# Management Discussion and Analysis

## BUSINESS REVIEW

Following the completion of the Group's acquisition of the facility services (cleaning and laundry services) business on 11 April 2018 (refer to the section of "Major transaction" on page 46), the Group has expanded its business scale and diversified its revenue stream from the businesses of E&M engineering and environmental management services to the areas of cleaning and laundry services as well.

In FY2018, the Group recorded revenue amounting to HK$4,926.5 million for the Year, representing an increase of HK$96.9 million or 2.0%, as compared with HK$4,829.6 million (restated) in FY2017. Profit attributable to equity holders for the Year was HK$236.8 million, representing an increase of HK$11.4 million or 5.1% against HK$225.4 million (restated) in FY2017.

## E&M ENGINEERING SEGMENT

The Group maintained its position as one of the leading E&M engineering companies in Hong Kong, capable of providing a comprehensive range of E&M 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, the Group 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, it has been constantly optimising its design and exploring innovative methods. At the project level, the Group incorporates green building principles into application of building services equipment; and adopts green building design, Modular Integrated Construction (MIC), Design for Manufacture and Assembly (DfMA) to reduce energy usage, carbon emission and construction waste. In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as Building Information Modelling (BIM), modularisation and prefabrication, laser scanning and mobile solutions.

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 give first priority to large-scale projects including design and construction contracts from the government, public infrastructure works, hospital development projects, public housing and subsidised housing projects, as well as private commercial and residential building projects.

### Financial performance

Leveraging on its competitive strengths as described above, the Group's E&M engineering business delivered a solid performance and recorded revenue amounting to HK$3,694.2 million for the Year, representing an increase of HK$48.8 million or 1.3%, as compared with HK$3,645.4 million (restated) in FY2017. Its profit contribution for the Year was HK$173.3 million, representing an increase of HK$4.2 million or 2.5% against HK$169.1 million in FY2017.

As at 30 June 2018, the Group's E&M engineering projects encompassed a wide range of buildings and facilities, including offices, shopping malls, convention and exhibition centres, hotels, integrated resorts, residential properties, universities, hospitals, airport and public transportation facilities buildings, which have a total gross value of contract sum of HK$9,040 million with a total outstanding contract sum of HK$5,422 million. During FY2018, the Group submitted tenders for 597 E&M engineering projects (with a contract sum equal to or exceeding HK$1 million for each project, if awarded) with a total tender sum of HK$22,985 million.

# Management Discussion and Analysis

## New contracts awarded

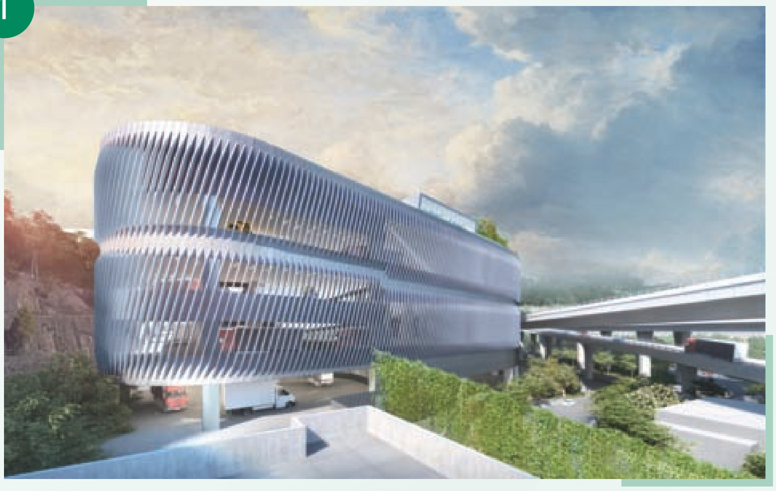
During FY2018, this business segment was awarded new contracts with a total value of HK$2,969 million, which include 142 contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$2,770 million. Among these 142 contracts, 7 of them are major projects (with net contract sum equal to or more than HK$100 million for each project) as listed below:

### Hong Kong:

1. E&M installation for Transport Department's Vehicle Examination Centre at Sai Tso Wan Road, Tsing Yi;

2. Electrical installation for construction of subsidised sale flats development at Queen's Hill site 1 phase 3 and portion of phase 6, Fanling;

1



3

3. Electrical and Mechanical, Ventilation and Air-conditioning ("MVAC") installation for HKSH Eastern District Advanced Medical Centre at No. 3 A Kung Ngam Village Road, S.I.L. 778, Shau Kei Wan;

4. Electrical and Extra Low Voltage ("ELV") installation for LOHAS Park Package 7 at TKOTL No. 70, Site C1, New Territories;

# Management Discussion and Analysis

5. Fire Services and MVAC installation for Tai Wai Station Property Development in STTL No. 520 (Podium Portion);

6. Plumbing and Drainage installation for Tai Wai Station Property Development in STTL No. 520 (Residential Portion);


**Mainland China:**


7. Heating, Ventilation and Air-conditioning ("HVAC") for Tianjin Chow Tai Fook Finance Center, Tianjin.

# Management Discussion and Analysis

## Completed projects

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

**Hong Kong:**

1. Electrical and ELV installation for residential development at TMTL 423, Area 48, Castle Peak Road, So Kwun Wat, Tuen Mun, New Territories;

2. Electrical and ELV installation for residential development at TMTL 427, So Kwun Wat Road, Tuen Mun, New Territories;

3. Plumbing and Drainage installation for residential development at R.B.L.1190, 8-12 Deep Water Bay Drive, Hong Kong;

# Management Discussion and Analysis

4. Electrical, Fire Services, MVAC & Central Driller Plant installation for Victoria Dockside in Tsim Sha Tsui, Kowloon;

4

**Macau:**

5

5. Electrical installation for Morpheus Hotel at City of Dreams, Cotai.

# Management Discussion and Analysis

## Projects on hand

As at 30 June 2018, major outstanding contracts with remaining works valued at more than HK$100 million including:

### Hong Kong:

1

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

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

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

2

4

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

5. Electrical and Fire Services installation for a public rental housing at Pak Tin Estate Phase 7 & 8, Sham Shui Po, Kowloon;

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

7. Electrical and ELV installation for LOHAS Park Package 7 at TKOTL No. 70, Site C1, New Territories;

8. Fire Services and MVAC installation for Tai Wai Station Property Development in STTL No. 520 (Podium Portion);

9. Plumbing and Drainage installation for Tai Wai Station property development in STTL No. 520 (Residential Portion);

10. Electrical and MVAC installation for HKSH Eastern District Advanced Medical Centre at No. 3 A Kung Ngam Village Road, S.I.L. 778, Shau Kei Wan;

11. E&M installation for Transport Department's Vehicle Examination Centre at Sai Tso Wan Road, Tsing Yi;

12. Electrical installation for construction of subsidised sale flats development at Queen's Hill site 1 phase 3 and portion of phase 6, Fanling;

**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;

14. HVAC installation for Tianjin Chow Tai Fook Finance Center, Tianjin, China.

# Management Discussion and Analysis

## ENVIRONMENTAL MANAGEMENT SERVICES SEGMENT

The Group's environmental management services business continues to provide environmental assessment and energy efficient solutions in this year to assist its customers in achieving their environmental protection and energy conservation objectives.

### Financial performance

In FY2018, the Group's environmental management services business recorded revenue amounting to HK$61.8 million for the Year, representing an increase of HK$7.8 million or 14.4%, as compared with HK$54.0 million (restated) in FY2017. Its profit contribution to the Group for the Year was HK$6.3 million, representing an increase of HK$1.6 million or 34.0% against HK$4.7 million in FY2017.

As at 30 June 2018, this business segment has a total gross value of contract sum of HK$76 million with a total outstanding contract sum of HK$51 million. During FY2018, the Group submitted tenders for 38 environmental management service contracts (with a contract sum equal to or exceeding HK$1 million for each contract, if awarded) with a total tender sum of HK$150 million.

### New contracts awarded

During FY2018, this business segment was awarded new contracts with a total value of HK$63 million, which include 8 projects (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$18 million.

## FACILITY SERVICES SEGMENT

### Cleaning Services

The Group's cleaning services business encompassed a wide range of buildings and facilities, including office towers, shopping malls, hotels, universities, international schools, tourism facilities, government properties, public utilities, convention and exhibition centre, railway stations, airport terminal building, hospitals, industrial buildings and residential properties.

As one of leading service providers in the Hong Kong's cleaning service industry, the Group's cleaning business group, Waihong, is mainly engaged in providing specialist cleaning, housekeeping, waste management and integrated pest management services. Waihong became a member of FSE Services Group since 11 April 2018.

Since the establishment in 1965, Waihong has experienced the development of cleaning service industry in different stages. It also witnessed the economic growth of Hong Kong over the past decades. Regarding its cleaning service business, growing public awareness for better environmental hygiene with premier life style is boosting the demand of quality service providers, it will focus on providing efficient, effective and the highest professional standard services to meet different kinds of customer needs.

During FY2018, the Group submitted tenders for 317 cleaning service projects (with a contract sum equal to or exceeding HK$1 million for each project) with a total tender sum of HK$3,848 million.

# Management Discussion and Analysis

### Laundry

The Group's laundry business group, NCL, is an experienced expert in laundry and dry cleaning services, and a market leader in the industry in Hong Kong. NCL dropped pins in prestigious hotels, famous apartments, high-end clubhouses, an international theme park and top airlines. NCL became a member of FSE Services Group since 11 April 2018.

During FY2018, NCL started a specialised production line with modern equipment that was designed to cater for the needs of airlines clients. NCL's quick delivery service and the comprehensive coverage of logistics network supported the ongoing expansion of a Hong Kong based airline partner.

The total tourist arrivals and hotel occupancy rate remained steady in 2018. NCL continues promoting self-upgrading to satisfy the demanding hospitality industry. In FY2018, NCL completed a replacement of hotel-related machineries such as the Continuous Batch Washer and Flat Ironer, to effectively maintain operational efficiency as well as ensure the service quality.

NCL makes use of advanced Customer Relationship Management system to effectively manage our clientele base. NCL's customer oriented employees focus on raising its customer satisfaction which leads to a long term partnership.

### Financial performance

In FY2018, the Group's facility services business recorded revenue amounting to HK$1,170.5 million for the Year, representing an increase of HK$40.3 million or 3.6%, as compared with HK$1,130.2 million in FY2017. Its profit contribution to the Group was HK$57.2 million, which includes HK$9.7 million made for the period from 12 April 2018 to 30 June 2018 following the completion of Group's acquisition of it on 11 April 2018, representing an increase of HK$5.6 million or 10.9% against HK$51.6 million in FY2017. As at 30 June 2018, this business segment has a total gross value of contract sum of HK$2,744 million with a total outstanding contract sum of HK$1,048 million for the cleaning services business.

### New contracts awarded

During FY2018, the Group's cleaning services business was awarded new service contracts with a total value of HK$514 million, which include 67 service contracts (with a net contract sum equal to or exceeding HK$1 million for each service contract) with a total contract sum of HK$495 million. Among these 67 service contracts, 11 of them are major service contracts (with net contract sum equal to or more than HK$10 million for each service contract) with a total contract sum of HK$294 million, which include large-scale service facilities for public transportations, premier office buildings, a premier mixed-use commercial complex, a private luxury real estate, a heritage project managed by a world-class racing club, a government-funded dental hospital and a public housing estate.

During FY2018, the Group's laundry business was awarded new contracts with a total value of HK$121 million, which include 20 service contracts (with a net contract sum equal to or exceeding HK$1 million for each service contract) with a total contract sum of HK$116 million. Among these 20 service contracts, 4 of them are major service contracts (with net contract sum equal to or more than HK$5 million for each service contract) with a total contract sum of HK$99 million, which include a leading services provider for airlines catering and relevant services, a world-class racing club, a mega convention and exhibition centre and a famous restaurant chain.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

In FY2018, the Group's revenue increased by HK$96.9 million or 2.0% to HK$4,926.5 million from HK$4,829.6 million (restated), attributable mostly to the higher revenue derived from our E&M engineering segment and facility services segment amounting to HK$48.8 million and HK$40.3 million, respectively.

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

| | For the year ended 30 June | | | |
|---|---|---|---|---|
| | **2018 HK$'M** | **% of total revenue** | 2017 (restated) HK$'M | % of total revenue |
| E&M engineering* | **3,694.2** | **75.0%** | 3,645.4 | 75.5% |
| Environmental management services* | **61.8** | **1.3%** | 54.0 | 1.1% |
| Facility services* | **1,170.5** | **23.7%** | 1,130.2 | 23.4% |
| Total | **4,926.5** | **100.0%** | 4,829.6 | 100.0% |

* Segment revenue does not include inter-segment sales.

- *E&M (electrical and mechanical) engineering:* This segment continued to be the key turnover driver of the Group and contributed 75.0% of the Group's total revenue (2017: 75.5% (restated)). Segment revenue recorded mild increment of 1.3% from HK$3,645.4 million (restated) to HK$3,694.2 million for the Year, owing mainly to the increased revenue contribution from a number of E&M projects in Mainland China which had significant progress. The increase was partly offset by the reduction in contribution from Hong Kong and Macau with E&M installation for Gleneagles Hong Kong Hospital in Wong Chuk Hang and Central Chiller Plant and Sitewide Building Management System, dry fire sitewide and hotel tower HVAC installation for Wynn Palace Cotai Resort ("Wynn Palace") which had been substantially completed in FY2017.

- *Environmental management services:* Revenue contribution of this business segment increased from HK$54.0 million (restated) to HK$61.8 million, representing a growth of 14.4% as compared with last year. The increase was mainly attributable to the increase in revenue from environmentally-related contracting and maintenance services, primarily water treatment services.

- *Facility services:* This new segment contributed 23.7% of the Group's total revenue (2017: 23.4%). The revenue of HK$1,170.5 million for the Year composed of revenue from provision of cleaning and laundry services amounting to HK$1,003.9 million and HK$166.6 million, respectively. Segment revenue recorded a growth of HK$40.3 million or 3.6% to HK$1,170.5 million in FY2018 from HK$1,130.2 million, mainly contributed by the revenue contribution from a number of new cleaning service contracts, including Victoria Dockside in Tsim Sha Tsui, an academic institution in Kowloon Tong and various commercial buildings in Central, Wan Chai and Mongkok.

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

| | For the year ended 30 June | | | |
|---|---|---|---|---|
| | **2018 HK$'M** | 2017 (restated) HK$'M | Change HK$'M | % change |
| Hong Kong | **3,913.8** | 3,972.6 | (58.8) | (1.5%) |
| Mainland China | **658.8** | 476.8 | 182.0 | 38.2% |
| Macau | **353.9** | 380.2 | (26.3) | (6.9%) |
| Total | **4,926.5** | 4,829.6 | 96.9 | 2.0% |

Hong Kong: Revenue from Hong Kong decreased by HK$58.8 million or 1.5% to HK$3,913.8 million in FY2018. The decline mainly resulted from the reduced revenue contribution from Gleneagles Hong Kong Hospital in Wong Chuk Hang and Victoria Dockside in Tsim Sha Tsui which had been substantially completed and made significant progress in last year. The decrease was partly mitigated by the revenue contribution from a sizeable installation project West Kowloon Government Office in Yau Ma Tei as well as the increase in revenue from provision of cleaning services. Also, works in relation to a number of sizeable installation projects, including design and construction of Transport Department's Vehicle Examination Centre in Tsing Yi and a residential development at Tai Wai Station, were at an early stage and yet to contribute significant revenue.

Mainland China: Revenue from Mainland China increased by 38.2% from HK$476.8 million to HK$658.8 million in FY2018. The increase of HK$182.0 million was primarily the substantial revenue contribution from Tianjin Chow Tai Fook Financial Centre which made significant progress during the Year and lifted Mainland China's contribution to the Group's total revenue from 9.9% (restated) to 13.4%.

Macau: Revenue from Macau dropped by 6.9% from HK$380.2 million to HK$353.9 million in FY2018 with its geographical contribution of the region slightly declined from 7.9% (restated) to 7.2% in FY2018. The decrease was mainly resulted from the reduced revenue contribution from Wynn Palace which had substantial completion in last year. The decrease was partly mitigated by the revenue contribution from Morpheus Hotel at City of Dreams which made significant progress during the Year.

# Management Discussion and Analysis

## Gross profit

The Group's overall gross profit increased by HK$35.4 million or 6.4% from HK$555.6 million (restated) in FY2017 to HK$591.0 million in FY2018, whereas overall gross profit margin remained relatively stable at 12.0% (2017: 11.5% (restated)). The increase in gross profit was driven by the E&M engineering business recording an increase in gross profit during the Year with segment gross profit margin improved from 10.7% to 11.4%. The gross profit margin of the environmental management services segment remained stable at 28.8% (2017: 28.3%) with gross profit rose by 16.3% from HK$15.3 million to HK$17.8 million in FY2018, mainly attributable to the contribution from biological deodorizing system installation and maintenance works. The gross profit margin of the facility services segment slightly decreased from 13.2% to 12.9% mainly resulted from the increase in fuel costs for provision of laundry service.

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

| | For the year ended 30 June | | | |
|---|---|---|---|---|
| | **2018** | | 2017 (restated) | |
| | **Gross profit HK$'M** | **Gross profit margin %** | Gross profit HK$'M | Gross profit margin % |
| E&M engineering | **421.9** | **11.4** | 391.6 | 10.7 |
| Environmental management services | **17.8** | **28.8** | 15.3 | 28.3 |
| Facility services | **151.3** | **12.9** | 148.7 | 13.2 |
| Total | **591.0** | **12.0** | 555.6 | 11.5 |

## Other income/gains, net

Other income/net gains in FY2018, which amounted to HK$3.3 million (2017: HK$4.6 million (restated)), mainly included net foreign exchange gain.

## Finance income

The Group recorded finance income of HK$18.2 million (2017: HK$14.6 million (restated)). The increase was mainly due to the interest income from investment in available-for-sale financial assets and financial assets at fair value through profit or loss.

## Finance costs

The Groups recorded interest expenses of HK$1.1 million (2017: HK$0.4 million (restated)) on short-term bank borrowings of the facility services group for working capital purpose and the bank borrowings were fully repaid as at 30 June 2018.

## General and administrative expenses

In FY2018, the general and administrative expenses of the Group increased by 9.0% to HK$323.2 million, compared to HK$296.6 million (restated) in FY2017. The increase of HK$26.6 million was mainly attributable to the staff costs from annual salary increment and employment of additional staff to cope with business expansion, higher rental expenses for the laundry plant in Fanling for the new lease contracted upon completion of the acquisition of the facility services business and the one-off legal and professional fees for the acquisition of the facility services segment. In addition, there was one-off non-recurring write-back of bonus provision in last year.

### Taxation

As compared with last year, the effective tax rate of the Group slightly declined from 18.9% (restated) to 17.9% mainly resulted from the utilization of unrecognised tax loss for a PRC subsidiary and a lower profit contribution from PRC for the Year which has a relatively higher applicable corporate income tax rate.

### Profit attributable to equity holders of the Company

As a result of the foregoing, the Group's profit attributable to equity holders for the Year increased by 5.1% or HK$11.4 million from HK$225.4 million (restated) in FY2017 to HK$236.8 million in FY2018. The increase was mainly the combined result of a higher gross profit contribution mostly from the Group's core business segment and the increase in finance income, partly offset by the increase in general and administrative expenses primarily due to higher staff costs and the one-off non-recurring legal and professional fees for acquisition. The net profit margin of the Group remained stable at 4.8% for the Year (2017: 4.7% (restated)).

### Other comprehensive income

The Group recorded other comprehensive income of HK$12.5 million in FY2018, reflective of the increase in exchange reserve from the appreciation of the RMB for conversion of the net investments in Mainland China operations and net-tax remeasurement gains on long service payment liabilities.

### Liquidity and financial resources

The Group's finance and treasury functions are centrally managed and controlled at its headquarters in Hong Kong. As at 30 June 2018, the Group had total cash and bank balances of HK$407.6 million, of which 48%, 28% and 24% (30 June 2017: 60%, 29% and 11% (restated)) were denominated in Hong Kong dollars, RMB and other currencies, respectively. As compared to HK$1,114.1 million (restated) as at 30 June 2017, the Group's cash and bank balances decreased by HK$706.5 million to HK$407.6 million, which was primarily due to payments for acquisition of facility services group of HK$515.8 million, dividend payments and settlements to the original shareholder's of the facility services group before completion of the acquisition in sum of HK$131.1 million, the distribution of final dividend of HK$36.5 million for FY2017, interim dividends of HK$35.1 million for FY2018, net repayment of bank loans of HK$30.0 million and the increase in net cash outflow from operating activities, partly mitigated by the net proceeds from the purchase and disposal of available-for-sale financial assets and financial assets at fair value through profit or loss of HK$93.2 million.

Adopting a prudent financial management approach in implementing its treasury policies, the Group maintained a healthy liquidity position with no bank and other borrowings outstanding as at 30 June 2018 (30 June 2017: HK$30.0 million of bank borrowings (restated)). Its net gearing ratio was maintained at zero as at 30 June 2018 (30 June 2017: zero). This ratio is calculated as net debts divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents. As at 30 June 2018, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$1,537.5 million (30 June 2017: HK$1,349.4 million (restated)) (excluding unutilised banking facilities shared with FSE Management Company Limited ("FMC", a direct wholly-owned subsidiary of FSE Holdings Limited) and its subsidiaries, which are guaranteed by FMC). Amongst the total banking facilities as at 30 June 2018, HK$242.1 million (30 June 2017: HK$258.4 million) were guaranteed by FMC. As at 30 June 2018, HK$263.5 million (30 June 2017: HK$419.4 million (restated)) had been utilised for bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet current business operation and capital expenditure requirements.

### Foreign currency exposure

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

As part of our business is carried out in Mainland China, part of our assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in Mainland China operations with net assets of HK$179.0 million (30 June 2017: HK$167.8 million) as at 30 June 2018. The foreign currency translation arising from translation of these Mainland China operations' financial statements from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the group's presentation currency) does 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 RMB against Hong Kong dollars was 9.0% (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 2018, if the Hong Kong dollars had strengthened/weakened by another 9.0% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$16.1 million lower/higher.

### Use of net proceeds from listing

The Directors had evaluated the Group's business development plan and resolved to adjust the use of the unutilised initial public offering ("IPO") proceeds in remaining sum of HK$133.5 million as stated in the announcement of the Company dated 26 June 2018 in the manner as shown and summarised in the table below:

| | Original use of proceeds from Global offering HK$'M | Utilised amount as at 26 June 2018 HK$'M | Revised use of proceeds as announced pursuant to the Company's announcement dated 26 June 2018 HK$'M | Utilised amount as from 27 June 2018 after the adjustment of the use of IPO proceeds HK$'M | Unutilised as at 30 June 2018 HK$'M |
|---|---|---|---|---|---|
| Investment in/acquisition of companies engaged in the installation and maintenance of ELV system | 81.6 | 5.9 | – | – | – |
| Development of environmental management business | 51.0 | 3.6 | 20.0 | – | 20.0 |
| Operation of E&M engineering projects on hand and prospective projects | 47.4 | 47.4 | 88.1 | – | 88.1 |
| Staff-related additional expenses | 20.0 | 20.0 | – | – | – |
| Development and enhancement of design capability | 19.3 | 18.3 | 16.0 | 0.6 | 15.4 |
| Enhancement of quality testing laboratory | 12.2 | 4.9 | 7.3 | – | 7.3 |
| Upgrade of corporate information technology system and software | 8.0 | 5.9 | 2.1 | – | 2.1 |
| General working capital | 25.0 | 25.0 | – | – | – |
| Total | 264.5 | 131.0 | 133.5 | 0.6 | 132.9 |

**Reasons for the adjustment of use of the unutilised IPO proceeds**

As disclosed in the Company's Prospectus, the Group intended to apply part of the IPO proceeds for possible investment in and/or acquisition of companies engaged in the installation and maintenance of ELV system (the "ELV Acquisition"). Despite efforts of the Group, no suitable investment or acquisition opportunities have been identified. Given the Group has recently been admitted on the list of approved specialist contractors of the Works Branch Development Bureau for public works in relation to ELV services (which is one of the major eligibility requirements for carrying out ELV business), the Group is fully capable of providing ELV services and implementing the numerous ELV projects that have been awarded to the Group without resorting to any ELV Acquisition to enhance its capability and competitiveness. As such, the amount of the unutilised IPO proceeds originally allocated for use in ELV Acquisition is no longer required by the Group.

As regards the Company's original intention to develop its environmental management business through possible investment or cooperation with strategic alliances operating in the area of bio technology of microalgae in waste-water treatment and the development of web-based building energy management business as disclosed in the Company's Prospectus, the Group has not been able to identify suitable partner with sufficient technical capability and there is uncertainty in the practical feasibility of bio-technology of microalgae in waste-water treatment. The Company is therefore cautious about its further pursuit or investment in this particular area of environmental management business. In the premises, the Board considers it more commercially sensible to (i) expand the use of IPO proceeds for development into other more promising areas of its environmental management business to cover technological development of waste treatment (including but not limited to air, water, solid waste treatment) and energy saving/management solutions, as well as for enhancement of the existing business and operation of the environmental management business and (ii) reallocate more unutilised IPO proceeds for other existing business and operation of the Group (such as the operation of the E&M engineering projects and the development and enhancement of its engineering design capability).

The Group has utilised HK$131.6 million of the net proceeds from Global offering, of which HK$22.5 million was utilised during FY2018 and expected that the remaining balance of the IPO proceeds would be utilised within 5 years. 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.

## Capital commitments

The Group had capital commitments of approximately HK$1.3 million (30 June 2017: HK$3.2 million (restated)) as at 30 June 2018 in relation to the purchase of property, plant and equipment.

## Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2018 and 30 June 2017.

# Management Discussion and Analysis

### Major transaction

On 27 February 2018, a conditional sale and purchase agreement (the "S&P Agreement") was entered into between FMC (the "Vendor", a direct wholly-owned subsidiary of FSE Holdings Limited which is a controlling shareholder of the Company) and FSE Facility Services Group Limited (the "Purchaser", a direct wholly-owned subsidiary of the Company) whereby the Purchaser agreed to purchase and the Vendor agreed to sell the entire issued share capital of Crystal Brilliant Limited (together with its subsidiaries as at the completion of the S&P Agreement, the "Target Group") at a consideration (the "Consideration") of HK$502.0 million subject to adjustment. The Target Group is principally engaged in the provision of facility services including cleaning and laundry services.

The acquisition under the S&P Agreement was approved by the independent shareholders at the extraordinary general meeting of the Company held on 10 April 2018. Completion of the S&P Agreement took place on 11 April 2018 (the "Completion Date") upon which the initial sum of the Consideration of HK$502.0 million was paid in cash. A final cash payment of the Consideration of HK$13.8 million was made on 19 June 2018 with reference to the unaudited net tangible asset value of the Target Group as at the Completion Date.

Upon completion, each member of the Target Group 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.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Addressing sustainability issues and managing Environmental, Social and Governance ("ESG") risks are essential to demonstrating our sustainability performance and meeting the expectations of our stakeholders. Under the guidance of an Executive Director, the Group's management committee oversees the management of ESG-related risks and 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 a systematic approach to monitoring and managing ESG-related matters.

A stand-alone ESG report which references Appendix 27, Environmental, Social and Governance Reporting Guide, to the Listing Rules will be published on the websites of the Company and Hong Kong Exchanges and Clearing Limited in November 2018.

### Discussion on environmental policies and performance

While there are no major environmental impacts associated with the Group's operations, environmental sustainability is the Group's key responsibility of integrating sustainable practices in our operations and contributing to a greener future. We have implemented the ISO 14001 Environmental Management System which is a core component of our IMS to monitor our environmental performance. This system allows us to have a clear focus on enhancing environmental awareness and commitment within the Group. The system is regularly audited by both internal and external parties to ensure its effectiveness in achieving continual improvement.

We are committed to reducing energy consumption and greenhouse gas ("GHG") emissions throughout all business operations. The Group signed the "Energy Saving Charter" and the "4Ts Charter" launched by the Hong Kong Government's Environmental Protection Department ("EPD"), demonstrating strong dedication to reducing its carbon footprint. We continue to nurture environmental stewardship among our employees and foster behavioural change including paper use reduction, energy conservation and materials recycling.

With the Group's newly-introduced Green Office Guidelines, we have stepped up our efforts in implementing waste recycling practices across all operations. For instance, we procure paper from sustainable sources and place scrap paper boxes next to printers. In addition, our solid waste reduction programme at the Fanling workshop has identified opportunities to maximise the use of scrap metal and minimise disposal.

To instil an environmentally friendly culture within the Group, we continue to organise green activities and support external initiatives relating to environmental protection. During the Year, we organised a technical visit to T-Park and a guided tour to the Zero Carbon Building and the Construction Innovation and Technology Application Centre, which enabled our employees to gain insights from low carbon building design and technologies in Hong Kong. Dedicated to exploring new technologies for a greener future, we have collaborated with Nano and Advanced Materials Institute Limited ("NAMI") in two research and development projects on water treatment and solid waste treatment.

## Account of key relationships with employees, customers and suppliers

### Employees

We are steadfast in providing an inclusive, caring and safe work environment. We place strong emphasis on equal opportunities and our employees are remunerated with competitive salaries and benefits commensurate with their work experience and job duties. To effectively manage our human capital, we have a set of well-established and transparent procedures on talent acquisition and employee dismissal in place.

The wellbeing of our employees is crucial to creating a positive workplace. To accommodate the diverse interests of our employees, we arrange a variety of staff activities including interest classes on photography, pottery crafting, baking, and other sports and outdoor activities. Placing high value on continued professional development of our employees, we have established the Mentorship Programme and Graduate Scheme "A" Training.

As a component of our IMS, the Group has implemented the OHSAS 18001 Occupational Health and Safety Management System at our operations in Hong Kong, as well as the GB/T28001-2011/OHSAS 18001:2007 Occupational Health and Safety Management System at our operations in Mainland China. This integrated system guides our employees to assess, mitigate and control relevant health and safety hazards at all times. We also arrange safety training sessions on a regular basis to ensure our employees and subcontractors are well-informed of our safety policies and guidelines. With a high internal awareness on safety, we are pleased to report that there were no work-related fatalities during the Year.

### Customers

The Group aims to provide efficient, professional and quality E&M engineering services to its customers. Aspiring to achieve high customer satisfaction rates, we have established the ISO 9001 Quality Management System. Each of our business units establish their own set of guidelines to ensure accountability in quality assurance. Regular audits are carried out to identify potential risks and defect issues in the production line, and a standard audit system has been set up for our projects in Mainland China. In cases where quality or safety concerns arise, a thorough investigation will be conducted and effective correction actions will be promptly implemented.

### Suppliers and subcontractors

The Group seeks to positively influence the environmental and social practices of its suppliers and subcontractors. Our established procurement procedure assesses project experience, safety performance and financial conditions which enables the Group to select supplier and subcontractors which share our sustainability vision. Only those which can meet the evaluation criteria will be included in our approved vendor list. The Group also reviews the suitability and sustainability performance of its suppliers and subcontractors annually to maintain consistency in the quality of our services. In cases of serious non-compliance, substandard suppliers and subcontractors will be suspended or removed from the 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.

# Management Discussion and Analysis

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had a total of 7,402 employees (2017: 7,933 (restated)), including 972 casual workers (2017: 600). Staff cost for the Year, including salaries and benefits, was HK$1,397.3 million (2017: HK$1,344.3 million (restated)). The decrease in the Group's total headcount is mainly due to a reduction in the number of employees in the facility services segment following the expiry of certain contracts for providing cleaning services, partly offset by an increase in the headcount in the E&M engineering segment reflected increased number of projects awarded to it 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 on pages 60 and 61.

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.

## OUTLOOK

### Overview

Leveraged 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 to 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 and facility services industries.

Currently, the E&M engineering segment in Hong Kong, which accounts for over 70% of the Group's total revenue, remains the core business of the Group. While proud of its performance in this segment in Hong Kong, the Group is striving to bolster its market presence in other regions.

Driven by the increasing health and hygiene awareness in Hong Kong, the Group's facility services business, together with its environmental management services business, being one of the top ranked players in the industry in terms of revenue, is expected to have considerable growth potential in the years to come.

# 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 4.9% and 5.1% of Hong Kong's total gross domestic profit in 2017 and in first quarter 2018 respectively. According to the construction expenditure forecast provided by the Construction Industry Council, E&M construction works expenditure will amount to over HK$24 billion for the public sector and over HK$26 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.

Up to 2017, the proposed major public housing developments include those developments at Lin Cheung Road in Sham Shui Po, Queen's Hill in Fanling, and Tuen Mun Area 54. The proposed major subsidised-sale housing developments include those developments at Ping Shan in Yuen Long and Sham Shui Po. In addition, the Hong Kong Government has proposed the affordable "Starter Homes", and planned to launch a pilot scheme by the end of 2018 to provide about 1,000 residential units.

For private residential developments, according to the preliminary assessment of known to have or soon to be started on disposed sites up to 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 development area, Cha Kwo Ling, Pak Shek in Ma On Shan, Pak Shek Kok in Taipo and Ap Lei Chau, together with railway property developments including LOHAS Park 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, which are expected to provide, all together, about 198,100 residential flats. The Hong Kong Government will also 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 in 2016 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. On top of the HK$200 billion invested in the first 10-year plan, the Government has committed to an extra HK$300 billion capital works programme to support the second 10-year hospital development plan, improve the clinic facilities of the Department of Health, and upgrade and increase healthcare training facilities. In addition, the Hong Kong Government has decided to finance the construction of a Chinese medicine hospital in Tseung Kwan O in 2019.

# Management Discussion and Analysis

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$31 billion, is expected to be commenced in end of 2018 and 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, residential, commercial and hotel developments in the Kai Tak Development Area, expansion of convention and exhibition venues in Wanchai, HK$12 billion University hostel development, construction of a third runway system, expansion of the existing Terminal 2 in 2019 and the SKYCITY development projects at the Hong Kong International Airport, 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.

*Extra low voltage ("ELV") Business*
Regarding the ELV business, with more property developers adopting IT infrastructure and advanced technologies in their projects to enhance building sustainability and energy control, this presents good opportunities to generate business revenues and profit in the ELV business segment. In early 2016, the Group set up an ELV division which complements 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 and 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 is carrying out Installation, Maintenance, Repairing and Design of Security Systems. The Group is also qualified on the Development Bureau's List of Approved Suppliers of Materials and Specialist Contractors for Broadcast Reception Installation (BRI), Burglar Alarm and Security Installation (BAS), and Audio Electronics Installation (AEI) for public works.

Since the establishment of the new ELV division, the Group has been awarded several ELV projects including two residential projects on Sai Yuen Lane and Sheung Heung Road, two public housing projects on Texaco Road in Tsuen Wan and Tung Chung Area 27, an office development project at King's Road in North Point 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 and mobile Apps 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.

*Maintenance Services*

As reflected in the statistics available, there are currently over 65% of the existing buildings (approximately 42,000) in Hong Kong including 1,700 commercial buildings, 1,600 industrial buildings and 24,000 residential buildings aged over 20 years. 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 assist them in maintaining 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) on 30 June 2012. Large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the maintenance section.

More than 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 and global warming. Following the implementation of the Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) in September 2012, 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, cables and busduct system 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, 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**

At the end of 2017, there were 40 casinos, of which 22 were run by Sociedade de Jogos de Macau, 6 by Galaxy Casino, 5 by Venetian Macau, 4 by Melco Crown (Macau), 2 by Wynn Resorts (Macau) and 1 by MGM Grand Paradise with a total of 6,419 gambling tables and 15,622 slot machines. The Macau gaming market has generated total gross revenues of MOP 265 billion in 2017, 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 substantial 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 (HK$43 billion investment), Londoner Macao (HK$8 billion investment) and Studio City expansion, the construction of the Islands District Medical Complex (invested over HK$10 billion), and the renewal of casino licences in 2020 and 2022 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 38,700 hotel rooms (115 hotels) in March 2018.

*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 facilities.

**3. Mainland China**

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 its 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 and the Philippines. 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 two commercial buildings 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 high-end projects in Mainland China so as to generate an additional stable source of income.

# Management Discussion and Analysis

## Environmental Management Services Segment

Increasing public awareness of the importance of sustainable 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 combat climate change with a view to promoting energy efficiency, energy conservation and green building. "*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 engineering 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. 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 analyses, 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 the latest stagnation water sampling protocol and 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 engineering 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.

**Technology Development**

The Group is actively working with strategic partners and vendors to invest in strengthening our technological capabilities with a focus on air, water and waste treatment. At present, the Group had collaborated with NAMI to invest and develop nano-bubble technology which converts ordinary air and water into a strong oxidising fluid and solid waste technology.

# Management Discussion and Analysis

## Facility Services Segment

**1. Cleaning Services**

*New Business Opportunity*

Market players currently aim at seeking the business opportunity for food waste management and disposal service as the Organic Resources Recovery Centre (ORRC) which located at Siu Ho Wan of North Lantau will be opened to operations in September 2018. The Group is one of registered food waste collectors approved by Environmental Protection Department to transport food or organic wastes to this ORRC. To comply with EPD recycling policy, government or semi-government organisations, public utilities and private enterprises will launch more outsourcing services in food waste collection services for their properties. Through our professional and well equipped fleet, our waste management team is actively participating in this service market segment bringing in a new business opportunity to the Group.

*Business Development*

According to the practices of cleaning service industry, thousands of tenders and quotations are released to the market year to year generated billions of contract sums from private and public clients to various cleaning service providers. Under the fierce competitive service market, the Group strives to maintain the existing service contracts in a higher ratio and explore more new businesses from different market segments with its competitive advantages. Moving forward, the Group will focus on high-end market including premier office towers and hotel facilities. We definitely have competitive advantage in gaining these kinds of contracts resulting for good reputation with higher returns to the Group.

**2. Laundry**

In FY2019, we continue to intensify our focus on key accounts, ensuring the customer satisfaction and the sustainable growth in our business.

The international theme park client has announced a multi-year development plan from Year 2018 to 2023, including new shows and theme areas expansion. Our 40-year technical expertise and large scale facility can fulfill their increase in number of staff, newly designed costumes and theme attractions. It is notable for us to forecast continuous increment for this scope, and service revenues will steady increase in coming years.

In addition, NCL has invested in advanced packing machinery and innovative garment tracking technology for certain key clients. These value-added equipments not only enhance our operational efficiency, but also boost the asset management ability for our clients.

NCL also stays alert to new trends and fully heads into Green Laundry. NCL uses biodegradable detergents and recycled exhaust air and water, recyclable packaging material in its operation. All machines are high efficiency. With the ISO 50001 Energy Management certification, NCL is committed to building a sustainable environment as well as achieving the highest energy efficiency. As the green awareness is increasing, we foresee a growth in our new business with the environmentally conscious international hotels and large corporations.

The industry is currently facing the challenge of labor shortage. NCL provides training programs and succession plans to keep the expertise.

## Conclusion

As the Group can provide a comprehensive range of E&M engineering, environmental management services and facility 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 shall 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.