Management Discussion and Analysis

BUSINESS REVIEW

In FY2019, the Group recorded revenue amounting to HK$4,930.5 million, which was similar to HK$4,926.5 million in FY2018. Profit attributable to equity holders for the Year was HK$247.5 million, representing an increase of HK$10.7 million or 4.5% as compared with HK$236.8 million in FY2018, mainly reflecting an increase in the Group's gross profit contribution mostly from its E&M engineering segment and overall savings in general and administrative expenses, partly offset by a decline in the Group's finance income with a lower bank balance after acquiring the cleaning and laundry services businesses in April 2018. The expanded business scale after the completion of the acquisition of the facility services business provides a broader and more diversified revenue stream and enhanced profit source to the Group.

E&M ENGINEERING SEGMENT

The Group has 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 has a strong 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 is confident 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) and 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 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.

As at 30 June 2019, 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$7,646 million with a total outstanding contract sum of HK$5,453 million. During FY2019, the Group submitted tenders for 733 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$31,641 million.

During FY2019, this business segment was awarded new contracts with a total value of HK$3,069 million, which included 149 contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$2,850 million. Among these contracts, 5 of them are major projects (with net contract sum equal to or exceeding HK$100 million for each project), which include Inland Revenue Tower, Kai Tak Sports Park and District Cooling System (Phase III) in the Kai Tak Development Area, Lot No. 5 Ningbo New World Plaza and a service apartment's main works at Cotai, Macau.

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.

As at 30 June 2019, this business segment has a total gross value of contract sum of HK$108 million with a total outstanding contract sum of HK$55 million. During FY2019, the Group submitted tenders for 24 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$96 million.

During FY2019, this business segment was awarded new contracts with a total value of HK$72 million, which include 7 projects (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$21 million.

FACILITY SERVICES SEGMENT

Cleaning Services

The Group's cleaning services business, Waihong, encompasses a wide range of private buildings and public facilities in every corner of Hong Kong, which includes 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. It is mainly engaged in providing specialist cleaning services including general cleaning, initial cleaning, housekeeping, recycling, marble and granite floor maintenance, food and solid waste collection, clinical and construction waste disposal, clinic support and integrated pest management services.

Regarding its cleaning service business, growing public awareness for clean and hygienic environment with better lifestyle and better home is boosting the demand of prestige service providers. Waihong, as a major player in the cleaning service market, specialises in providing the highest professional standard services efficiently and effectively for fulfilling different customers' needs.

During FY2019, Waihong submitted tenders for 450 cleaning service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total tender sum of HK$4,300 million.

During FY2019, Waihong was awarded new service contracts with a total value of HK$861 million, which included 99 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$692 million. Among these 99 service contracts, 9 of them were major service contracts (with net contract sum equal to or more than HK$20 million for each service contract), which included 3 residential estates in Quarry Bay, Taikoo Shing and Shatin, 2 contracts awarded by the Hong Kong Government in the New Territories East and Hong Kong Island, a contract for the airport terminal building in Chek Lap Kok, commercial facilities in Kowloon, a premier mixed-use commercial complex in Sheung Wan and a golf and tennis training facility in Sai Kung.

FY2019 was a challenging year for Waihong to sustain business growth under the fierce competition and complex economic environment. Waihong succeeded in gaining a number of new contracts and recovering its lost revenue of last year. Focusing on newly completed properties as its prime marketing strategy, Waihong has won 11 related service contracts during FY2019. It comprises 7 residential properties, 2 office towers and 2 hotel facilities.

Operation costs have been inevitably raised over the year caused by serious labour shortage. Furthermore, with effect from 1 May 2019, the increase of statutory minimum wage by 8.7% has further stressed on workforce market. In addition, Waihong has also encountered the fierce competition during the year which resulted in a decline of its gross profit. To tackle these difficulties, its management will keep on implementing strict cost control measures for mitigating the effect of rising labour costs and insurance premium. Moreover, Waihong aims at investing in more innovative technologies such as robotic equipment and real time inspection system which can enhance its operation efficiency and relief workforce demands.

Management Discussion and Analysis

Laundry

The Group's laundry business, NCL, is an experienced expert in laundry and dry cleaning services, and market leader in this industry in Hong Kong. NCL's clientele covers prestigious hotels, service apartments, clubhouses, an international theme park and major airlines.

During FY2019, NCL has started to provide laundry services at an airport VIP Lounge. In addition, NCL has been awarded the dry cleaning services with a world-class racing club starting July 2018. NCL will continue to maintain its existing client segments and explore new ones that requires high quality of laundry services. For NCL's existing clients, the expansion of an airline client also helped increase its revenue during the year.

During FY2019, NCL continued to upgrade its machinery by replacing a Continuous Batch Washer, it helps to enhance NCL's efficiency and service quality. From a business perspective, NCL was awarded new service contracts with a total value of HK$113 million, which included 6 service contracts (with a contract sum equal to or exceeding HK$5 million for each service contract) with a total contract sum of HK$90 million, including 6 hotels and service apartment complexes.

As at 30 June 2019, the facility service business segment has a total gross value of contract sum of HK$3,144 million with a total outstanding contract sum of HK$1,165 million for the cleaning service business.

FINANCIAL REVIEW

Revenue

In FY2019, the Group recorded revenue of HK$4,930.5 million, which was similar to HK$4,926.5 million in FY2018 and reflected higher revenue from the facility services segment and environmental management services segment amounting to HK$23.1 million and HK$9.3 million respectively, partly offset by lower revenue derived from the E&M engineering segment amounting to HK$28.4 million.

The following tables present breakdown of the Group's revenue by business segment and geographical region:

	For the year ended 30 June			
	2019 HK$'M	**% of total revenue**	2018 HK$'M	% of total revenue
E&M engineering*	**3,665.8**	**74.4%**	3,694.2	75.0%
Environmental management services*	**71.1**	**1.4%**	61.8	1.3%
Facility services*	**1,193.6**	**24.2%**	1,170.5	23.7%
Total	**4,930.5**	**100.0%**	4,926.5	100.0%

* Segment revenue does not include inter-segment sales.

Management Discussion and Analysis

	For the year ended 30 June			
	2019 HK$'M	2018 HK$'M	Change HK$'M	% Change
Hong Kong	**3,938.2**	3,913.8	24.4	0.6%
Mainland China	**792.6**	658.8	133.8	20.3%
Macau	**199.7**	353.9	(154.2)	(43.6%)
Total	**4,930.5**	4,926.5	4.0	0.1%

- *E&M (electrical and mechanical) engineering:* This segment continued to be the key turnover driver of the Group and contributed 74.4% of the Group's total revenue (2018: 75.0%). Segment revenue dropped slightly by 0.8% or HK$28.4 million to HK$3,665.8 million from HK$3,694.2 million, owing mainly to a reduced revenue contribution from Hong Kong and Macau by HK$7.9 million and HK$154.6 million, respectively, partly mitigated by an increase in revenue contribution from Mainland China of HK$134.1 million. The decrease in revenue contribution from Hong Kong and Macau reflects a number of E&M projects which had significant progress last year, including Ocean Pride, Ocean Supreme, Victoria Dockside and Morpheus Hotel, partly mitigated by the revenue contribution from 3 sizeable engineering installation projects of West Kowloon Government Office, Hong Kong Airlines Aviation Training Centre and Spring City 66 in Kunming which had substantial progress in the Year.

- *Environmental management services:* Revenue contribution of this business segment, which principally operates in Hong Kong currently, increased to HK$71.1 million from HK$61.8 million, representing a growth of 15.0% or HK$9.3 million, as compared with last year. Such increase was mainly attributable to the increase in revenue from its environmentally-related contracting and maintenance services, primarily water treatment services in the Castle Peak Power Station and bio-technology services at a number of refuse collection stations of public housing estates.

- *Facility services:* This segment, which presently provides services in Hong Kong, contributed 24.2% (2018: 23.7%) of the Group's total revenue. The revenue of HK$1,193.6 million (2018: HK$1,170.5 million) for the Year composed of revenue from provision of cleaning and laundry services amounting to HK$1,023.2 million (2018: HK$1,003.9 million) and HK$170.4 million (2018: HK$166.6 million), respectively. Segment revenue recorded a growth of HK$23.1 million or 2.0% to HK$1,193.6 million in FY2019 from HK$1,170.5 million in FY2018, owing mainly to the revenue contribution from a number of new cleaning service contracts, encompassed a wide range of buildings and facilities, including a heritage centre, a large-scale public transportation facility, shopping malls, a luxury hotel, academic institutions, a government department, residential and commercial properties, despite a partly offset of this increase by the expiry of a service contract with a transportation company in January 2018.

Management Discussion and Analysis

Gross profit

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

	For the year ended 30 June			
	2019		2018	
	Gross profit HK$'M	**Gross profit margin %**	Gross profit HK$'M	Gross profit margin %
E&M engineering	**442.9**	**12.1**	421.9	11.4
Environmental management services	**19.2**	**27.0**	17.8	28.8
Facility services	**137.7**	**11.5**	151.3	12.9
Total	**599.8**	**12.2**	591.0	12.0

The Group's overall gross profit increased by HK$8.8 million or 1.5% to HK$599.8 million in FY2019 from HK$591.0 million in FY2018, whereas its overall gross profit margin remained relatively stable at 12.2% (2018: 12.0%). The increase in gross profit was driven by the E&M engineering business recording an increase in gross profit margin during the Year to 12.1% from 11.4%, partly offset by a decrease in the gross profit of the facility services segment by HK$13.6 million to HK$137.7 million from HK$151.3 million with its gross profit margin decreased to 11.5% from 12.9% mainly resulted from an escalation of labour costs due to labour shortage. The gross profit margin of the environmental management services segment remained relatively stable at 27.0% (2018: 28.8%) with gross profit rose by 7.9% to HK$19.2 million from HK$17.8 million in FY2018, mainly attributable to the contribution from biological deodorizing system maintenance services.

Other income/gains, net

Other income/net gains in FY2019, which amounted to HK$3.9 million (2018: HK$3.3 million), mainly included rental income from an investment property and release of exchange reserve upon dissolution of subsidiaries.

Finance income

The Group recorded finance income of HK$5.2 million (2018: HK$18.2 million). The decrease was mainly due to lower interest income with a lower bank balance after acquiring the cleaning and laundry services businesses in April 2018.

General and administrative expenses

The general and administrative expenses of the Group for the Year decreased by 3.7% to HK$311.4 million compared to HK$323.2 million in FY2018. The decrease of HK$11.8 million was mostly resulted from a successful cost saving campaign during the Year and the relatively higher non-recurring expenses in prior year, partly offset by the higher market rental of the Fanling laundry plant from April 2018. The non-recurring expenses included the professional fees for the acquisition of cleaning and laundry services businesses and also the removal and renovation costs.

Income tax expenses

The effective tax rate of the Group declined to 16.8% from 17.9% as a result of a higher profit contribution from Mainland China in last year which has a relatively higher applicable corporate tax rate.

Management Discussion and Analysis

Profit for the year attributable to equity holders of the Company

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

	For the year ended 30 June			
	2019 HK$'M	2018 HK$'M	Change HK$'M	% Change
E&M engineering	**193.7**	173.3	20.4	11.8%
Environmental management services	**9.1**	6.3	2.8	44.4%
Facility services	**44.7**	57.2	(12.5)	(21.9%)
Total	**247.5**	236.8	10.7	4.5%

As a result of the foregoing, the Group's profit for the Year increased by 4.5% or HK$10.7 million to HK$247.5 million, compared to HK$236.8 million in FY2018. The increase mainly reflected higher gross profit contribution mostly from the E&M engineering segment and the decrease in general and administrative expenses as mentioned above, partly offset by the lower finance income. The net profit margin of the Group remained stable at 5.0% (2018: 4.8%) for the Year.

Other comprehensive loss

The Group recorded other comprehensive loss of HK$7.5 million in FY2019, reflective of a decrease in exchange reserve following a depreciation of the Renminbi ("RMB") for conversion of the Group's net investments in Mainland China and the release of exchange reserve upon dissolution of subsidiaries, partly mitigated by remeasurement gains on its 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 2019, the Group had total cash and bank balances of HK$447.0 million, of which 75%, 20% and 5% (30 June 2018: 48%, 28% and 24%) were denominated in Hong Kong dollars, RMB and other currencies, respectively. As compared to HK$407.6 million as at 30 June 2018, the Group's cash and bank balances increased by HK$39.4 million to HK$447.0 million, which was primarily due to net cash inflow from operating activities, partly offset by the distribution of FY2018's final dividend of HK$59.9 million and FY2019's interim dividend of HK$45.4 million.

The Group maintained a healthy liquidity position throughout the Year with no bank and other borrowings outstanding as at 30 June 2019 (30 June 2018: Nil). Its net gearing ratio was maintained at zero as at 30 June 2019 (30 June 2018: Zero). This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents. As at 30 June 2019, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$1,566.0 million (30 June 2018: HK$1,537.5 million 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). The Group has no banking facilities guaranteed by FMC as at 30 June 2019 (30 June 2018: HK$242.1 million were guaranteed by FMC). As at 30 June 2019, HK$246.1 million (30 June 2018: HK$263.5 million) 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, Mainland China and Macau 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 movements of the foreign currency rates. It will consider entering into forward foreign exchange contracts to reduce exposure should the need arises.

As part of the Group's business is carried out in Mainland China, part of its 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$175.3 million (30 June 2018: HK$179.0 million) as at 30 June 2019. 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 5.5% (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 2019, if the Hong Kong dollars had strengthened/weakened by another 5.5% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$9.6 million lower/higher.

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 30 June 2019, the net proceeds of HK$264.5 million received from the Company's Initial Public Offering ("IPO") or Global Offering (referred to the prospectus issued by the Company on 26 November 2015) and the revised use of unutilized proceeds of HK$133.5 million as stated in the Company's announcement dated 26 June 2018 were applied in the manner as shown 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$'M	Aggregate utilised amount from 27 June 2018 to 30 June 2019 HK$'M	Unutilised amount as at 30 June 2019 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	13.0	7.0
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	10.8	5.2
Enhancement of quality testing laboratory	12.2	4.9	7.3	1.8	5.5
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	115.8	17.7

Management Discussion and Analysis

The Group has utilised HK$246.8 million of the net proceeds from Global Offering, of which HK$115.2 million was utilised during FY2019 and expects that the remaining balance of the IPO proceeds would be utilised within 5 years up to 2023. 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$1.8 million (30 June 2018: HK$1.3 million) as at 30 June 2019 in relation to purchase of equipment.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2019 and 30 June 2018.

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") for the majority of our Group's operations. 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 2019.

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" 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 participated in a beach cleaning activity organised by the Food, Environmental Hygiene Department and arranged a visit to the Jockey Club Museum of Climate Change which enabled our employees to gain an understanding of the climate changes 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 establishes its own set of guidelines to ensure accountability in quality assurance. Regular audits are carried out to identify potential risks and defect issues in the business, 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 case 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.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group had a total of 8,186 employees (2018: 7,402), including 1,414 casual workers (2018: 972). Staff costs for the Year, including salaries and benefits, was HK$1,363.3 million (2018: HK$1,397.3 million). The decrease mainly reflects a lower average headcount of permanent employees at the Group's cleaning services division.

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, 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.

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

E&M Engineering Segment

1. **Installation Services**

   In Hong Kong, according to the construction expenditure forecast provided by the Construction Industry Council, expenditure in E&M construction works will amount to over HK$25 billion for the public sector and over HK$27 billion for the private sector over the next few years.

   The long-term housing strategy of the Hong Kong Government, as stated in its 2018 Policy Address, aims at continuing its ongoing efforts in increasing the land and housing supply and increasing the public-private housing ratio to 7:3. According to government projections, 450,000 residential flats will be provided in the next decade including 220,000 public housing units, 95,000 subsidised-sale units, and 135,000 private housing units.

   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 the construction of a new acute hospital at the Kai Tak Development Area and the redevelopment or expansion of various hospitals such as United Christian Hospital, Prince of Wales Hospital, North District Hospital, Princess Margaret Hospital and Grantham Hospital. 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.

   To promote sport in the community and maintain Hong Kong as a centre for major international sporting events, the Hong Kong Government plans to spend a total of HK$20 billion between 2017 and 2021 to launch 26 projects to develop new or improve existing sports and recreation facilities. Besides, construction of the Kai Tak Sports Park, the largest sport project with an investment over HK$30 billion, is expected to complete in 2023.

Management Discussion and Analysis

In addition, the Government has invited the Airport Authority Hong Kong to create in the Lantau Island an Aerotropolis connecting the Greater Bay Area and the world. These include the construction of a three-runway system, the expansion of the existing Terminal 2, the development of a high value-added logistics centre at the South Cargo Precinct, the SKYCITY development projects and the AsiaWorld Expo at the Hong Kong International Airport.

To encourage and enhance innovation and technology, the infrastructure works of the Hong Kong-Shenzhen Innovation and Technology Park at the Lok Ma Chau Loop has commenced in June 2018, with the objective of providing the first batch of land parcels for superstructure development not later than 2021.

Of course, the construction engineering sectors in Hong Kong are also facing a multitude of problems and serious challenges. According to forecasts, 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.

Regarding the Extra Low Voltage ("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.

Since the establishment of the new ELV division, the Group has been awarded several ELV projects including three residential projects on Sai Yuen Lane, Sheung Heung Road and Waterloo 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, an Aviation Training Centre in Chek Lap Kok and Inland Revenue Tower in Kai Tak.

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 of its valued customers.

In Macau, 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 4 and Studio City Phase 2, and the renewal of casino licences in 2022 are expected to create emerging business opportunities for the Group in the coming few years.

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 Special Administrative Region 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.

For the Mainland China 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.

The development of the Greater Bay Area will certainly enhance the economic and social growth in eleven cities of that Area. In addition, the three rapidly developing Guangdong Pilot Free Trade Zones — Hengqin, Qianhai and Nansha — will bring in new business opportunities to the Group.

In recent years, the Group has been providing project management services across Mainland China, such as 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, it will be a preferred partner for foreign and Hong Kong-based developers for high-end projects in Mainland China.

2. **Maintenance Services**

Currently, there are over 65% of the existing buildings (approximately 42,000) aged over 20 years in Hong Kong including 1,700 commercial buildings, 1,600 industrial buildings and 24,000 residential buildings. Thus, the maintenance section 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 condition. Large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the maintenance section.

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 the Group's environmental consultancy services. Its seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively have brought steady growth to its environmental engineering segment.

With the growing public demand for better water quality, increasingly strict water control procedures drive the market demand for water quality testing services of the Group's laboratory. This 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 laboratory services thus complement the work of the E&M engineering and environmental management services segments.

During the year, the Group has been approved as an Accredited Indoor Air Quality ("IAQ") Certificate Issuing Body ("CIB"). The inspection works of IAQ further strengthen the Group's environmental consultancy services.

The Group is actively working with strategic partners and vendors to invest in strengthening its technological capabilities with a focus on air, water and waste treatment. As at present, the Group has collaborated with Nano and Advanced Materials Institute Limited to invest in and develop nano-bubble technology which converts ordinary air and water into strong oxidising fluid and solid waste technology.

Management Discussion and Analysis

Facility Services Segment

1. Cleaning Services

New Business Opportunity

The improvement measures of government outsourcing service contracts take effect from April 2019, for which tenderers are able to offer higher wage rate to non-skilled workers and excellent technical proposals, with higher scores in tender evaluation to be granted. This change indicates that low-priced strategy will be reduced. This has created both business opportunities and competitiveness for the Group and Waihong expects to increase its successful ratio for coming government tenders. In this aspect, there are two government service contracts newly awarded during the Year. Waihong will focus on extending its business to the private or public medical sectors.

Business Development

For moving forward and strengthening Waihong's market position and profit margin, it is necessary to secure its existing contracts and explore new market in different segments. In this year, the Group has succeeded in securing a number of new service contracts in the high-end market, including premier office buildings from well-known developers and superior hotel facilities. Our management believes that these contracts can support Waihong's business growth and optimise its brand name. Currently, Waihong has 9 housekeeping service contracts on hand and will further expand its hospitality services to potential clients.

Innovative technologies and tools are the latest trends in the cleaning industry. Aiming to provide full range of solution to domestic and corporate clients, Waihong intends to cooperate with biotech expertise for designing proposals on eliminating indoor air pollution in the market. Waihong will continue to seek for diversified services to satisfy market needs.

2. Laundry

In view of the recent social instability in Hong Kong, there are knock-on effects felt across the industries especially retail, tourism and hospitality sectors. As NCL offers laundry, dry cleaning and linen management services to corporate customers including major high-end hotels, restaurant chains and theme parks, our business is impacted by the plummeted tourist arrivals and low room occupancy rates. In view of the challenges, NCL will intensify its focus on key accounts, efficient and effective cost management, ensuring customer satisfaction and sustainable growth of its business. Moreover, NCL will keep on investing in advanced machinery to enhance its efficiency and service quality.

Conclusion

As the Group can provide a comprehensive range of E&M engineering, environmental management services and facilities 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 above-mentioned infrastructure and large-scale projects will bring. As well, the Group shall endeavour to maintain a strong financial position so as to stay poised for new investment when they arise.