Management Discussion and Analysis

BUSINESS REVIEW

In FY2020, the Group recorded revenue amounting to HK$4,882.1 million, representing a decrease of HK$540.6 million or 10.0%, as compared with HK$5,422.7 million (restated) in FY2019. Profit attributable to shareholders for the Year was HK$309.6 million, representing an increase of HK$2.2 million or 0.7 % as compared with HK$307.4 million (restated) in FY2019, mainly reflecting an overall savings in general and administrative expenses and lower income tax expenses, partly offset by a slight decrease in gross profit contribution, an impairment loss on non-current assets of the Group's laundry business and one-off professional fees and finance costs incurred for the acquisition of the property and facility management services business. The expanded business scale after the completion of the acquisition of the property and facility management services business provides a broader and more diversified revenue stream and enhanced profit source to the Group.

E&M ENGINEERING & ENVIRONMENTAL SERVICES SEGMENT

E&M Engineering

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 and continued to run 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 design and exploring innovative methods. At the project level, the Group incorporates the application of green building principles into building services equipment; and adopts green building design, modular integrated construction (MiC), Design for Manufacture and Assembly (DfMA) to reduce energy usage, carbon footprint 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), DfMA, Robotic Total Solution (RTS) and Sky Drilling Machine (SDM), 3D laser scanning and mobile Apps solutions etc.

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.

As at 30 June 2020, the Group's E&M engineering projects encompassed a wide range of buildings and facilities, including government buildings and facilities, offices, shopping malls, convention and exhibition centres, hotels, integrated resorts, residential properties, universities, hospitals and airport facilities.

During FY2020, the Group submitted tenders for 731 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$22,824 million and was awarded contracts with a total value of HK$4,578 million, which included 136 contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$4,393 million. Among these contracts, 8 of them are major projects (with net contract sum equal to or exceeding HK$100 million for each project), which include Immigration Headquarters in Tseung Kwan O, SKYCITY commercial development projects in Chek Lap Kok, residential development projects in Kwun Tong and the Kai Tak Development Area, commercial development projects in Central and the Kai Tak Development Area, Resort World and Studio City Phase 2 in Macau.

Management Discussion and Analysis

Environmental Services

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

During FY2020, the Group submitted tenders for 35 environmental 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$170 million and was awarded contracts with a total value of HK$81 million, which included 5 projects (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$11 million.

As at 30 June 2020, this business segment has a total gross value of contract sum of HK$10,004 million with a total outstanding contract sum of HK$7,681 million.

INTEGRATED PROPERTY & 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 after the outbreak of COVID-19 will boost the demand of prestige service providers. Waihong, as a major player in the cleaning service industry, specialises in providing diverse, efficient, effective and the highest professional standard services to meet its customer needs.

Waihong is capable of providing professional and quality services for different kind of new projects to satisfy the market needs. The demand for specialist cleaning services is full of challenge recently due to slowdown of economy in Hong Kong. Nevertheless, newly-built commercial buildings, residential properties and public facilities will be increasingly constructed in the coming years. Needs for quality cleaning service will be increased and Waihong may benefit from the rising demand in the service market. By capitalising on its extensive experience, quality and customised service with distinctive brand, Waihong has competitive advantages to secure new service contracts and attain a high renewal rate for its existing contracts. Waihong will extend its business strategy to widen the service portfolios in private and public sectors to sustain its market leadership.

During FY2020, Waihong submitted tenders for 371 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$7,370 million and was awarded service contracts with a total value of HK$1,571 million, which included 94 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$1,509 million. Among these 94 service contracts, 17 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 shopping malls in Sha Tin, Sheung Wan and Tsim Sha Tsui, an international school and an academic hospital in the Southern District, a residential estate in Ma On Shan, an international bank facilities in Hong Kong, a group of shopping malls in East Kowloon and Tseung Kwan O Districts, 3 service contracts for government properties in Kowloon, New Territories and Hong Kong Island Districts, an exhibition center, the airport terminal building and 2 service contracts for a theme park in the Lantau Island District and a university in Kowloon Tong.

Management Discussion and Analysis

FY2020 was a challenging year for Waihong to sustain business growth under the social instability and outbreak of COVID-19. With the extra effort of its management team, Waihong has successfully renewed the most key contracts and gained numbers of profitable projects to widen its service portfolios in public and private markets. During FY2020, Waihong's revenue and net profit recorded double-digit increments compared with FY2019. Moreover, Waihong aims at investing in more innovative technologies such as robotic equipment and real time inspection system which may enhance its operation efficiency and relief workforce demands. Waihong will invest more resources to explore business opportunities from different market segments for further expansion.

Laundry Services

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

During FY2020, NCL has commenced to provide laundry services to a hotel in the Cyberport, maintained its existing client segments and explore new segments that require high quality of laundry services. NCL expanded its business with a luxury hotel and service apartment on the Kowloon waterfront that were newly opened in 2019. NCL successfully renewed contracts with its key clients including an international theme park and its three hotels, and a global provider of catering and provisioning services for airlines.

During FY2020, NCL submitted tenders for 32 service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total tender sum of HK$142 million and was awarded service contracts with a total value of HK$285 million, including previously submitted tenders. The awarded service contracts included 7 major service contracts (with a contract sum equal to or exceeding HK$5 million for each service contract) with a total contract sum of HK$270 million, including 2 contracts for an international theme park, a residential property group, a racing club, a restaurant group, an exhibition centre and a global provider of catering and provisioning services for airlines.

Despite the above mentioned development, NCL was adversely affected in FY2020 due to social unrests and the outbreak of COVID-19 in Hong Kong. The hard hit retail, tourism and hospitality industries have impacted the turnover of our laundries. As NCL offers laundry, dry cleaning and linen management services to corporate customers including major high-end hotels, restaurant chains and theme parks, its business is impacted by the plummeted tourist arrivals and low hotel room occupancy rates. The unprecedented economic contraction, particularly the total shutdown of tourism and hospitality industries, has resulted in an overwhelming drop in the volume of NCL's laundry service. In view of the challenges, NCL has adopted various measures to achieve efficient operation while maintaining a high service quality and will intensify its focus on key accounts, efficient and effective cost management, ensuring customer satisfaction and sustainable growth of its business.

Property and Facility Management Services

The Group's property and facility management services business, comprising Urban and Kiu Lok, is serving one of the largest property and facility asset portfolios in Hong Kong, which provides the most comprehensive and customised professional management services for its clients.

Urban and Kiu Lok are experts in six core property and facility management pillars: (i) residential property assets management; (ii) facilities management and operations, including both public and private sectors; (iii) commercial, retail and industrial premises operations, (iv) project management; (v) leasing and tenancy management and (vi) car park operations and management. Their property asset and facility services cover all kinds of property and facility assets including government offices and quarters, academic campus and educational institutes, service apartments, Grade A intelligent buildings and commercial complexes, modern industrial premises, composite residential developments to regional car parks and various kinds of public and private facility assets.

Management Discussion and Analysis

Urban and Kiu Lok's unique market differentiation lies in their vertical integration of services, strong pool of professional talents and partnership approach towards customers. Innovation keeps Urban and Kiu Lok at the forefront of the industry. They have been pioneering in the introduction of modern international standards and service models in property and facility management in Hong Kong.

During FY2020 , Urban and Kiu Lok submitted tenders for 30 service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total tender sum of HK$2,485 million and was awarded 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$1,063 million. Among these 20 service contracts, 5 of them were major service contracts (with net contract sum equal to or more than HK$10 million), including 3 government properties, staff quarters of a university and a residential estate.

As at 30 June 2020, this business segment has a total gross value of contract sum of HK$4,836 million with total outstanding contract sums of HK$1,799 million for its cleaning services and HK$1,594 million for its property and facility management services businesses, respectively.

FINANCIAL REVIEW

Revenue

In FY2020, the Group's revenue dropped by HK$540.6 million or 10.0% to HK$4,882.1 million from HK$5,422.7 million (restated) in FY2019, reflecting lower revenue from the E&M engineering & environmental services segment amounting to HK$651.4 million, partly mitigated by higher revenue from the integrated property & facility services segment amounting to HK$110.8 million.

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

	For the year ended 30 June			
	2020 **HK$'M**	**% of Total revenue**	2019 (restated) HK$'M	% of Total revenue
E&M engineering & environmental services*	**3,085.5**	**63.2%**	3,736.9	68.9%
Integrated property & facility services*	**1,796.6**	**36.8%**	1,685.8	31.1%
Total	**4,882.1**	**100.0%**	5,422.7	100.0%

* Segment revenue does not include inter-segment revenue.

	For the year ended 30 June			
	2020 **HK$'M**	2019 (restated) HK$'M	Change HK$'M	% Change
Hong Kong	**4,171.0**	4,430.4	(259.4)	(5.9%)
Mainland China	**382.3**	792.6	(410.3)	(51.8%)
Macau	**328.8**	199.7	129.1	64.6%
Total	**4,882.1**	5,422.7	(540.6)	(10.0%)

- *E&M (electrical and mechanical) engineering & environmental services:* This segment continued to be the key revenue driver of the Group and contributed 63.2% (2019: 68.9% (restated)) of the Group's total revenue. Segment revenue of HK$3,085.5 million (2019: HK$3,736.9 million) for the Year composed of revenue from the provision of E&M engineering & environmental services amounting to HK$3,015.5 million (2019: HK$3,665.8 million) and HK$70.0 million (2019: HK$71.1 million) respectively. Segment revenue dropped by 17.4% or HK$651.4 million to HK$3,085.5 million from HK$3,736.9 million, owing mainly to a reduced revenue contribution from Mainland China and Hong Kong by HK$410.3 million and HK$370.2 million respectively, partly mitigated by an increase in revenue contribution in Macau amounting to HK$129.1 million. The reduced revenue contribution from Mainland China and Hong Kong reflected 2 sizeable E&M engineering installation projects which were substantially completed last year, including Spring City 66 in Kunming and West Kowloon Government Offices, partly mitigated by the revenue contribution from a number of E&M engineering installation and renovation projects, including Transport Department's Vehicle Examination Centre in Hong Kong and St. Regis Service Apartment in Macau, which had substantial progress this year. It should be noted that, under contract terms, only the management fees and reimbursable costs are reflected in the revenue of the Kai Tak Sports Park project.

- *Integrated property & facility services:* This segment, which presently principally provides services in Hong Kong, contributed 36.8% (2019: 31.1% (restated)) of the Group's total revenue. Segment revenue of HK$1,796.6 million (2019: HK$1,685.8 million (restated)) for the Year comprises provision of cleaning services, laundry services and property and facility management services amounting to HK$1,126.9 million (2019: HK$988.2 million (restated)), HK$102.1 million (2019: HK$170.4 million) and HK$567.6 million (2019: HK$527.2 million) respectively and grew HK$110.8 million or 6.6%. Such growth was mainly attributable to (i) contributions from a number of new general cleaning service contracts, which encompassed a wide range of buildings and facilities, including a large-scale public transportation facility, shopping malls, a government department, residential and commercial properties, (ii) additional ad-hoc intensive disinfection cleaning contracts following the outbreak of COVID-19 and (iii) higher revenue from the property and facility management services business, mainly driven by extensions of 2 non-residential property management contracts, including government buildings in Hong Kong, Kowloon and the New Territories and staff quarters of a university, partly offset by a reduction in revenue from the laundry business resulted from the plummeting tourist arrivals and lower hotel room occupancy rates following the outbreak of COVID-19 and social unrests.

Gross profit

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

	For the year ended 30 June			
	2020		2019 (restated)	
	Gross profit HK$'M	Gross profit Margin %	Gross profit HK$'M	Gross profit Margin %
E&M engineering & environmental services	**434.9**	**14.1**	462.1	12.4
Integrated property & facility services	**325.5**	**18.1**	307.4	18.2
Total	**760.4**	**15.6**	769.5	14.2

The Group's gross profit slightly decreased by HK$9.1 million or 1.2% to 760.4 million in FY2020 from HK$769.5 million (restated) in FY2019, with an overall gross profit margin remained relatively stable at 15.6% (2019: 14.2% (restated)). The decrease in gross profit was mainly attributable to a reduction in E&M engineering & environmental services segment's gross profit of HK$27.2 million to HK$434.9 million from HK$462.1 million. Lower gross profit was recorded this Year from a number of sizeable E&M engineering installation projects in Mainland China and Macau which had significant progress or cost savings last year, including Shenyang New World International Convention and Exhibition Centre, Tianjin Chow Tai Fook Financial Centre and Parisian Macau. Despite the fact that a number of Mainland China and Macau E&M projects experienced low profit margin, the gross margin of the entire E&M engineering & environmental services segment has increased to 14.1% from 12.4% mostly reflecting cost savings from the West Kowloon Government Offices project.

The integrated property & facility services segment recorded an increase in the gross profit of HK$18.1 million to HK$325.5 million from HK$307.4 million (restated), with its gross profit margin remained relatively stable at 18.1% (2019: 18.2% (restated)). The increase in gross profit mainly reflected a number of new general and ad-hoc intensive disinfection cleaning service contracts, the extensions of 2 non-residential property management contracts with a government department and a university, partly offset by the reduced laundry business volume impacted by the plummeting tourist arrivals and lower hotel room occupancy rates since the government's implementation of containment measures on the COVID-19 pandemic.

Other (expenses)/income, net

Other net expenses in FY2020 amounted to HK$9.3 million as compared with other net income of HK$5.3 million (restated) recorded in FY2019. FY2020's net expenses mainly included an impairment loss of HK$13.9 million on non-current assets of the Group's laundry business.

Finance income

In FY2020, the Group recorded finance income of HK$5.5 million (2019: HK$5.2 million (restated)). The increase mainly reflected an increase in the average principal sum of the Group's bank deposits placed in Hong Kong.

Finance costs

The Group's finance costs of HK$10.1 million (2019: HK$0.4 million (restated)) for FY2020 included interest expenses of HK$7.4 million for the Group's bank loan financing its acquisition of the property and facility management services business and HK$0.3 million for the property and facility management services business' short-term bank borrowings which were fully repaid during the Year and finance costs on lease liabilities of HK$2.4 million following the Group's adoption of HKFRS 16 "Leases" starting from 1 July 2019.

General and administrative expenses

General and administrative expenses of the Group for the Year decreased by 6.7% to HK$384.0 million compared to HK$411.7 million (restated) for last year. Such decrease of HK$27.7 million mostly reflected a successful cost saving campaign and reduced depreciation of leasehold improvement in FY2020, partly offset by one-off professional fees of HK$12.1 million for the acquisition of the property and facility management services business.

Income tax expenses

The effective tax rate of the Group reduced by 1.7% to 14.9% (2019: 16.6% (restated)), mainly attributable to the non-taxable COVID-19 related government grants.

Management Discussion and Analysis

Profit for the year attributable to shareholders of the Company

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

	For the year ended 30 June			
	2020 HK$'M	2019 (restated) HK$'M	Change HK$'M	% Change
E&M engineering & environmental services	**210.3**	207.1	3.2	1.5%
Integrated property & facility services	**124.4**	104.6	19.8	18.9%
Unallocated corporate expenses and finance costs*	**(25.1)**	(4.3)	(20.8)	483.7%
Total	**309.6**	307.4	2.2	0.7%

* Unallocated corporate expenses and finance costs comprise the Company's corporate expenses of HK$17.7 million (2019: HK$4.3 million), mainly representing the one-off professional fees of HK$12.1 million as mentioned above, and interest expenses of HK$7.4 million (2019: Nil) for the Group's bank loan financing its acquisition of the property and facility management services business.

As a result of the foregoing, the Group's profit in FY2020 slightly increased by 0.7% or HK$2.2 million to HK$309.6 million compared to HK$307.4 million (restated) in FY2019. The increase mainly reflected the decrease in general and administrative expenses and income tax expenses as mentioned above, partly offset by a slight decrease in gross profit contribution, the impairment loss on non-current assets of the Group's laundry business and the finance costs incurred for the acquisition of the property and facility management services business. The net profit margin of the Group improved to 6.3% for the Year from 5.7% (restated) in last year.

Other comprehensive loss

The Group recorded other comprehensive loss for the Year of HK$5.6 million (2019: HK$10.0 million (restated)), reflected an exchange reserve movement of HK$5.9 million (2019: HK$7.4 million) recorded during the Year following a depreciation of the Renminbi ("RMB") for conversion of the Group's net investments in Mainland China, remeasurement losses on long service payment liabilities of HK$0.3 million (2019: gains of HK$1.8 million (restated)), partly offset by remeasurement gains on defined benefit retirement scheme of HK$0.6 million (2019: losses of HK$2.6 million (restated)).

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 2020, the Group had total cash and bank balances of HK$700.9 million (30 June 2019: HK$562.2 million (restated)), of which 92%, 6% and 2% (30 June 2019: 80%, 16% and 4% (restated)) were denominated in Hong Kong dollars, RMB and other currencies respectively, and total borrowings of HK$463.2 million (30 June 2019: HK$30.0 million (restated)) denominated in Hong Kong dollars. The Group's net cash balance decreased by HK$294.5 million to HK$237.7 million as at 30 June 2020 as compared to HK$532.2 million (restated) as at 30 June 2019 mainly reflecting the cash consideration paid by the Group for its acquisition of the property and facility management services business totalling HK$602.5 million and distribution of FY2019's final dividend of HK$53.6 million and FY2020's interim dividend of HK$57.6 million, partly mitigated by net cash inflow from operating and financing activities. The Group's net gearing ratio was maintained at zero as at 30 June 2020 (30 June 2019: 0%). This ratio is calculated as net debt divided by total equity. Net debt is calculated as total bank borrowings less cash and cash equivalents.

Management Discussion and Analysis

Adopting a prudent financial management approach in implementing its treasury policies, the Group maintained a healthy liquidity position throughout the reporting period. As at 30 June 2020, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$2,556.4 million (30 June 2019: HK$1,703.0 million (restated)). As at 30 June 2020, the Group has no banking facilities guaranteed by FSE Management Company Limited ("FMC", a direct wholly-owned subsidiary of FSE Holdings Limited) (30 June 2019: HK$137.0 million (restated)) was guaranteed by FMC). As at 30 June 2020, HK$959.1 million (30 June 2019: HK$353.9 million (restated)) of the Group's banking facilities had been utilised for bank borrowings, 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.

Debt profile and maturity

As at 30 June 2020, the Group's total debt increased to HK$463.2 million from HK$30.0 million (restated) as at 30 June 2019. All the bank borrowings of HK$463.2 million as at 30 June 2020 will mature in December 2021. It is denominated in Hong Kong Dollar and bears interest at floating rates.

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, some 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$169.7 million (30 June 2019: HK$175.3 million) as at 30 June 2020. 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 under review, the fluctuation of RMB against Hong Kong dollars was 5.4% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the period under review).

As at 30 June 2020, if the Hong Kong dollars had strengthened/weakened by another 5.4% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$9.2 million lower/higher.

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 30 June 2020, 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 unutilised 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 pursuant to the Company's announcement dated 26 June 2018 HK$'M	Aggregated utilised amount from 27 June 2018 to 30 June 2019 HK$'M	Aggregated utilised amount from 1 July 2019 to 30 June 2020 HK$'M	Unutilised amount as at 30 June 2020 HK$'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	1.9	3.6
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	14.1	3.6

The Group has utilised HK$260.9 million of the net proceeds from Global Offering, of which HK$14.1 million was utilised during the FY2020 with the actual usage consistent with the usage as intended and previously disclosed by the Company. The Group expects that the remaining balance of the IPO proceeds in the amount of HK$3.6 million will be utilised in accordance with the manner as shown in the table above within 4 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

As at 30 June 2020, the Group had capital commitments of HK$0.5 million (30 June 2019: HK$2.9 million (restated)). Details of them are set out in the Note 34(a) to the consolidated financial statements.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2020 and 30 June 2019.

Management Discussion and Analysis

Major transaction

On 18 October 2019, a conditional sale and purchase agreement (the "S&P Agreement") was entered into between the Company, FSE Property Management Group Limited ("FPMGL", a direct wholly-owned subsidiary of the Company) and FMC (the "Vendor", a direct wholly-owned subsidiary of FSE Holdings Limited which is a controlling shareholder of the Company) whereby the Company agreed to purchase (or to procure a wholly-owned subsidiary to purchase) and the Vendor agreed to sell the entire issued share capital (the "Sale Share") of Legend Success Investments Limited ("Legend Success") (together with its subsidiaries as at the completion of the S&P Agreement, the "Target Group") at an initial consideration (the "Consideration") of HK$704.9 million subject to adjustment. Pursuant thereto, the Company has nominated FPMGL to buy the Sale Share. The Target Group is principally engaged in the provision of property and facility management services.

The acquisition under the S&P Agreement was approved by the independent shareholders at the extraordinary general meeting of the Company held on 6 December 2019. Completion of the S&P Agreement took place on 16 December 2019 (the "Completion Date") upon which the initial sum of the Consideration of HK$704.9 million was satisfied by the Company through (i) the payment of HK$564.0 million in cash and (ii) a non-cash consideration of HK$140.9 million through the issuance and allotment by the Company of 43,676,379 non-voting redeemable convertible preference shares of HK$0.10 each at the issue price of HK$3.2260 per share to FMC, credited as fully paid. A final cash payment for this acquisition of HK$38.5 million was made on 13 February 2020 with reference to the unaudited net tangible asset value of the Target Group as at the Completion Date. The aggregate consideration for this acquisition is thus HK$743.4 million.

The convertible preference shares are (i) convertible into 43,676,379 ordinary shares of the Company at an initial price of HK$3.2260 per share (subject to adjustments upon occurrence of certain prescribed events, including consolidation, subdivision or reclassification of shares in the capital of the Company, capitalisation of profits or reserves etc., in each case if not also made available to the holder(s) of the convertible preference shares), provided that any conversion shall not result in the Company failing to comply with any public float requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, within a period of 10 years after their date of issue of 16 December 2019 (the "Issue Date") and (ii) redeemable by the Company at its sole discretion at a redemption price equals to the Issue Price together with all outstanding preferred distributions accrued to the date fixed for redemption at any time after 10 years following the Issue Date. The convertible preference shares are treated as contingently issuable potential ordinary shares under Hong Kong Accounting Standard ("HKAS") 33"Earnings per Share" and, since the conditions for their conversion were not met as at 30 June 2020, the effect of their conversion is not included in the calculation of the diluted earnings per share for year ended 30 June 2020 pursuant to HKAS 33's requirements as described in Note 13 to the consolidated financial statements. Assuming that all of the outstanding convertible preference shares were converted as at the end of the Year of 30 June 2020 and assuming their conditions for conversion were met, the Company's earnings per share after taking into account of the dilutive impact of such conversion for the year ended 30 June 2020 would be HK$0.65 per share, calculated as the Group's profit attributable to shareholders of the Company of HK$309.6 million divided by the weighted average number of the Company's ordinary shares in issue of 473.6 million (after taking into account the weighted average number of incremental number of ordinary shares that would be issued from the conversion of the convertible preference shares on its Issue Date of 23.6 million). The convertible preference shares confer their holder(s) the right to receive preferred distributions from the Issue Date at a rate of 6.0% per annum on its Issue Price, payable annually in arrears. As (i) the Company may at its sole discretion redeem either in whole or in part the convertible preference shares for the time being outstanding (i.e. it has no obligation to settle them in cash unless it elects at its sole discretion to redeem) and (ii) the convertible preference shares are only convertible within a period of 10 years after the Issue Date but redeemable only after 10 years following the Issue Date, an analysis on the Company's share price at which it would be equally financially advantageous for the convertible preference share holder(s) to convert or redeem the convertible preference shares based on their implied rate of return at a range of dates in the future is not applicable. Based on the financial and liquidity position of the Group (with details set out in the paragraphs headed "Liquidity and financial resources" of this section), to the best knowledge of the Company, the Company expects that it will be able to meet its redemption obligations under the outstanding convertible preference shares issued by it.

Upon completion, each member of Legend Success became a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group have been consolidated in the financial statements of the Company for the Year.

Management Discussion and Analysis

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 2020.

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had a total of 13,701 employees (30 June 2019: 13,047 (restated)), including 4,742 (30 June 2019: 4,878 (restated)) casual workers and employees whose relevant costs are directly reimbursed by or charged to our customers or sub-contractors. Staff costs for the Year, including salaries and benefits, was HK$1,744.8 million (2019: HK$1,657.1 million (restated)). The increase mainly reflects an increase in the average headcount of the Group's permanent employees, mainly at its 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. As at the date of this report, no share options under this scheme have been granted.

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 & Environmental Services 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$23 billion for the public sector and over HK$25 billion for the private sector in the fiscal year 2020/21.

   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 achieve the target, the Government is allocating more land to public housing development and increasing the ratio of public housing to 70% of the housing units on its newly developed land for the coming 10 years up to 2029.

   The Government will invoke the Lands Resumption Ordinance to resume three types of private land for public housing. These include (1) private-owned brownfield sites located in Ping Shan and Lam Tei; (2) private land which has been zoned for high-density housing development in statutory outline zoning plans; (3) the urban private land located in Cha Kwo Ling Village, Ngau Chi Wan Village and Chuk Yuen United Village. Furthermore, the Housing Authority is invited to explore the feasibility of redeveloping its factory estates for public housing use.

Management Discussion and Analysis

To prepare for the challenges brought by the aging population, the Hong Kong Government earmarked HK$200 billion in 2016 for a 10-year hospital development plan. On top of the HK$200 billion invested in the first 10-year plan, the Hong Kong Government has committed to an extra HK$300 billion capital works program 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 HK$5 billion for the construction of a Chinese medicine hospital at Pak Shing Kok in Tseung Kwan O which is expected to be commenced in 2021 and operated in 2024.

To promote sport in the community and maintain Hong Kong as a centre for major international sporting events, the Hong Kong Government has planned 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 at the Kai Tak Sports Park, the largest sport project with an investment over HK$30 billion, has commenced in early 2019 and to be completed in 2023.

In addition, the Hong Kong Government has invited the MTRC to plan for three new railway lines including the Tung Chung Line Extension, the Tuen Mun South Extension and the Northern Link. The Hong Kong Government also requested the Airport Authority Hong Kong to create at Lantau 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.

In the 2019 Policy Address, the Government endeavours to transform Kowloon East into the second core business district, scale comparable with the core business district in Central District (about 3.76 million square metres of commercial floor area).

With increasing construction volumes, rising construction costs and ageing skilled workforce in recent years, together with multiple incidents in individual large-scale project, the construction industry in Hong Kong has been facing enormous pressure and challenges. The Group has been endeavoring to support the "Construction 2.0" (i.e. Innovation, Professionalisation and Revitalisation) as launched by the Government in 2019 to capitalize on future development opportunities and scale new heights.

Based on the Lands Department records and the lacklustre market sentiment, the land sales have dropped almost 80% since 2017, which will result in a reduced supply of private commercial and residential properties in the coming few years. In addition, 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 in 2016, 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 at Chek Lap Kok, Inland Revenue Tower at Kai Tak, Immigration Headquarter at Tseung Kwan O Area 67, SKYCITY commercial development in Chek Lap Kok and Kai Tak Sports Park.

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 Artificial Intelligence (AI) and Internet of Things (IOT), 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.

In Macau, there is a constant demand for renovation and improvement works for hotels and casinos. In addition, 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 centre 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 three core bases in Guangzhou, 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 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, it will be a preferred partner of foreign and Hong Kong-based developers of high-end projects in Mainland China.

2. Maintenance Services

As reflected in the statistics available, currently about 500 new buildings will be constructed each year and over 65% of the existing buildings (approximately 42,000) are aged over 20 years in Hong Kong including 1,700 commercial buildings, 1,600 industrial buildings and 24,000 residential buildings. The maintenance section of the Group's E&M engineering services thus 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.

Management Discussion and Analysis

3. **Environmental Services**

   Increasing public awareness of the importance of sustainable environment has fuelled the demand for environmental engineering services and products. 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.

   Our laboratory has been accredited by the Hong Kong Accreditation Service under the Hong Kong Laboratory Accreditation Scheme (HOKLAS) since 2015 which complement the work of the E&M engineering & environmental services segments. The Group has also 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.

Integrated Property & Facility Services Segment

1. **Cleaning Services**

   There are tremendous demands of antiviral coating and sterilisation services during the period of COVID-19 outbreak in Hong Kong. Waihong also reaps benefit from providing numerous sterilisation service orders by its current clients and ad-hoc customers. Waihong's management believes that such kind of disinfectant services would keep in high demand in the market until COVID-19 is completely controlled. Further, job creation scheme from government will create around 30,000 time-limited jobs in both public and private sectors including stepping up cleansing of government buildings and schools in the coming two years. Relevant cleansing jobs may create about 3,000 additional workers from public or private market subsidised by government. Waihong will strive to engage these one-off contracts as it may generate higher profits and expand the market share in government sector for the Group.

   Towards global trend of smart city development embracing innovation and technology, the Group will introduce more innovative technologies and robotic machines to reduce the manpower resource and increase the efficiency. Waihong will consider exploring or partnering some potential strategic business vendors to establish the competitive edges in the industry for further expanding specialist and sterilisation services to different market segments. Waihong has cooperated with biotech expertise for promotion of eliminating indoor air pollution and antiviral coating services in the market. Waihong will continue to seek for diversified services to satisfy market demands.

   With thousands of tenders and quotations to be released to the market year to year, cleaning services providers benefit from contracts totaling billions of Hong Kong dollars from both the private and public sectors. Waihong, as one of major players in the cleaning services market, strives to retain a higher ratio of its existing service contracts and explore more new business from different market segments leveraging its competitive advantages. During FY2020, Waihong has consecutively succeeded in securing some new service contracts in high-end market, including prime office building and residential properties from well-known developers, prestige international college, superior bank facilities, academic hospital, science research buildings, exhibition center, airport terminal building, government properties and theme park. Waihong's management believes that these service contracts can support Waihong's business growth and optimise its brand name.

Foreseeing the downturn of worldwide economy by the pandemic outbreak of COVID-19, slowdown of Hong Kong economy is inevitable in the coming financial year. Waihong's teams have been requested to tighten control of expenditure in every aspect to tackle with the tough time. As unemployment rate is getting higher, Waihong will seize this opportunity to reallocate labour resources to ease the rising operations cost and seek for new business from relatively stable clients such as public institutions or government facilities. It is confident to overcome difficulties by various support measures by Waihong to enhance its communication with clients for tackling with unexpected challenges.

2. **Laundry Services**

As a consequence of the outbreak of COVID-19 and social unrests, the industry is experiencing cut-throat competition, wafer-thin margin and reduced patronage, the coming year is therefore anticipated to be full of challenges and uncertainties. In view of the current pandemic as reflected in the increasing number of worldwide confirmed COVID-19 cases and the unprecedented economic contraction, particularly its significant impact on tourism and hospitality industries, which resulted in an overwhelming drop in the volume of NCL's laundry service, the outlook of NCL remains bleak. Nevertheless, NCL will continue to maintain its service standard and operational efficiency. Its management will continue to closely monitor NCL's situation and apply appropriate remedial measures, including (i) review of its existing service contracts for opportunities of bargaining with clients for better terms, (ii) focusing more on key accounts and (iii) adoption of effective operational cost management, especially on manpower deployment.

3. **Property and Facility Management Services**

Based on the Group's property and facility management services group's over 50 years of substantial experience and professional capabilities in this business, it is able to provide quality management services to preserve and add value to the property and facilities for its clients to enhance their reputation and asset values. With the increasing expectation of the corporate clients and property investors, there is a growing demand of one-stop and full service professional property and facility management services. Extended services include property pre-management services, project planning and management, building renovation and rejuvenation services, leasing and tenancy management, facility re-commissioning, and other value added services. Under the foreseeable unstable economic situation, Urban and Kiu Lok believe that large corporations and multinational enterprises will continue the trend to outsource their non-core property and facility management activities to external professional agencies, which creates new business opportunities to them.

Apart from the strong synergies generated among business units within the Group, Urban and Kiu Lok have also established extensive partnerships with professional service suppliers and contractors in the territory. It obtains its competitive advantages by creating economies of scale and bargaining power for its clients to achieve cost-effectiveness and operational efficiency at all times. Most importantly, it is able to provide the most cost-effective services to them at the optimum price levels.

Discounting service companies owned by property developers, Urban is one of the largest independent Private Property and Facility Management Companies in Hong Kong. Under the current social situation and the demand for controlling rights of property owners, there is an increasing demand of independent property and facility management companies, which are not subsidiaries of property developers. Moreover, with the diminishing privilege of the property developers in directly assigning property management contracts to their subsidiaries, there is a huge market opening for management service contracts, capitalising on its good reputation, substantial experiences and extensive expertise.

Management Discussion and Analysis

Nowadays, both property owners and investors perceive brand recognition as one of the major selection criteria for their property and facility managers. With the brand equity of over 50 years' substantial experience obtained and accolades received from the Hong Kong society, Urban and Kiu Lok have created its unique selling proposition from the industry to obtain the trust from the clients.

Urban and Kiu Lok have been maintaining one of the strongest operation teams in the Hong Kong property and facility management services industry. They have over 5,000 professionally trained and qualified staff in the areas of property and facility management, technical and engineering, customer relations and security services. Following the enactment of the Property Management Services Ordinance (Cap. 626 of the Laws of Hong Kong), apart from the licensing of property management companies, there are also statutory requirements on the number of qualified and licensed property management professionals and practitioners being employed by property management companies as a proportion to their management portfolios. Urban and Kiu Lok have been well prepared for the statutory requirements with over 500 staff who are fully qualified for the Tier 1 and Tier 2 licences, which is believed to be one of the largest service teams in the industry. With such a strong team of professionals, it has maintained good competitive advantages over its rival companies in new tendering and business development activities in future. Moreover, it has a strong technical and engineering team to fulfill the market demands on the day-to-day repairs and maintenance services of its clients as well as the building renovation and rejuvenation projects to enhance the asset values of the properties and facilities.

Urban and Kiu Lok have long been recognised as a pioneer in introducing modern management models and standards to the Hong Kong property management industry. Urban is the first property management company to obtain the internationally recognised ISO 9001 quality management certification in 1997 and implement such system in all properties under its services. Currently, Urban has also successfully obtained the ISO 14001, ISO 50001, ISO 10002 and OHSAS 18001 certification, assuring its service standards at the highest level. In addition, Urban has been applying modern information technologies into its operations, which enable it to continuously improve the operational efficiency and cost-effectiveness in its service deliveries to its clients.

Apart from the statutory requirements, Urban and Kiu Lok have been implementing stringent governance initiatives covering environmental protection and care, corporate social responsibilities as well as risks and crisis control. With the implementation of the ISO 14001 environmental management system, the company is contributing to a greener living environment by applying green measures and control mechanisms into its daily operations. All along, Urban is a household name of "Hong Kong's Premier Community Manager" through organising and participating in over 100 CSR activities annually. More importantly, Urban's well-defined and comprehensive risks and crisis management system covers an extensive spectrum of crises, from the operational suspension of building services and systems breakdowns, to the territory-wide epidemic diseases and social movements in the society.

Management Discussion and Analysis

Impact of the outbreak of COVID-19 and its remedial measures

Since the outbreak of COVID-19 in January 2020, its resulting impact to the global economy is far-reaching and we have taken various proactive measures and contingency plans to contain the operational and financial risks which it brings to the Group. These include Team A and B arrangement, setting up of alternative offices, flexible business and lunch hours, IT enhancement to sustain the business operations, provision of personal protective equipment, including face masks, disposable gloves and protective gowns, to our frontline staff, body temperature checking for anyone entering into our work areas and putting sanitizing handrubs in easily accessible places in our work areas to promote their usage by our staff, workers and visitors.

Regarding our E&M engineering business, as a result of the government's measures to contain the spread of the virus, the works of our construction projects have already experienced disruptions in the aspects below:

- delays in our projects' statutory submissions and inspections, including those from Buildings Department, Water Supplies Department and Fire Services Department due to government officials working from home;

- disruptions to supply and distribution channels have caused delays in supply of construction materials and pre-fabricated parts particularly from Mainland China and imported materials from Europe and Asia;

- shortage of labour force as workers from Mainland China have to be quarantined for 14 days mandatorily. This labour shortage is especially severe in Macau as the majority of workers there comes from the Mainland;

- temporary work suspension at project sites and buildings; and

- disruptions to business operations due to infected case, and some affected staff may need to self-quarantine and work from home.

In view of the above disruptions, we have kick-started discussions with customers on potentially affected projects and taken the following remedial measures to manage their possible delays and financial consequences:

- analysed the contract provisions on extension of time and force majeure clauses and issued notifications promptly to engineers and architects for our projects on the likelihood of any delays;

- made detailed records of site activities together with their cost implications for those delayed portions;

- closely monitored the supplies of materials and considered re-scheduling works or sourcing other suppliers;

- maintained effective work health and safety systems on site for workers, suppliers and subcontractors; and

- checked insurance arrangements on deferred material delivery and kept updating of new regulatory policies.

In conclusion, although some of our projects have encountered certain delays in contract completion due to the pandemic, which in turn deferred the revenue that could be recognised to next financial year, COVID-19 has only minor financial consequences on our Group's E&M engineering business as a whole.

Management Discussion and Analysis

Our laundry services business has also been affected by the dismal visitor numbers and low hotel room occupancy rates as majority of its clientele covers hotels, service apartments, theme park and airlines. To cope with this, NCL focuses on streamlining and improving operations efficiency and adopting effective cost management measures. In addition, our laundry operation has developed a comprehensive plan for COVID-19 prevention covering all of its work areas, tasks performed by our workers and potential risks, which includes the below measures:

- communicated closely with our clients to have separately identifiable packing for potentially infected items and handled them with extra care; and

- installed sneeze screens and ensured reasonable distancing in our staff canteen.

Our cleaning and property and facility management services businesses have faced relatively less disruptions. The COVID-19 outbreak has created more ad-hoc demands for intensive disinfection cleaning services. Nevertheless, for the sake of containing the risks arising from the epidemic, our cleaning and property and facility management services operations have implemented various precautionary measures including the followings:

- set policies to arrange some staff to work in alternative offices or from home if there are any reported COVID-19 cases among them and designated different entrances and exits in office for different groups of staff to reduce their interactions at our cleaning services operation; and

- implemented a well-defined sanitation management process for owners and tenants of properties, users of public and private facilities and own staff at the property and facility management services operation, including prompt sanitation actions to be taken once suspected COVID-19 cases in the work areas are reported.

Our environmental services business remains as usual and stable under the current situation.

Lastly, in view of the recent tight supply of infection prevention consumables, including masks and sanitation materials which are required in our day-to-day operations, we will closely monitor the situation and exercise concerted efforts as a group to help ensure sufficient supply of them to our colleagues and frontline workers.

Conclusion

Despite the challenges and operational difficulties we face in this financial year, in particular those arising from the outbreak of COVID-19 and social unrests, the Group's operations remained stable and the Group was able to record a moderate growth in its profit in the Year. The successful acquisition of the property and facility management services business in December 2019 has enabled the Group to enlarge its customer base, diversify its revenue stream and risks and enhance its profit growth potential. In addition, the Group shall endeavour to maintain a strong financial position so as to stay poised for new investment opportunities as and when they arise. We are confident that the Group will continue to grow.