for the year	19,751	18,001
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>(1)</u>	<u>8</u>
Total comprehensive income for the year	<u>19,750</u>	<u>18,009</u>
Attributable to:		
Equity shareholders of the Company	18,728	17,432
Non-controlling interests	<u>1,022</u>	<u>577</u>
Total comprehensive income for the year	<u>19,750</u>	<u>18,009</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

(Expressed in Hong Kong dollars)

	<i>Note</i>	2022 \$'000	2021 \$'000
Non-current assets			
Property, plant and equipment		44,449	57,306
Goodwill		1,209	1,209
Deferred tax assets		32,082	57,445
		77,740	115,960
		77,740	115,960
Current assets			
Contract assets		922,071	1,033,739
Trade receivables, other receivables and prepayments	6	331,202	387,563
Amount due from a joint venture		2,340	2,996
Current tax recoverable		453	3,514
Pledged deposits		20,113	20,113
Cash and cash equivalents		262,563	236,837
		1,538,742	1,684,762
		1,538,742	1,684,762
Current liabilities			
Interest in a joint venture		22,547	20,419
Contract liabilities		126,802	160,533
Trade and other payables	7	1,017,247	1,120,943
Bank loans	8	50,000	82,121
Lease liabilities		9,578	13,887
Derivatives financial instruments		–	2,805
Current tax payable		538	1,139
		1,226,712	1,401,847
		1,226,712	1,401,847
Net current assets		312,030	282,915
Total assets less current liabilities		389,770	398,875

	<i>Note</i>	2022 \$'000	2021 \$'000
Non-current liabilities			
Lease liabilities		15,705	20,595
Deferred tax liabilities		2,221	2,686
		<u>17,926</u>	<u>23,281</u>
NET ASSETS		<u>371,844</u>	<u>375,594</u>
CAPITAL AND RESERVES			
Share capital	<i>10</i>	40,000	40,000
Reserves		331,819	335,091
Total equity attributable to equity shareholders of the Company		371,819	375,091
Non-controlling interests		<u>25</u>	<u>503</u>
TOTAL EQUITY		<u>371,844</u>	<u>375,594</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 2022 but is 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 2022 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 certain amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Reference to the Conceptual Framework
- Amendments to HKFRS 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
- Annual Improvements to HKFRSs 2018–2022 Cycle

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:

	2022 \$'000	2021 \$'000
Disaggregated by major service lines		
— General building	2,777,982	2,787,277
— Civil engineering	611,801	608,970
— Housing management services	55,635	65,997
— Others	221,659	162,267
	<u>3,667,077</u>	<u>3,624,511</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 2022, 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 \$5,570,580,000 (2021: \$4,274,327,000). 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 37 months (2021: next 48 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 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

(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 with the exception of deferred tax liabilities, current tax payable and other corporate liabilities.

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.

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 years ended 31 December 2022 and 2021 is set out below.

For the year ended 31 December 2022

	General building \$'000	Civil engineering \$'000	Others \$'000 (note)	Total \$'000
Reportable segment revenue (recognised over time)	<u>2,777,982</u>	<u>611,801</u>	<u>277,294</u>	<u>3,667,077</u>
Reportable segment profit	<u>72,176</u>	<u>(16,791)</u>	<u>50,794</u>	106,179
Other revenue and other net gain				3,857
Depreciation				(5,372)
Finance costs				(2,870)
Unallocated head office and corporate expenses				<u>(57,782)</u>
Consolidated profit before taxation				<u>44,012</u>
Share of results of a joint venture	<u>(2,128)</u>	<u>-</u>	<u>-</u>	<u>(2,128)</u>
Depreciation for the year	<u>17,264</u>	<u>2,842</u>	<u>1,706</u>	<u>21,812</u>
Reportable segment assets	<u>873,043</u>	<u>375,672</u>	<u>28,744</u>	1,277,459
Deferred tax assets				32,082
Current tax recoverable				453
Unallocated head office and corporate assets				<u>306,488</u>
Consolidated total assets				<u>1,616,482</u>
Additions to non-current segment assets during the year	<u>8,650</u>	<u>4,328</u>	<u>1,010</u>	<u>13,988</u>
Reportable segment liabilities (including interest in a joint venture)	<u>745,957</u>	<u>349,343</u>	<u>17,444</u>	1,112,744
Current tax payable				538
Deferred tax liabilities				2,221
Unallocated head office and corporate liabilities				<u>129,135</u>
Consolidated total liabilities				<u>1,244,638</u>
Share of net liabilities in a joint venture	<u>22,547</u>	<u>-</u>	<u>-</u>	<u>22,547</u>

For the year ended 31 December 2021

	General building \$'000	Civil engineering \$'000	Others \$'000 (note)	Total \$'000
Reportable segment revenue (recognised over time)	<u>2,787,277</u>	<u>608,970</u>	<u>228,264</u>	<u>3,624,511</u>
Reportable segment profit	<u>49,053</u>	<u>8,024</u>	<u>27,151</u>	84,228
Other revenue and other net gain				3,495
Depreciation				(13,275)
Finance costs				(1,821)
Unallocated head office and corporate expenses				<u>(52,039)</u>
Consolidated profit before taxation				<u>20,588</u>
Share of results of a joint venture	<u>(2,298)</u>	<u>–</u>	<u>–</u>	<u>(2,298)</u>
Depreciation for the year	<u>24,048</u>	<u>2,999</u>	<u>1,919</u>	<u>28,966</u>
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>

Note: Others included revenue from fresh water and flush water maintenance services and sewage water sampling services with a sum of \$171,655,000 (2021: \$102,539,000) and the relevant segment profit of \$43,427,000 (2021: \$21,420,000).

(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:

	2022	2021
	\$'000	\$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	1,169	1,028
Over-provision in respect of prior years	(1,806)	(30)
	(637)	998
Deferred tax		
Origination and reversal of temporary differences	24,898	1,589
	24,261	2,587

The provision for Hong Kong Profits Tax for 2022 is calculated at 16.5% (2021: 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 2021.

5 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 \$18,729,000 (2021: \$17,426,000) and 400,000,000 shares (2021: 400,000,000 shares) in issue during the year.

(b) **Diluted earnings per share**

There were no potential dilutive shares in existence during the years ended 31 December 2022 and 2021.

6 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2022 \$'000	2021 \$'000
Trade debtors	315,411	351,135
Other receivables, deposits and prepayments	15,791	36,155
Amounts due from a joint operation partner (<i>note (i)</i>)	—	273
	<u>331,202</u>	<u>387,563</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 \$5,610,000 (2021: \$7,314,000) 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:

	2022 \$'000	2021 \$'000
Within 1 month	229,879	335,253
Over 1 but within 2 months	68,333	9,629
Over 2 but within 3 months	11,748	2,973
Over 3 months but within 6 months	5,451	3,280
	<u>315,411</u>	<u>351,135</u>

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country 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

	2022 \$'000	2021 \$'000
Trade creditors	222,002	211,828
Accruals and other payables	459,255	535,998
Dividend payable to non-controlling interests	1,000	–
Amounts due to joint operation partners (<i>note (i)</i>)	1,062	1,062
Provision for construction works (<i>note (ii)</i>)	17,711	34,332
Retentions payable	316,217	337,723
	<u>1,017,247</u>	<u>1,120,943</u>

Notes:

- (i) The amounts due to joint operation partners are interest-free, unsecured and repayable on demand.
- (ii) As at 31 December 2022 and 2021, 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 fulfilling with the contract. The amount of provision is reviewed on an ongoing basis.
- (iii) Except for the amounts of \$144,393,000 (2021: \$164,914,000), 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:

	2022 \$'000	2021 \$'000
Within 1 month	208,454	137,348
Over 1 but within 2 months	5,234	41,304
Over 2 but within 3 months	27	13,606
Over 3 months	8,287	19,570
	<u>222,002</u>	<u>211,828</u>

8 BANK LOANS

	2022 \$'000	2021 \$'000
Bank loans, repayable within 1 year		
— Unsecured	<u>50,000</u>	<u>82,121</u>

- (a) As at 31 December 2022, the bank loans bear interest ranging from 6.15% to 6.40% (2021: 1.69% to 1.98%) per annum.
- (b) As at 31 December 2022 and 2021, 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 (2021: \$20,113,000);
 - (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:

	2022 \$'000	2021 \$'000
Interim dividend declared and paid of 2.5 cents (2021: 2.0 cents) per ordinary share	10,000	8,000
Final dividend proposed after the end of the reporting period of 3.5 cents (2021: 3.0 cents) per ordinary share	<u>14,000</u>	<u>12,000</u>
	<u>24,000</u>	<u>20,000</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

	2022		2021	
	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 increased by 1.17% to HK\$3,667.08 million (2021: HK\$3,624.51 million). The Group recorded a net profit attributable to equity shareholders of the Company of HK\$18.73 million in the Year (2021: HK\$17.43 million). The results for the Year were mainly due to the combined effect of a mix of projects from our general building works and civil engineering works undertaken during the Year, with the major projects being outlined in the following sections.

Major projects awarded and undertaken in 2022

During the Year, we were awarded 19 projects as a main contractor in Hong Kong (out of which 12 and 7 are from the public sector and private sector, respectively), with total original contract sum of approximately HK\$4,163 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	2,624
Original contract sum below HK\$500 million but at or above HK\$200 million	4	1,430
Original contract sum below HK\$200 million but at or above HK\$50 million	–	–
Original contract sum less than HK\$50 million	14	109
	<u>19</u>	<u>4,163</u>

As at 31 December 2022, we had a total of 13 projects for general building works and 22 projects for civil engineering works on hand. The total original contract sum of these projects was approximately HK\$16 billion. The outstanding value (defined as the difference between revenue recognised and the original contract sum) of our ongoing projects as at 31 December 2022 was approximately HK\$7.1 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 2022:

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum (<i>approximate HK\$'million</i>)	Revenue recognised during the financial year 2022 (<i>approximate HK\$'million</i>)
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	154.0
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	649.4
Construction of Subsidised Sale Flats Development of the Housing Authority	General building works	Construction of Subsidised Sale Flats	October 2022*	1,911.0	683.3
Construction managed by the Architectural Services Department	Civil engineering works	Construction of Open Space at Hung Hom Waterfront	December 2023	193.0	34.3

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum	Revenue recognised during the financial year 2022
				(approximate HK\$'million)	(approximate HK\$'million)
Design and Construction managed by the Evangelical Lutheran Church Social Service-Hong Kong	General building works — Maintenance projects	Design and Construction of Proposed Transitional Housing for Evangelical Lutheran Church Social Service-Hong Kong — Ngau Tam Mei, Yuen Long, New Territories	January 2024	484.0	–
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	190.6
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	30.6
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	153.3
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	383.5
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	217.3

Project type	Business segment	Scope of works	Original contract completion date	Original contract sum	Revenue recognised during the financial year 2022
				(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 other properties in Tuen Mun and Yuen Long for which Architectural Services Department (Property Services Branch) is responsible	March 2025	784.8	252.6
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	83.1
Term Maintenance of Water Supply and Fire Services in Housing Authority Estates, Areas and Buildings for the Housing Authority	Civil engineering works — maintenance project	Term Maintenance of Water Supply and Fire Services in Housing Authority Estates, Areas and Buildings for Hong Kong Housing Authority (WTT Region)	September 2025	201.2	8.9
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	177.0

* The actual contract completion date was postponed and the project was still ongoing as at 31 December 2022.

Major projects completed in 2022

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 completion date	Original contract sum	Revenue recognised during the financial year 2022
				(<i>approximate HK\$'million</i>)	(<i>approximate HK\$'million</i>)
Piers maintenance for the Civil Engineering and Development Department	Civil engineering works — maintenance project	To carry out maintenance works for piers	March 2017 to March 2022	150.1	46.3
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)	February 2019 to August 2022	531.1	98.3

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\$2,777.98 million and HK\$611.80 million (2021: HK\$2,787.28 million and HK\$608.97 million), respectively, representing approximately 75.76% and 16.68% (2021: 76.90% and 16.80%), 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), 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 7.56% of the total revenue of the Group for the Year (2021: 6.30%).

Award of contracts after the Year

The Group has been awarded the following contract for civil engineering works after the Year 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)
Site Formation Works for Civil Engineering and Development Department	Civil engineering works	Site formation works at Queen's Hill extension, Fanling	March 2023 to March 2026	197

FINANCIAL REVIEW

Revenue

Our revenue increased by approximately HK\$42.57 million, or approximately 1.17%, from HK\$3,624.51 million for 2021 to HK\$3,667.08 million for 2022. The increase in our revenue was mainly due to the increase in our revenue from other services business of HK\$49.03 million.

Revenue from general building business decreased by approximately HK\$9.30 million, or approximately 0.33%, from HK\$2,787.28 million for 2021 to HK\$2,777.98 million for 2022. The decrease in revenue between years was primarily due to the completion of certain general building contracts, in particular the contract for maintenance of properties managed by the Architectural Services Department was completed in August 2022. In addition, there was a decrease in revenue between years for certain general building contracts as they approached the completion stage, including mainly the construction of public rental housing development and subsidised sale flats development for the Housing Authority. This was partly offset by the increase in revenue between years in accordance with the work progress of other general building contracts, including the infrastructure works for non-public housing facilities for the Housing Authority.

Revenue from civil engineering business increased by approximately HK\$2.83 million, or approximately 0.46%, from HK\$608.97 million for 2021 to HK\$611.80 million for 2022. The increase in revenue between years was primarily due to the increase in accordance with the work progress of certain civil engineering contracts, including the construction of Open Space at Hung Hom Waterfront by the Architectural Services Department. This was partly offset by the decrease in revenue as a result of completion of certain civil engineering contracts, including the contract for maintenance of piers for the Civil Engineering and Development Department.

Revenue from other services (which mainly comprised housing and property management services, fresh water and fresh water maintenance services, sewage water sampling services, electrical and mechanical engineering services and BIM services) for 2022 amounted to HK\$277.29 million (2021: HK\$228.26 million), representing 7.56% (2021: 6.30%) of the total revenue of the Group. The increase in revenue from other services was mainly due to the increase in revenue from sewage water sampling services between years.

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

Gross profit and gross profit margin

The Group recorded a gross profit of HK\$77.41 million for the Year, as compared with a gross profit of HK\$85.71 million for 2021. The reduction in gross profit between years was mainly attributable to the loss incurred by the civil engineering contract for the infrastructure works for developments at the southern part of the former runway as a result of the cost overruns by subcontractors during the finalisation of contracts with the individual subcontractors.

The Group recorded a gross profit margin of 2.11% for 2022, compared to a gross profit margin of 2.36% for 2021. The decrease in gross profit margin between years was mainly explained by the loss incurred by certain civil engineering contracts as a result of cost overruns by subcontractors during the finalisation of contracts with the individual subcontractors.

Other revenue

Other revenue mainly consisted of interest income and sundry income. Our other revenue for 2022 amounted to HK\$33.02 million, compared to that of HK\$3.64 million in 2021. The other revenue in 2022 comprised government subsidies of approximately HK\$32.22 million received pursuant to the 2022 Employment Support Scheme under the Anti-epidemic Fund, which provided wage subsidies to employers for three months (i.e. May, June and July 2022).

Other net gain

Our other net gain for 2022 amounted to HK\$2.05 million, compared to our other net gain of HK\$1.37 million for 2021. The other net gain in 2022 mainly comprised HK\$1.10 million gain on disposal of property, plant and equipment and HK\$1.03 million net realised and unrealised gain on interest rate swaps.

Administrative expenses

Administrative expenses mainly consisted of staff costs and rental charges. Our administrative expenses for 2022 amounted to HK\$63.16 million, compared to that of HK\$65.44 million for 2021. The decrease was mainly due to the decrease in rental charges between years.

Finance costs

Our finance costs for 2022 amounted to HK\$3.18 million, compared to that of HK\$2.41 million for 2021. The increase was mainly attributable to the increase in bank interest rates of the Group during the Year.

Share of results of a joint venture

Our share of results of a joint venture for 2022 was a net loss of HK\$2.13 million, compared to that of a net loss of HK\$2.30 million for 2021. The loss was mainly explained by the share of administrative expenses incurred by the joint venture.

Income tax

Our income tax for 2022 was HK\$24.26 million, compared to HK\$2.59 million for 2021. The increase was mainly due to the reversal of deferred tax assets arising from tax losses of a subsidiary which we re-assessed not probable to be utilised in the near future.

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 amounting to HK\$18.73 million for 2022, compared to a profit attributable to the equity shareholders of the Company of HK\$17.43 million for 2021.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital Structure

As at 31 December 2022, the capital structure of the Group consisted of equity of HK\$371.84 million (2021: HK\$375.59 million) and bank loans of HK\$50.00 million (2021: HK\$82.12 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 2022, our cash and cash equivalents were HK\$262.56 million (2021: HK\$236.84 million).

As at 31 December 2022, the current ratio of the Group was 1.25 (2021: 1.20).

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

Borrowings

As at 31 December 2022, the Group had bank loans, which are repayable within one year, of approximately HK\$50.00 million (2021: HK\$82.12 million). As at 31 December 2022, the bank loans bear interest ranging from 6.15% to 6.40% (2021: 1.69% to 1.98%) per annum. The decrease in bank loans between years was mainly due to the sufficient internal resources available to finance the working capital of the existing projects and hence a decrease in demand of bank loans.

As at 31 December 2022, the Group had approximately HK\$1,517 million (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 remains in compliance with its loan covenants during the Year.

GEARING RATIO

As at 31 December 2022, the Group's gearing ratio was 13.45% (2021: 21.86%), 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 2022, the Group had net current assets of HK\$312.03 million (2021: HK\$282.92 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\$8.41 million (2021: HK\$11.73 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 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 Year.

FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

Save as disclosed below, the Group had no other financial guarantees and contingent liabilities as at 31 December 2022:

- (a) As at 31 December 2022, approximately HK\$343,227,000 (2021: HK\$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 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 do not consider it probable that a claim will be made against the Group.

- (b) As at 31 December 2022, the Group has provided guarantees of HK\$128,786,000 (2021: HK\$177,951,000) representing a 50% proportionate guarantee in respect of certain banking facilities of HK\$257,573,000 (2021: HK\$355,902,000) granted to its joint venture in Macau. The 50% proportionate facilities were utilised to the extent of HK\$88,343,000 (2021: HK\$124,979,000), of which amounts of HK\$74,071,000 (2021: HK\$92,090,000) 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 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, the Directors consider that no provision for the contingent liabilities in respect of these litigations is necessary, after due consideration of each case.
- (e) A subsidiary of the Group is defendant in several arbitration proceedings relating to projects performed. With reference to legal opinions obtained, the Directors considered that the possibility of any economic outflow in settling such arbitration proceedings is remote. Accordingly, the Directors consider that no provision for the contingent liabilities in respect of such arbitration proceedings is necessary, after due consideration of each case.

PLEDGE OF ASSETS

At 31 December 2022, the Group had pledged deposits, amounting to HK\$20.11 million (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 relatively stable between years.

CAPITAL COMMITMENTS

As at 31 December 2022, our Group did not have any capital commitments (2021: Nil).

EMPLOYEES AND REMUNERATION POLICY

The Group maintains a very stable and experienced management team and an amicable long-term relationship with its employees as it is our belief that our employees are important assets to the Group. As at 31 December 2022, the Group has 1,351 employees in Hong Kong of which 1,278 were full-time employees and 73 were part-time employees. The Group's total remuneration for 2022 was approximately HK\$474 million. 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. The Directors consider that the Group has maintained good relationship with its employees. The Group has not experienced any strikes, work stoppages or labour disputes which affected its operations during the Year. The Directors also consider that the relationship and co-operation between the management team and the employees have been good during the Year.

FUTURE PROSPECTS

The impact of COVID-19 has gradually eased and the local economy is gradually picking up in 2023. We believe that the Hong Kong Government will take more measures to boost the economy. 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 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 Board is of the opinion that the Company has complied with all the applicable code provisions, except for the deviation from provision C.2.1 and D.2.5 of the CG Code during the Year.

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 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 2022, 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 2022 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 2022 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 Thursday, 25 May 2023 (the “2023 AGM”). A notice convening the 2023 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 HK3.5 cents per ordinary share of the Company (the “Share”) for the Year (2021: HK3.0 cents per Share), amounting to HK\$14 million (2021: HK\$12 million). Such payment of dividends will be subject to the approval of the Shareholders at the 2023 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 Wednesday, 7 June 2023. It is expected that the proposed final dividend will be paid on or about Wednesday, 21 June 2023.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Monday, 22 May 2023 to Thursday, 25 May 2023 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 19 May 2023.

In order to establish entitlements to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 6 June 2023 to Wednesday, 7 June 2023 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Monday, 5 June 2023.

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 2022 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.

PROPOSED AMENDMENTS TO THE BYE-LAWS

The Board proposes to seek the approval of the Shareholders for certain amendments to the existing bye-laws of the Company (the “Existing Bye-laws”).

The Board wishes to amend the Existing Bye-laws for purpose of, among others, (i) complying with the Core Shareholder Protection Standards as set out in Appendix 3 of the Listing Rules; and (ii) making some other housekeeping amendments.

The proposed amendments to the Existing Bye-laws are subject to the approval of the Shareholders by way of a special resolution at the 2023 AGM and will become effective upon the approval by the Shareholders at the 2023 AGM.

A circular containing, among other matters to be tabled at the 2023 AGM, details of the proposed amendments to the Existing Bye-laws together with a notice of the 2023 AGM will be despatched to the Shareholders in due course.

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

Hong Kong, 27 March 2023

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.