Management Discussion and Analysis

BUSINESS REVIEW

The Group maintained its position as one of the leading E&M (electrical and mechanical) engineering companies in Hong Kong, capable of providing a comprehensive range of E&M engineering and environmental engineering services. It also continued to run strong its E&M engineering operations in Mainland China and Macau. On top of its full range of licences and qualifications and effectiveness in managing tendering risks, the Group has integrated operating and control procedures, strong networks of well-established customers and suppliers, and an experienced and well-trained workforce to support all of its operations. Thus, it has strong confidence in securing and undertaking integrated E&M engineering projects in Hong Kong, Mainland China and Macau.

In addition, the Group is committed to creating a greener society. To help build a sustainable environment, the Group has been constantly optimising design and exploring innovative methods. At the project level, it incorporates green building principles into application of building services equipment; and adopts green building design, modularisation and prefabrication to reduce energy usage, carbon emissions and construction waste. Furthermore, it invests in innovative construction technologies such as Building Information Modelling (BIM), laser scanning and mobile solutions, in order to help improve its operational efficiency and project management. The Group's environmental management service business, a new growth driver, continues to provide environmental assessment and energy efficient solutions to assist its customers in achieving their environmental protection and energy conservation goals.

Going ahead, the Group will continue to focus on applying its core competencies to raise customer satisfaction and ensure sustainable growth and profitability of its business. It shall continue to give first priority to large-scale projects including design and construction contracts from the government, public infrastructure works, hospital development projects, and public housing and subsidised housing projects, as well as private commercial and residential building projects.

Financial performance

Leveraging its competitive strengths as described above, the Group delivered a solid financial performance and recorded revenue amounting to HK$3,700.1 million for the Year, representing an increase of HK$228.2 million or 6.6%, as compared with HK$3,471.9 million in FY2016. Profit attributable to equity holders for the Year was HK$173.8 million, representing an increase of HK$10.6 million or 6.5 % against HK$163.2 million in FY2016.

As at 30 June 2017, the Group's projects encompassed a wide range of buildings and facilities, including offices, shopping malls, convention and exhibition centres, hotels, gaming centres, residential properties, universities, hospitals, airport and public transportation facilities buildings with a total outstanding contract sum of HK$5,600 million. During FY2017, the Group submitted tenders for 677 E&M engineering and environmental services projects (with a contract sum equal to or exceeding HK$1.0 million for each project, if awarded) with a total tender sum of HK$20,880 million.

Management Discussion and Analysis

New contracts awarded

During FY2017, the Group was awarded new contracts with a total value of HK$3,031 million, which include 111 contracts (with a net contract sum equal to or exceeding HK$1.0 million for each project) with a total net contract sum of HK$2,770 million. Among these 111 contracts, eight of them are major projects (with net contract sum equal to or more than HK$100.0 million for each project) as listed below:

Hong Kong:

1. Electrical and Mechanical, Ventilation and Air-conditioning ("MVAC") installation for the Hong Kong International Airport Contract P568 Midfield Apron Development Works at Chek Lap Kok, Lantau Island, New Territories;

2. Plumbing and drainage installation for a proposed residential development for LOHAS Park Package 5 at Site G, Tseung Kwan O Town Lot No. 70, Area 86, Tseung Kwan O, New Territories;

3. Plumbing and drainage installation for a proposed residential development at Site N, Tseung Kwan O Town Lot No. 70 Remaining Portion, LOHAS Park Package 6, Tseung Kwan O, New Territories;

4. Electrical and fire services installation for public rental housing at Pak Tin Estate Phase 7 & 8, Sham Shui Po, Kowloon;

5. Fire services installation for public housing at North West Kowloon Reclamation Site 6 and Fat Tseung Street West, Kowloon;

6. E&M installation for Hong Kong Airlines Aviation Training Centre at Chek Lap Kok, Lantau Island, New Territories;

Macau:

7. Electrical installation for Morpheus Hotel at City of Dreams, Phase 3, Cotai;

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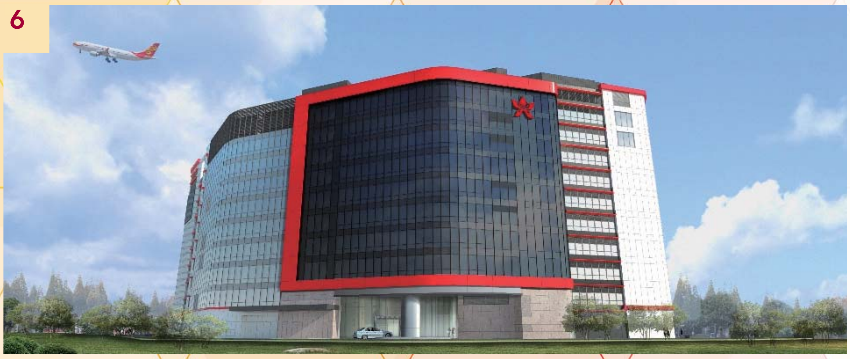

Mainland China:

8. Heating, Ventilation and Air-conditioning ("HVAC") and Electrical installation for the podium of Spring City 66 — a commercial complex development at 15 Dongfeng Dong Road/433 Beijing Road, Panlong District, Kunming.

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Completed projects

The Group completed several prestigious projects during the Year, including:

Hong Kong:

1. E&M installation for Gleneagles Hong Kong Hospital, Wong Chuk Hang, Hong Kong;

2. Electrical installation for On Tat Estate public housing comprising On Tat Shopping Centre, Yat Tat House, Sin Tat House, Lai Tat House and Chi Tat House at Kwun Tong, Kowloon;

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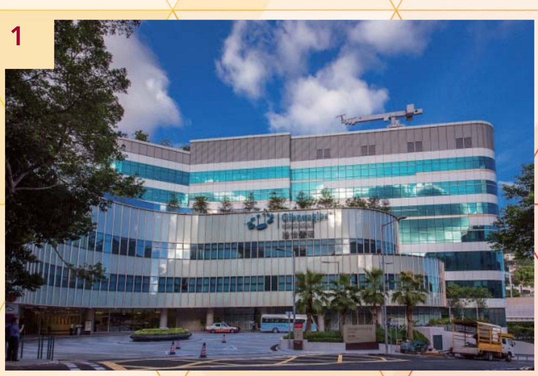

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3. Electrical installation for Shui Chuen O Estate public rental housing comprising Mau Chuen House, Lam Chuen House, Shou Chuen House, Chuk Chuen House, Sung Chuen House, Shan Chuen House, Tsun Chuen House and Ling Chuen House at Shatin, New Territories;

4. Plumbing and drainage installation for YUCCIE Square in Yuen Long, New Territories;

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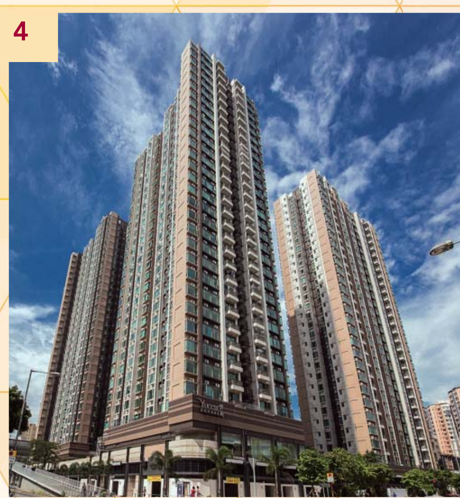

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5. Electrical installation for Kerry Hotel in Hung Hom Bay, Kowloon;

6. E&M installation for the Shue Yan University Research Complex at Braemar Hill, North Point, Hong Kong;

Macau:

7. HVAC installation for the Hotel Tower of The Parisian at Cotai;

8. Central chiller plant and sitewide Building Management System, dry fire sitewide, and hotel tower HVAC installation for Wynn Palace Cotai Resort, Cotai;

Mainland China:

9. E&M installation for the renovation of Jing Guang Centre, Beijing;

10. E&M installation for the renovation of public area at Level B1 to B3, carpark and outdoor plaza at Plaza 66, Shanghai.

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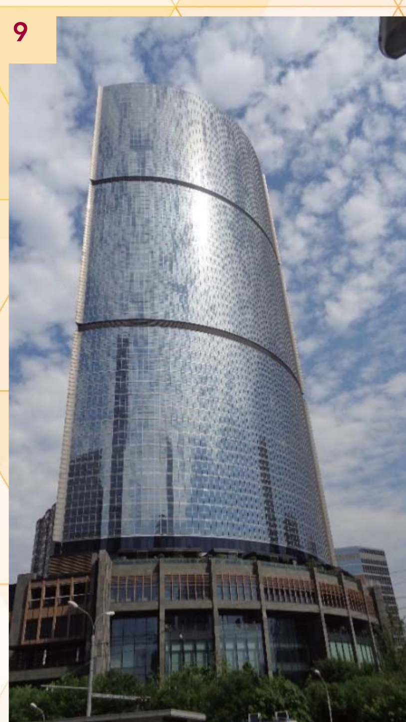

Management Discussion and Analysis

Projects on hand

As at 30 June 2017, major outstanding contracts with remaining works valued at more than HK$100.0 million including:

Hong Kong:

1. Design, supply and installation of E&M services for the West Kowloon Government Office in Yau Ma Tei, Kowloon;

2. Electrical, fire services, MVAC and central chiller plant installation for Victoria Dockside in Tsim Sha Tsui, Kowloon;

3. E&M installation for Hong Kong Airlines Aviation Training Centre at Chek Lap Kok, Lantau Island, New Territories;

4. Plumbing and drainage installation for a proposed residential development for LOHAS Park Package 5 at Site G at Tseung Kwan O Town Lot No. 70, Area 86, Tseung Kwan O, New Territories;

5. Plumbing and drainage installation for a proposed residential development at Site N, Tseung Kwan O Town Lot No. 70 Remaining Portion, LOHAS Park Package 6, Tseung Kwan O, New Territories;

6. Plumbing and drainage installation and fire services installation for Ocean Pride in Tsuen Wan, New Territories;

7. Plumbing and drainage installation for Ocean Supreme in Tsuen Wan, New Territories;

8. Electrical and MVAC installation for the Hong Kong International Airport Contract P568 Midfield Apron Development Works at Chek Lap Kok, Lantau Island, New Territories;

9. Plumbing and drainage installation for Harbour Glory at Oil Street, North Point, Hong Kong;

10. Electrical and fire services installation for a public rental housing at Pak Tin Estate Phase 7 & 8, Sham Shui Po, Kowloon;

11. Fire services installation for a public housing at North West Kowloon Reclamation Site 6 and Fat Tseung Street West, Kowloon;

Macau:

12. Electrical installation for Morpheus Hotel at City of Dreams, Phase 3, Cotai;

Mainland China:

13. HVAC and Electrical installation for the podium of Spring City 66 — a commercial complex development at 15 Dongfeng Dong Road/433 Beijing Road, Panlong District, Kunming.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

In FY2017, the Group's revenue increased by HK$228.2 million or 6.6% to HK$3,700.1 million, mostly attributable to the higher revenue of HK$227.7 million derived from our E&M engineering segment.

The following table presents a breakdown of the Group's revenue by business segments:

	For the year ended 30 June			
	2017	**% of total revenue**	2016	% of total revenue
	HK$'M		HK$'M	
E&M engineering*	**3,646.0**	**98.5%**	3,418.3	98.5%
Environmental management services*	**54.1**	**1.5%**	53.6	1.5%
Total	**3,700.1**	**100.0%**	3,471.9	100.0%

* Segment revenue does not include inter-segment sales.

- *E&M (electrical and mechanical) engineering:* This segment has remained the key turnover driver and contributed 98.5% of the total revenue of the Group (2016: 98.5%). Segmental revenue was up by 6.7% from HK$3,418.3 million to HK$3,646.0 million for the Year, owing mainly to the increase in revenue from the installation division, primarily through significant progress of a number of major E&M projects in Hong Kong. The increase was partly offset by the reduction in contribution from Macau with central chiller plant and sitewide Building Management System, dry fire sitewide and hotel tower HVAC installation for Wynn Palace Cotai Resort ("Wynn Palace") and HVAC installation for the Hotel Tower of The Parisian at Cotai ("The Parisian") which had been substantially completed in FY2016.

- *Environmental management services:* Revenue contribution of this business segment was stable at HK$54.1 million (2016: HK$53.6 million), representing a mild growth of 0.9% as compared with FY2016. Segment revenue from environmental management services for the Year was primarily contributed by water treatment projects and bio-technology installation and maintenance services.

The following table presents a breakdown of our Group's revenue geographically:

	For the year ended 30 June			
	2017	2016	Change	% change
	HK$'M	HK$'M	HK$'M	
Hong Kong	**2,843.1**	2,367.8	475.3	20.1%
Mainland China	**476.8**	405.0	71.8	17.7%
Macau	**380.2**	699.1	(318.9)	(45.6%)
Total	**3,700.1**	3,471.9	228.2	6.6%

Hong Kong: Revenue from Hong Kong increased by HK$475.3 million or 20.1% to HK$2,843.1 million in FY2017. The increase was mainly attributable to the substantial revenue contribution from a number of sizeable installation projects, including E&M installation for Gleneagles Hong Kong Hospital in Wong Chuk Hang, plumbing and drainage installation for Ocean Pride and Ocean Supreme in Tsuen Wan and electrical installation for Bloomsway and Napa in So Kwun Wat, Tuen Mun which made significant progress in FY2017 and lifted Hong Kong's contribution to the Group's total revenue from 68.2% to 76.8%.

Mainland China: Revenue from Mainland China increased by 17.7% from HK$405.0 million to HK$476.8 million in FY2017 with its geographical contribution increased from 11.7% to 12.9%. The increase of HK$71.8 million was primarily the revenue contributed by a mixed used commercial building in Shanghai, Jing An District and a shopping mall in Dalian.

Macau: Revenue from Macau decreased by 45.6% to HK$380.2 million in FY2017 with its geographical contribution of the region dropping from 20.1% in FY2016 to 10.3% in FY2017. The decline mainly resulted from the reduction in the revenue contribution from two major projects, namely Wynn Palace and The Parisian which had been substantially completed in FY2016.

Gross profit

The Group's overall gross profit increased by HK$35.0 million or 9.4% to HK$406.9 million in FY2017, whereas the overall gross profit margin remained relatively stable at 11.0% (2016: 10.7%). The increase in gross profit was mainly in line with the overall remarkable growth of the Group's revenue, of which the gross profit derived from our E&M engineering business significantly increased in FY2017 with its segment gross profit margin maintained at 10.7% (2016: 10.5%). The gross profit margin of the environmental management services segment improved from 23.3% to 28.3%, mainly owing to an increase in revenue from water treatment services and bio-technology maintenance services with a relatively higher profit margin. Gross profit in this segment rose to HK$15.3 million in FY2017, representing an increase of HK$2.8 million or 22.4% as compared with FY2016.

The following table presents the breakdown of the Group's gross profit by business segments:

	For the year ended 30 June			
	2017		2016	
	Gross profit HK$'M	**Gross profit margin %**	Gross profit HK$'M	Gross profit margin %
E&M engineering	**391.6**	**10.7**	359.4	10.5
Environmental management services	**15.3**	**28.3**	12.5	23.3
Total	**406.9**	**11.0**	371.9	10.7

Other income/gains, net

The Group did not record other net gains in a material amount for both FY2016 and FY2017, which amounted to HK$0.5 million and HK$3.6 million, respectively. Other net gains in FY2017 mainly included gain on disposal of land use right and property, plant and equipment and net foreign exchange gain.

Finance income

The Group recorded finance income of HK$14.5 million (2016: HK$10.8 million). The increase in finance income, which consisted primarily of the Group's bank interest income of HK$13.4 million, was mainly due to the increase in average principal and the market interest rate on the Group's bank deposit placed in Hong Kong. The Group recorded interest income of HK$1.1 million from new investment in available-for-sale financial assets and financial assets at fair value through profit or loss during FY2017.

General and administrative expenses

In FY2017, the general and administrative expenses of the Group increased by 3.4% to HK$208.5 million as compared with HK$201.6 million in FY2016. The increase of HK$6.9 million was mainly attributable to the additional depreciation charges for newly acquired property and associated leasehold improvement and increase in rental expenses in FY2017, partly offset by the one-off non-recurring listing expenses of HK$16.8 million in last year.

Taxation

The effective tax rate of the Group increased from 10.1% in FY2016 to 19.7% in FY2017. The relatively low effective tax rate in FY2016 resulted from the utilisation of previously unrecognised tax losses of HK$9.2 million mainly for a joint operation project that was non-recurring in FY2017 together with the higher profit contribution from Macau which has relatively lower applicable corporate income tax rate.

Profit attributable to equity holders

As a result of the foregoing, the Group's profit attributable to equity holders for the Year increased by 6.5% or HK$10.6 million from HK$163.2 million in FY2016 to HK$173.8 million in FY2017. The increase was the combined result of higher contracting revenue mostly from our core business segment, which was partly offset by the respective tax charge on the higher operating profit of the Group. The net profit margin of the Group remained stable at 4.7% for FY2016 and FY2017.

Other comprehensive loss

The Group recorded other comprehensive loss of HK$8.5 million in FY2017, comprising mainly the decrease in exchange reserve of HK$9.0 million resulting from the devaluation of the RMB and the reduced currency rate adopted in the accounting translation of RMB-denominated net investments in our Mainland China operations into Hong Kong dollars (the Group's presentation currency) for the purpose of preparing the Company's financial statements, partly offset by the increase in the investment revaluation reserve, net of tax, of HK$0.5 million in relation to the increase in the estimated market price for the Group's available-for-sale financial assets.

Liquidity and financial resources

The Group's finance and treasury functions have been centrally managed and controlled at the headquarters in Hong Kong. As at 30 June 2017, the Group had total cash and bank balances of HK$978.3 million, of which 55%, 33% and 12% were denominated in Hong Kong dollars, RMB and other currencies respectively (2016: 68%, 28% and 4% respectively). As compared with 30 June 2016, the Group's cash and bank balances decreased by HK$347.6 million from HK$1,325.9 million which was primarily due to the distribution of final dividends of HK$42.3 million for FY2016, interim dividends of HK$33.3 million for FY2017, the acquisition of a property holding group of HK$282.3 million, and net investment in available-for-sale financial assets and other financial assets through profit or loss in sum of HK$98.0 million, partly offset by the increase in net cash inflow from operating activities.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year and did not have any bank borrowings and outstanding borrowings as at 30 June 2017 (2016: Nil). Hence the Group's gearing ratio (being our total borrowings divided by our total equity) was maintained at zero as at 30 June 2017. As at 30 June 2017, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$1,091.0 million (2016: HK$1,119.2 million), of which HK$323.7 million (2016: HK$329.3 million) had been utilised for bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet the needs of its current business operations and capital expenditures.

Foreign currency exposure

The Group operates primarily in Hong Kong, Macau and Mainland China and is not exposed to significant foreign exchange risk. The Group does not have a foreign currency hedging policy and it manages our foreign currency risk by closely monitoring the movement of the foreign currency rates and will consider to enter into forward foreign exchange contracts to reduce its exposure to foreign currency risk should the need arises.

As part of the Group's business was carried out in Mainland China, part of its assets and liabilities were also denominated in RMB. The majority of these assets and liabilities have arisen from the net investments in our Mainland China operations, which had net assets of HK$167.8 million as at 30 June 2017. The foreign currency translation of the financial statements in respect of these Mainland China operations from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the Group's presentation currency) will not affect the Group's profit before and after tax, and will be recognised in its other comprehensive income.

During the Year, the fluctuation of the RMB against the Hong Kong dollars was 5.1% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the Year).

As at 30 June 2017, if the Hong Kong dollars had strengthened/weakened by another 5.0% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$8.4 million lower/higher.

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 30 June 2017, the net proceeds of HK$264.5 million received from the Global Offering (referred to in the prospectus issued by the Company on 26 November 2015) were applied as follows:

	Net proceeds from Global Offering HK$'M	Aggregated utilised amount up to 30 June 2017 HK$'M	Unutilised amount HK$'M
Investment in/acquisition of companies engaged in the installation and maintenance of ELV system	81.6	2.2	79.4
Development of environmental management business	51.0	2.0	49.0
Operation of E&M engineering projects on hand and prospective projects	47.4	47.4	–
Staff-related additional expenses	20.0	13.7	6.3
Development and enhancement of design capability	19.3	11.6	7.7
Enhancement of quality testing laboratory	12.2	3.4	8.8
Upgrade of corporate information technology system and software	8.0	3.8	4.2
General working capital	25.0	25.0	–
Total	264.5	109.1	155.4

During FY2017, the Group utilised HK$51.9 million of the net proceeds. The Group held the unutilised net proceeds mainly in short-term deposits or time deposits with licensed banks and authorised financial institutions in Hong Kong.

Contingent liabilities

The Group has no material contingent liabilities as at 30 June 2017 (2016: Nil).

Change in accounting policy

In accordance with HKAS 16 Property, Plant and Equipment, leasehold land and buildings can either be accounted for using the cost model or the revaluation model. With effective from 1 July 2016, the Group changed to adopt the cost model to account for leasehold land and buildings instead of the revaluation model because cost model is more common accounting practice adopted by market players. This voluntary change in accounting policy has enabled the Group to provide reliable and more relevant information on the financial statements about its performance and financial position. The impact of such change is primarily to restate the leasehold land and buildings of the Group to their historical cost. Under the new accounting policy, the total equity of the Group as at 30 June 2016 is restated from HK$901.2 million to HK$822.8 million whereas profit attributable to the equity holders for the year ended 30 June 2016 is restated from HK$161.1 million to HK$163.2 million. Details of the change and the respective financial effect are set out in Note 2.1(iii) of the Consolidated Financial Statements.

Management Discussion and Analysis

Major transaction

On 5 October 2016, a conditional sale and purchase agreement (the "S&P Agreement") was entered into between Catchy Investments Limited (the "Vendor", a wholly-owned subsidiary of New World Development Company Limited) and Fortunate House Limited (the "Purchaser", a wholly-owned subsidiary of the Company) whereby the Purchaser agreed to purchase and the Vendor agreed to sell the entire issued share capital of Optimum Result Holdings Limited (the "Target") together with the unsecured non-interest bearing shareholder's loan owing from the Target to the Vendor amounting to HK$153.1 million (the "Sale Loan") for an aggregate consideration of HK$285.0 million (the "Consideration"), subject to adjustment. The principal business of the Target is investment holding, with its investment in Ocean Front Investments Limited ("Ocean Front") as its sole investment. The principal business of Ocean Front is property holding, with a property located at 17th Floor of Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong (the "Property") as its major asset. HK$28.5 million, representing 10% of the Consideration was paid in cash upon signing of the S&P Agreement. The acquisition under the S&P Agreement was approved by the independent shareholders at the extraordinary general meeting of the Company held on 30 November 2016. Completion of the S&P Agreement took place on 9 January 2017 upon which the remaining 90% of the Consideration amounting to HK$249.3 million (after an adjustment of HK$7.2 million with reference to the unaudited consolidated net tangible asset value of the Target and its subsidiary excluding the value of the Property and the Sale Loan) was paid in cash. A final cash payment of the Consideration of HK$3.1 million was made on 7 March 2017 with reference to the unaudited consolidated net tangible asset value of the Target and its subsidiary excluding the value of the Property and the Sale Loan as at the completion date.

Upon completion, each of the Target and Ocean Front became a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of each of them have been consolidated in the financial statements of the Company for the Year. The Property is currently being utilised as office premises of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Managing environmental, social and governance ("ESG") risks is essential to ensuring the long-term growth of the Group. Led by our Executive Director, the Group's management committee oversees the implementation of our Integrated Management System ("IMS"). The IMS combines three international management system standards — ISO 9001 Quality Management System, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System — providing the effective and efficient monitoring and management of ESG-related matters.

A report on the ESG aspects is being prepared with reference to Appendix 27 Environmental, Social and Governance Reporting Guide to the Listing Rules and will be published on the Company's and the Stock Exchange's websites in November 2017.

Discussion on Environmental Policies and Performance

Our Group's E&M engineering operations may not make a significant impact on the environment, yet we recognise our responsibility to contribute to a greener future and minimise the limited environmental effects arising from our operations. To track our environmental performance, we have implemented the ISO 14001 Environmental Management System, a core component of our IMS. This system enables us to identify and manage the environmental issues associated with our operations through a continuous improvement cycle. The identified environmental issues are recorded in the Environmental Aspect Register through which we can take appropriate actions in a timely manner and keep track of improvements over time.

We constantly seek opportunities to reduce energy consumption and greenhouse gas ("GHG") emissions throughout all stages of engineering operations — from design and installation to operation and maintenance. For instance, we have deployed modularisation and pre-fabrication techniques and incorporated green features in our projects to align with green building principles. The Group continues to raise the environmental awareness of employees by sharing energy-saving tips and encouraging behavioural changes. We have also introduced and implemented Green Office Guidelines for head offices, work sites, workshops and plant rooms to provide practical guidance for employees on waste management and energy conservation.

The Group has devoted considerable effort to waste management and has introduced protocols and procedures for handling various types of waste throughout our operations. For instance, we have recently launched a solid waste reduction programme to reduce the disposal of scrap pipe sections generated in our prefabricated workshop in Fanling. We also encourage our employees to mindfully utilise paper, and, to further reduce paper waste in our operations, we have extended our waste reduction policy to cover our site offices and workshops.

We have also continued our support of community-driven environmental programmes and initiatives. During the Year, we once again participated in "Biz-Green Dress Day" for Hong Kong Green Building Week 2016, and "Earth Hour 2016" organised by World Wide Fund (WWF) Hong Kong. Demonstrating the commitment of our employees to behavioural change and green living, our staff members have actively participated in The Community Chest GREEN DAY and "No Air Con Night" organised by Green Sense.

Account of Key Relationships with Employees, Customers and Suppliers

Employees

The Group is committed to providing a fair, respectful, and harmonious workplace free of harassment or discrimination in any form. It offers competitive remuneration packages as well as other fringe benefits corresponding to employees' performance, experience and job duties. To effectively manage and evaluate performance, we have a fair and open performance appraisal process in place for annual assessments which also serves as an engagement channel between employees and management.

A healthy work-life balance is crucial to advancing the productivity of our employees. We support this philosophy through various staff engagement activities such as photography, pottery crafting, baking pastries, sports and outdoor activities. To contribute to the Group's efficiency in talent management, we have clear and transparent procedures governing staff recruitment and dismissal, training and development, performance reviews and promotion. Our commitment to the continued professional development of our employees is also upheld through various programmes and initiatives such as the Training and Education Subsidy Scheme and Project Management Procedures Training for engineers.

As a component of our IMS, the Group has implemented the OHSAS 18001 Occupational Health and Safety Management System. This integrated system guides our employees to assess, mitigate and control relevant health and safety risks throughout project lifecycles. A number of safety-related initiatives and measures have been put in place to safeguard the health and safety of our employees. We also organise safety training sessions on a regular basis to ensure that the established safety instructions with operational details are clearly communicated to our employees as well as our subcontractors' workers. To increase the safety awareness of our employees, we arrange regular lunch box meetings with on-site supervisors to draw their attention to possible risks, and use a mobile instant messaging application to deliver safety-related information to on-site workers.

To share the Group's safety culture with our subcontractors, regular safety training is arranged to refresh their knowledge on safety in the workplace. A safety award scheme was also established to recognise subcontractors with sound performance in health and safety management. Due to our continued efforts, we are pleased to report that there were no work-related fatalities during the Year.

Customers

To constantly provide efficient, professional and quality E&M engineering services to our customers, we have included the ISO 9001 Quality Management System as part of our IMS, along with sets of guidelines established by each department to ensure compliance and accountability. Periodic audits are carried out to identify potential risks and defects in our installations, thereby ensuring the quality of our service. In cases where any quality or safety concerns arise, an extensive investigation is carried out to identify the underlying causes and develop measures to prevent the recurrence of defects.

Suppliers and Subcontractors

The Group recognises the positive influence we have on our suppliers and subcontractors. To select suppliers and subcontractors who share our beliefs in sustainable practices, a procurement procedure is in place to assess project experience as well as safety performance and financial conditions. To be included on our Group's approved vendor list, suppliers and subcontractors must meet the set criteria and submit project references and relevant documentation. We have also established a comprehensive system to assess the suitability and performance of existing suppliers and subcontractors on an annual basis to ensure the quality and consistency of our service. Substandard suppliers and subcontractors are suspended or removed from our approved vendor list.

Compliance Status with Relevant Laws and Regulations That Have a Significant Impact on the Business

During the Year, there were no reported cases of non-compliance with relevant laws and regulations that have had a significant impact on business regarding the environment, health and safety, labour standards, and data privacy. However, in response to two minor safety non-compliance cases which were reported, we have immediately followed up and taken corrective actions to ensure safety compliance.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group had a total of 1,655 employees (2016: 1,662). Staff cost for the Year, including salaries and benefits, was HK$553.0 million (2016: HK$547.8 million). The decrease in the Group's total headcount is mainly due to the reduction in the number of employees in Macau upon the completion of major E&M engineering projects during the Year.

The Group offers attractive remuneration packages, including competitive fixed salaries plus performance-based annual bonuses, and continuously provides tailored training to its employees with the aim of promoting upward mobility within its organisation and fostering employee loyalty. Our employees are subject to regular job performance reviews which determine their promotion prospects and compensation. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

The Company maintained a share option scheme during the Year, which aims at providing incentives to the eligible participants (including the employees of the Group) to contribute to the Group and enables us to recruit high-caliber employees and attract human resources that are valuable to the Group. Details of the share option scheme are set out under the "Report of the Directors" section below.

All of the employees of the Group in Hong Kong have joined a mandatory provident fund scheme. The scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong). The Group has complied with the relevant laws and regulations, and the relevant contributions have been made by the Group in accordance with the relevant laws and regulations.

Management Discussion and Analysis

OUTLOOK

Overview

Based on its market leadership and buttressed by a proven track record, a well-established customer network and ample financial reserves, the Group will be able to continuously seek acquisition opportunities and engage competent professional talent to help it explore new market opportunities and expand geographical coverage in Hong Kong, Macau and Mainland China.

The Group will stay focused on applying its core competencies to raise customer satisfaction and ensure the sustainable growth and profitability of its business. The Board is confident that the Group, through its unwavering efforts, can maximise shareholders' value, enhance its corporate image as well as its position in the E&M engineering industry.

Currently, the E&M engineering segment in Hong Kong, which accounts for over 50% of the Group's total revenue and gross profit, remains the core business of the Group. However, while proud of its performance in this segment in Hong Kong, the Group is striving to bolster its market presence in other regions.

ELV Business

Regarding the ELV (extra low voltage) business, with more property developers adopting advanced technologies in their projects to enhance building sustainability and energy control, the segment presents good opportunities to generate business revenues and profit. In early 2016, the Group set up an ELV division which can complement the work of the E&M engineering segment and provide valued customers in the property development one-stop ELV service solutions — from concept development to design to commissioning.

Holding the Security Company Licence (Type III) governed by the Security and Guarding Services Industry Authority (SGSIA) under the Security Bureau, the Group can carry out Installation, Maintenance, Repairing and Design of Security Systems. The Group is also on the Development Bureau's List of Approved Suppliers of Materials and Specialist Contractors for Broadcast Reception Installation (BRI) and Burglar Alarm and Security Installation (BAS) for public works.

Since the establishment of the new ELV division, the Group has secured six new projects including a residential project on Sai Yuen Lane, an office development project at King's Road and an Aviation Training Centre at Chek Lap Kok.

Looking ahead, the Group will keep working with vendors to customise those systems according to the specific needs of customers, using advanced technologies such as intelligent IP/IT-based systems. The Group believes that with a highly qualified and experienced staff and sound project management skills, it can fulfill its commitment of delivering quality and professional services to all its valued customers.

Management Discussion and Analysis

E&M engineering segment

1. Hong Kong

As the Hong Kong Government has unveiled a series of new policies and initiatives in the public and infrastructure projects, the construction industry accounted for 4.7% of Hong Kong's total gross domestic profit in both 2015 and 2016. According to the construction expenditure forecast provided by the Construction Industry Council, E&M construction works expenditure will amount to over HK$20 billion for the public sector and over HK$28 billion for the private sector over the next few years. Projects in these two sectors will together create a large number of jobs, particularly crucial for Hong Kong in times of economic uncertainty.

Long-term Housing Strategy

The long-term housing strategy of the Hong Kong Government, as stated in the 2017 Policy Address, aims at continuing its ongoing efforts in increasing the land and housing supply. According to the government projection, 460,000 residential flats will be provided in the next decade including 200,000 public housing units, 80,000 subsidised-sale units, and 180,000 private housing units.

As at 2016, the proposed major public housing developments include those developments at Lin Cheung Road in Sham Shui Po, Queen's Hill in Fanling, Diamond Hill and Anderson Road in Sau Mau Ping. The proposed major subsidised-sale housing developments include those developments at Diamond Hill, Ping Shan in Yuen Long and Sham Shui Po.

For private residential developments, according to the preliminary assessment of known to have or soon to be started on disposed sites as at June 2017, it is projected that the private sector will provide a historically high record of about 98,000 units in the coming three to four years. The proposed major private housing developments include those developments at Kai Tak area, Pak Shek in Ma On Shan, Pak Shek Kok in Taipo and Ap Lei Chau, together with railway property developments including LOHAS Park Station, Tai Wai Station, Wong Chuk Hang Station, Ho Man Tin Station, Kam Sheung Road Station, etc.

New Development Frontiers

In addition, the Hong Kong Government is pushing full steam ahead with the new development areas and the extension of new towns, including Kwu Tung North, Fanling North, Tung Chung, Hung Shui Kiu and Yuen Long South, and will examine the development of Tseung Kwan O Area 137 for residential and commercial development and other relevant purposes.

Other Public Facilities & Infrastructure Developments

To prepare for the challenges brought by the aging population, the Hong Kong Government earmarked HK$200 billion last year for a ten-year hospital development plan covering, among others, the redevelopment of Queen Mary Hospital, Kwong Wah Hospital, United Christian Hospital and Kwai Chung Hospital, construction of a new acute hospital at the Kai Tak Development Area and the redevelopment or expansion of various hospitals such as the Tuen Mun Hospital Operating Block, Prince of Wales Hospital, North District Hospital, Princess Margaret Hospital and Grantham Hospital. The above projects will together provide 5,000 additional public hospital beds and 94 new surgical theatres in the next ten years. In addition, the Hong Kong Government has decided to finance construction of a Chinese medicine hospital in Tseung Kwan O in 2018/19.

To promote sport in the community and maintain Hong Kong as a centre for major international sporting events, the Hong Kong Government will spend a total of HK$20 billion in the coming five years to launch 26 projects to develop new or improve existing sports and recreation facilities. Besides, the Kai Tak Sports Park, the largest sport project with an investment over HK$30 billion, is expected to be completed in 2022/2023.

Apart from the above, construction of the Shatin to Central Link, investment in the West Kowloon Cultural District, urban renewal redevelopment projects, the Kai Tak Development Area including a multipurpose sports park together with residential, commercial and hotel developments, expansion of convention and exhibition venues in Wanchai, construction of a third runway at the Hong Kong International Airport and expansion of the existing Terminal 2 at the airport into a full-service processing terminal, the Lantau development projects associated with the Hong Kong-Zhuhai-Macao Bridge, and the "Energising Kowloon East" Initiative as a smart city pilot area (including Kwun Tong redevelopment and the revitalisation of industrial buildings) will definitely help boost the construction industry in Hong Kong in the coming decade.

Looming Challenges

Of course, the construction engineering sectors in Hong Kong are also facing a multitude of problems and serious challenges. According to the forecast, there will be a severe labour shortage of skilled workers in the E&M engineering services industry over the next few years, which, coupled with the aging workforce, are going to push up labour wages and hence construction cost. The filibustering in the Legislative Council has delayed the award of new public works contracts, which adds to the rising construction cost. The Group has thus strived to maintain a relatively stable workforce and retain loyal staff members so as to preserve its competitiveness.

Maintenance Services

As reflected in the statistics available, there are currently over 60% of the buildings including 1,700 commercial buildings, 1,600 industrial buildings and 24,000 residential buildings aged over 20 years in Hong Kong. Thus, the maintenance section of the Group's E&M engineering services envisages a growing demand for the term maintenance contracts from different prestigious commercial and residential buildings, hospitals, the public sector and educational institutions seeking the service of quality contractors to help them maintain their properties in the best possible shape. The Group expects an increase in revenue from fitting-out works, system upgrade and replacement works following the implementation of the Mandatory Building Inspection Scheme ("MBI Scheme"). Large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the maintenance section.

More than half (55%) of Hong Kong's total annual energy end-use is in the form of electricity consumption and buildings take up about 90% of our total electricity consumption. It is imperative to reduce the use of electricity in buildings to help us combat climate change. Following the implementation of the Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong), Electrical and Mechanical Services Department (EMSD) is also actively pursuing the cost-effective program of "Retro-commissioning" to develop a scientific based optimisation scheme and make continuous improvement to further encourage energy conservation works in existing buildings. The Group expects favourable returns from the system upgrade and replacement works to improve energy saving for building owners and the industry.

Building Material Trading

The Group's Building Material Trading section has also generated stable income. The Group offers a wide variety of tiles imported from Europe to its customers at four retail stores in Hong Kong and one in Macau. It also supplies E&M engineering equipment and products including cast iron and stainless steel pipes and fittings, various gauges, building automation systems, heating elements, ventilation and air-conditioning parts, heat exchangers, filters, smoke and gas sensors, etc. All of these supplied building materials are sourced from a large number of suppliers in the US, Europe, South East Asia and Mainland China in accordance with the related distribution agreements or purchase orders that the Group has entered into with the suppliers.

Way Forward

Moving forward, the Group will continue to focus on capturing large-scale projects including design and construction contracts from the government, public infrastructure works, hospital development projects, public rental and subsidised housing projects, and private commercial and residential building projects. The Group also targets to secure more term maintenance contracts and alteration and addition works in the maintenance service market.

2. Macau

For the six months ended 30 June 2017, the Macau gaming market with 39 casinos generated total half-yearly gross revenues of MOP126 billion, about five times that of Las Vegas. As a result, the construction and E&M engineering sectors in Macau performed very well in the past few years. However, with several sizable casino projects completed in 2017 and the flagging tourism and the gaming industry, the construction and engineering sectors in Macau are expected to go through a stage of consolidation.

Nevertheless, there is a constant demand for renovation and improvement works for hotels and casinos. In addition, the robust demand for public and private residential housing, the development of Galaxy Macau Phase 3 and 4 (about a HK$43 billion investment), and the construction of the Islands District Medical Complex are expected to create emerging business opportunities for the Group in the coming few years.

Ongoing Housing and Tourism Development

The Macau SAR Government has launched its first Five-year Development Plan and initiated the reclamation project for New Urban Zone Area A and the Zhuhai-Macao man-made islands in association with the Hong Kong-Zhuhai-Macao Bridge, which are expected to provide land for 28,000 public housing units and 4,000 private housing units. Conductive to the growth of its tourism industry, the city projected that it will be able to offer 44,000 hotel rooms by 2019 versus 36,000 hotel rooms (located in 107 hotels and guesthouses, with 32 five-star hotels offering 22,000 rooms) in May 2017.

Reinforcing Leadership in Gaming and Tourism

The positioning of Macau as a world exemplary tourism and leisure center addresses that region's need for adequate economic diversification and sustainable development. The Macau SAR Government is expected to keep track of the pace of development of the gaming industry, and at the same time actively foster growth of integrated tourism in the city by reinforcing its non-gaming offers.

3. **Mainland China**

Affected by the global economic slowdown and the over-supply of residential properties in Mainland China, China's economic growth is likely to stay on the downward trend and dragging down with the property construction market. For this market, the Group has followed a disciplined business development approach focusing on the provision of E&M services to major property developments of Hong Kong and foreign investors. Apart from the two core bases in Beijing and Shanghai, the Group has also established a presence in other first- and second-tier cities in Mainland China such as Tianjin, Dalian, Shenyang, Chengdu, Wuhan, Changsha and Nanjing.

"One Belt, One Road" Initiative

In the 1990s and 2000s, the Group completed several projects in Southeast Asia including Singapore, Thailand, Malaysia, Vietnam, the Philippines, etc. In the advent of China's "One Belt, One Road" initiative elaborated in her 13th Five-Year Plan, the Group is actively seeking to participate in related construction and infrastructure projects backed by the Asian Infrastructure Investment Bank (AIIB) in ten member states of Association of Southeast Asia Nations (ASEAN).

Guangdong Pilot Free Trade Zones

In addition, the three rapidly developing Guangdong Pilot Free Trade Zones — Hengqin, Qianhai and Nansha will bring in new business opportunities to the Group.

Project Management Services

In recent years, the Group has been providing project management services in Mainland China to an international exhibition centre development in Shenyang, two high-rise building complexes in Tianjin and Guangzhou, and one commercial building in Beijing. The Group firmly believes that due to its high market recognition and armed with strong value-added E&M project management expertise in the areas of, among others, integrated services coordination, coordinated services drawing production, Building Information Modelling (BIM) techniques, project planning, quality assurance and system testing and commissioning, the Group will be a preferred partner of foreign and Hong Kong-based developers of high-end projects in Mainland China. Leveraging its abundant E&M installation experience in Mainland China, the Group plans to extend our E&M project management services to cover also high-end projects in Mainland China so as to generate an additional stable source of income.

Environmental management services

Increasing public awareness of the importance of a clean environment has fuelled the demand for environmental engineering services and products. The 2017 Policy Address for Hong Kong highlights the Hong Kong Government's determination to promote energy efficiency and development of renewable energy for buildings. "Going green" is an obvious trend to the Group spurring a demand to provide customers with total solutions for energy saving and the use of renewable energy and environmentally-friendly technologies.

The Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) enacted in 2012 continues to support the business development of our environmental consultancy services. Our seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively bring steady growth to our environmental management services segment.

Laboratory Services

With the growing public demand for better water quality, strict water control drives the market demand for water quality testing services of our laboratory. Through relentless effort, our laboratory has been accredited by the Hong Kong Accreditation Service under the Hong Kong Laboratory Accreditation Scheme (HOKLAS) since 2015, and can provide testing for fresh water inside service, fresh water for the Quality Water Supply Scheme, fresh water cooling tower scheme, air quality laboratory analysis, environmental monitoring and baseline monitoring and waste water monitoring. The Group continues to invest in state-of-the-art instruments and offers clients reliable analytical testing services including physical, non-metallic, trace metals and microbiological analyses. For instance, to address the enhancement measures launched by the Water Supplies Department including testing for heavy metals in drinking water prompted by the earlier incident of excessive lead found in drinking water, our laboratory uses a highly sensitive ICP-MS system to detect trace levels of heavy metals in tap water samples. The laboratory service thus complements the work of the E&M engineering and environmental management services segments.

Waste Management

Public attention is also drawn to waste management and disposal as it has been announced that municipal solid waste charging will be launched in Hong Kong in the second half of 2019 at the earliest with the aim to alleviate the tremendous pressure on landfills. Meanwhile food waste represents the major constituent of municipal solid waste used for landfill in Hong Kong, therefore reducing food waste disposal is essential for effective waste management. The Group has an automated odour-free food waste processor available in a wide range of sizes to provide a total solution in converting food waste into environmentally-safe water effluent.

Nano-bubble Technology

Furthermore, the Group is actively working with strategic partners and vendors to invest in strengthening our technological capabilities with a focus on air and water treatment, and to evaluate possible investment in a web-based building energy management system. During the Year, the Group had collaborated with NAMI to invest and develop nano-bubble technology which converts ordinary air and water into a strong oxidising fluid. The nano-bubble effect in treated fluid is an environmental-friendly and cost-effective technology that can save energy and consumption in cleaning and sterilisation. In addition, the Group and NAMI garnered a gold medal at the 45th International Exhibition of Inventions of Geneva 2017 for the innovative nano-bubble technology in March 2017.

Conclusion

In conclusion, as the Group can provide a comprehensive range of E&M engineering and environmental engineering services and run well-established E&M engineering operations in Hong Kong, Mainland China and Macau, it is ready to grasp the ample business opportunities that the different above-mentioned infrastructure and large-scale projects are expected to bring. We will endeavour to maintain a strong financial position to stay poised for new investment as well as exploring for alternative business opportunities as and when they arise.