Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

FSE Services Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 22nd June 2015. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in provision of mechanical and electrical engineering services, trading of building materials, trading of environmental products and provision of related engineering consultancy services in Hong Kong, Mainland China and Macau, cleaning and management of waste disposal services, recycling and environmental disposal services, provision of laundry services and provision of property and facility management services, property agency and related services for buildings, carparks management services and guarding services in Hong Kong. The ultimate holding company of the Company is FSE Holdings Limited incorporated in the Cayman Islands. The directors consider Mr. Doo Wai Hoi, William to be the ultimate controlling shareholder (the "Ultimate Controlling Shareholder").

The Company has its listing on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors of the Company (the "Board") on 25 September 2020.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis and significant accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5 to the consolidated financial statements.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

2.1 Basis of preparation *(Continued)*

(i) New standard, amendments, interpretation and improvements to existing standards that are effective for the Group's financial year beginning on 1 July 2019

The following new standard, amendments, interpretation and improvements to existing standards, that are relevant to the Group's operation, are mandatorily effective for the financial year of the Group beginning on 1 July 2019:

HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement
HKAS 28 Amendments	Long-term Interests in Associates and Joint Ventures
HKFRS 9 Amendments	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK (IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Annual Improvements	2015 – 2017 Cycle

(ii) Adoption of new standard, amendments, interpretation and improvements to existing standards by the Group

The Group's adoption of the above pronouncements neither has any material effect on the results and financial position of the Group nor any substantial changes in the Group's accounting policies and presentation of its consolidated financial statements, except for HKFRS 16 as described below.

HKFRS 16 "Leases"

HKFRS 16 addresses the definition of a lease and recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases are accounted for on the statements of financial position for lessees. The Group is a lessee of certain premises and properties which are previously classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee. Almost all leases should be recognised in the form of assets (for the right-of-use) and financial liabilities (for the payment obligations). Short-term leases of twelve months or less and leases of low-value assets are exempted from the recognition. The new standard therefore results in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated income statements, straight-line depreciation expense on the right-of-use assets and the interest expenses on the lease liabilities are recognised and no rental expenses are recognised. The combination of a straight-line depreciation of the right-of-use assets and the effective interest rate method applied to the lease liabilities will result in a higher total charge to the consolidated income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

The Group has adopted HKFRS 16 from 1 July 2019, but has not restated its comparative amounts for the year ended 30 June 2019 as permitted under the specific transition provisions in the standard. The effects of the adoption of HKFRS 16 are set out in Note 3 below.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iii) New standard, amendments and improvements to existing standards that have been issued but not yet effective and have not been early adopted by the Group

The following new standard, amendments and improvements to existing standards that are relevant to the Group's operation, have been issued but not yet effective for the financial year of the Group beginning on 1 July 2019 and have not been early adopted:

		Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and HKAS 8 Amendments	Definition of Material	1 January 2020
HKFRS 3 Amendments	Definition of a Business	1 January 2020
HKFRS 9, HKAS 39 and HKFRS 7 Amendments	Interest Rate Benchmark Reform	1 January 2020
HKFRS 16 Amendments	Covid-19-related Rent Concession	1 June 2020
HKAS 16 Amendments	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
HKAS 37 Amendments	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 Amendments	Reference to Conceptual Framework	1 January 2022
Annual Improvements	2018 – 2022 Cycle	1 January 2022
HKAS 1 Amendments	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17 and its Amendments	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of the above pronouncements to the Group and considered that there will not be any substantial changes to the Group's accounting policies and presentation of its consolidated financial statements.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.1 Basis of preparation *(Continued)*

(iv) Application of merger accounting for business combinations under common control

On 18 October 2019, the Company and FSE Property Management Group Limited ("FPMGL"), a wholly owned subsidiary of the Company, as the purchaser and FSE Management Company Limited ("FMC"), a fellow subsidiary of the Company, as a vendor entered into a conditional sale and purchase agreement, pursuant to which FMC agreed to sell, and the Company agreed to purchase (or to procure a wholly-owned subsidiary to purchase) the entire issued share capital (the "Sale Share") of Legend Success Investments Limited and its subsidiaries (the "Target Group") at an initial sum of consideration of HK$704.9 million, subject to subsequent adjustment by reference to the change in the net tangible asset value ("NTAV") of the Target Group from 30 June 2019 to the date of completion of the acquisition. Pursuant thereto, the Company has nominated FPMGL to buy the Sale Share. The initial sum of consideration 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. The Group's payment for the initial cash consideration for this transaction was mainly financed by a bank loan with a principal amount of HK$563.9 million drawn in December 2019, which bears interest at 0.7% per annum over Hong Kong Interbank Offered Rate. After the Group's repayment of HK$100.0 million of this bank loan during the year, its carrying amount at 30 June 2020, net of unamortised transaction costs, was HK$463.2 million. The convertible preference shares are convertible into 43,676,379 ordinary shares of the Company at an initial price of HK$3.2260 per share, subject to adjustments, at any time within 10 years following its issuance date of 16 December 2019. The acquisition was completed on 16 December 2019 (the "Completion Date") and a positive NTAV adjustment of HK$38.5 million was made to the consideration for this transaction, which thus in aggregate amounts to HK$743.4 million. The total amount of such consideration has been charged directly to the Group's reserves. A final cash payment of the consideration 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 of the acquisition. The Target Group (or the "Acquired Group") is principally engaged in the provision of property and facility management services, property agency and related services for buildings, carparks management services and guarding services in Hong Kong.

The acquisition was considered as a business combination under common control as FPMGL and the Target Group are both ultimately controlled by FSE Holdings Limited. The acquisition of the Target Group was accounted for using merger accounting in accordance with Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("AG 5") issued by the HKICPA. Accordingly, the acquired Target Group was included in the consolidated financial statements from the beginning of the earliest period presented as if the Target Group acquired had always been part of the Group. As a result, the Group has included the operating results of the Target Group and eliminated its transactions with the Target Group, as if the acquisition had been completed on the earliest date being presented.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) Application of merger accounting for business combinations under common control *(Continued)*

(a) Effect on the consolidated income statement for the year ended 30 June 2020:

	The Group (before business combination under common control) HK$'000	Effect of business combination under common control of the Acquired Group HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
Revenue	4,364,315	567,568	(49,764)	4,882,119
Cost of services and sales	(3,786,251)	(385,256)	49,764	(4,121,743)
Gross profit	578,064	182,312	–	760,376
General and administrative expenses	(295,440)	(88,572)	–	(384,012)
Other (expenses)/income, net	(10,019)	674	–	(9,345)
Operating profit	272,605	94,414	–	367,019
Finance income	5,253	282	–	5,535
Finance costs	(9,300)	(793)	–	(10,093)
Share of result of an associate and joint ventures	–	1,013	–	1,013
Profit before income tax	268,558	94,916	–	363,474
Income tax expenses	(40,032)	(13,853)	–	(53,885)
Profit for the year	228,526	81,063	–	309,589
Attributable to:				
Shareholders of the Company	228,526	81,037	–	309,563
Non-controlling interests	–	26	–	26
	228,526	81,063	–	309,589
Earnings per share for profit attributable to ordinary shareholders of the Company (expressed in HK$)				
Basic and diluted	0.50	0.18	–	0.68

Note: The adjustments represent the elimination of revenue charged between the Group and the Acquired Group.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.1 Basis of preparation *(Continued)*

(iv) Application of merger accounting for business combinations under common control *(Continued)*

(b) Effect on the consolidated statement of comprehensive income for the year ended 30 June 2020:

	The Group (before business combination under common control) HK$'000	Effect of business combination under common control of the Acquired Group HK$'000	Consolidated HK$'000
Profit for the year	228,526	81,063	309,589
Other comprehensive (loss)/income:			
Item that may be subsequently reclassified to consolidated income statement:			
Currency translation differences	(5,885)	–	(5,885)
Items that will not be subsequently reclassified to consolidated income statement:			
Remeasurement gains on defined retirement scheme, net of tax	–	608	608
Remeasurement (losses)/gains on long service payment liabilities, net of tax	(891)	589	(302)
Other comprehensive(loss)/income for the year, net of tax	(6,776)	1,197	(5,579)
Total comprehensive income for the year	221,750	82,260	304,010
Attributable to:			
Shareholders of the Company	221,750	82,234	303,984
Non-controlling interests	–	26	26
	221,750	82,260	304,010

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) Application of merger accounting for business combinations under common control *(Continued)*

(c) Effect on the consolidated statement of financial position as at 30 June 2020:

	The Group (before business combination under common control) HK$'000	Effect of business combination under common control of the Acquired Group HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
ASSETS				
Non-current assets				
Property, plant and equipment	359,232	12,641	–	371,873
Investment property	10,850	–	–	10,850
Right-of-use assets	62,591	9,586	–	72,177
Other intangible assets	50,976	25,527	–	76,503
Interests in an associate	–	45	–	45
Interests in joint ventures	–	1,049	–	1,049
Deferred income tax assets	11,083	–	–	11,083
Pension assets	–	3,146	–	3,146
	494,732	51,994	–	546,726
Current assets				
Trade and other receivables	1,419,194	157,569	(73,801)	1,502,962
Contract assets	388,390	–	–	388,390
Inventories	52,225	–	–	52,225
Cash and bank balances	561,982	138,964	–	700,946
	2,421,791	296,533	(73,801)	2,644,523
Total assets	2,916,523	348,527	(73,801)	3,191,249
EQUITY				
Ordinary shares	45,000	–	–	45,000
Convertible preference shares	140,900	–	–	140,900
Reserves	94,242	164,481	–	258,723
Shareholders' funds	280,142	164,481	–	444,623
Non-controlling interests	–	93	–	93
Total equity	280,142	164,574	–	444,716

Note: The adjustments represent the elimination of trade and other receivables/payables of the Group and the Acquired Group.

Notes to the Consolidated Financial Statements

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

2.1 Basis of preparation *(Continued)*

(iv) Application of merger accounting for business combinations under common control *(Continued)*

(c) Effect on the consolidated statement of financial position as at 30 June 2020: (Continued)

	The Group (before business combination under common control) HK$'000	Effect of business combination under common control of the Acquired Group HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
LIABILITIES				
Non-current liabilities				
Borrowings	463,243	–	–	463,243
Lease liabilities	18,097	2,234	–	20,331
Long service payment liabilities	22,639	9,638	–	32,277
Deferred income tax liabilities	21,777	2,669	–	24,446
	525,756	14,541	–	540,297
Current liabilities				
Trade and other payables	1,565,320	147,807	(73,801)	1,639,326
Contract liabilities	454,801	–	–	454,801
Current portion of lease liabilities	33,543	7,517	–	41,060
Taxation payables	56,961	14,088	–	71,049
	2,110,625	169,412	(73,801)	2,206,236
Total liabilities	2,636,381	183,953	(73,801)	2,746,533
Total equity and liabilities	2,916,523	348,527	(73,801)	3,191,249
Net current assets	311,166	127,121	–	438,287
Total assets less current liabilities	805,898	179,115	–	985,013

Note: The adjustments represent the elimination of trade and other receivables/payables of the Group and the Acquired Group.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) Application of merger accounting for business combinations under common control *(Continued)*

(d) Effect on the consolidated income statement for the year ended 30 June 2019:

	The Group (before business combination under common control) HK$'000	Effect of business combination under common control of the Acquired Group HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
Revenue	4,930,517	527,323	(35,127)	5,422,713
Cost of services and sales	(4,330,713)	(357,662)	35,127	(4,653,248)
Gross profit	599,804	169,661	–	769,465
General and administrative expenses	(311,361)	(100,303)	–	(411,664)
Other income, net	3,886	1,394	–	5,280
Operating profit	292,329	70,752	–	363,081
Finance income	5,163	33	–	5,196
Finance costs	–	(416)	–	(416)
Share of result of an associate and joint ventures	–	730	–	730
Profit before income tax	297,492	71,099	–	368,591
Income tax expenses	(49,980)	(11,163)	–	(61,143)
Profit for the year	247,512	59,936	–	307,448
Attributable to:				
Shareholders of the Company	247,512	59,862	–	307,374
Non-controlling interests	–	74	–	74
	247,512	59,936	–	307,448
Earnings per share for profit attributable to ordinary shareholders of the Company (expressed in HK$)				
Basic and diluted	0.55	0.13	–	0.68

Note: The adjustments represent the elimination of revenue charged between the Group and the Acquired Group.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) Application of merger accounting for business combinations under common control *(Continued)*

(e) Effect on the consolidated statement of comprehensive income for the year ended 30 June 2019:

	The Group (before business combination under common control) HK$'000	Effect of business combination under common control of the Acquired Group HK$'000	Consolidated HK$'000
Profit for the year	247,512	59,936	307,448
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to consolidated income statement:			
Currency translation differences	(7,402)	–	(7,402)
Release of exchange reserve upon dissolution of subsidiaries	(1,905)	–	(1,905)
Items that will not be subsequently reclassified to consolidated income statement:			
Remeasurement losses on defined retirement scheme, net of tax	–	(2,587)	(2,587)
Remeasurement gains on long service payment liabilities, net of tax	1,765	82	1,847
Other comprehensive loss for the year, net of tax	(7,542)	(2,505)	(10,047)
Total comprehensive income for the year	239,970	57,431	297,401
Attributable to:			
Shareholders of the Company	239,970	57,357	297,327
Non-controlling interests	–	74	74
	239,970	57,431	297,401

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) Application of merger accounting for business combinations under common control *(Continued)*

(f) Effect on the consolidated statement of financial position as at 30 June 2019:

	The Group (before business combination under common control) HK$'000	Effect of business combination under common control of the Acquired Group HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
ASSETS				
Non-current assets				
Property, plant and equipment	393,945	13,012	–	406,957
Investment property	11,235	–	–	11,235
Land use rights	20,432	–	–	20,432
Other intangible assets	51,946	26,191	–	78,137
Interests in an associate	–	79	–	79
Interests in joint ventures	–	934	–	934
Deferred income tax assets	9,337	–	–	9,337
Pension assets	–	2,849	–	2,849
	486,895	43,065	–	529,960
Current assets				
Trade and other receivables	1,422,927	115,166	(8,401)	1,529,692
Contract assets	290,822	–	–	290,822
Inventories	40,206	–	–	40,206
Cash and bank balances	447,043	115,162	–	562,205
	2,200,998	230,328	(8,401)	2,422,925
Total assets	2,687,893	273,393	(8,401)	2,952,885
EQUITY				
Ordinary shares	45,000	–	–	45,000
Reserves	727,020	82,247	–	809,267
Shareholders' funds	772,020	82,247	–	854,267
Non-controlling interests	–	67	–	67
Total equity	772,020	82,314	–	854,334

Note: The adjustments represent the elimination of trade and other receivables/payables of the Group and the Acquired Group.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) Application of merger accounting for business combinations under common control *(Continued)*

(f) Effect on the consolidated statement of financial position as at 30 June 2019: *(Continued)*

	The Group (before business combination under common control) HK$'000	Effect of business combination under common control of the Acquired Group HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
LIABILITIES				
Non-current liabilities				
Long service payment liabilities	21,055	10,794	–	31,849
Deferred income tax liabilities	26,787	2,628	–	29,415
	47,842	13,422	–	61,264
Current liabilities				
Trade and other payables	1,590,093	136,910	(8,401)	1,718,602
Contract liabilities	224,119	–	–	224,119
Borrowings	–	30,000	–	30,000
Taxation payable	53,819	10,747	–	64,566
	1,868,031	177,657	(8,401)	2,037,287
Total liabilities	1,915,873	191,079	(8,401)	2,098,551
Total equity and liabilities	2,687,893	273,393	(8,401)	2,952,885
Net current assets	332,967	52,671	–	385,638
Total assets less current liabilities	819,862	95,736	–	915,598

Note: The adjustments represent the elimination of trade and other receivables/payables of the Group and the Acquired Group.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.2 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(ii) Business combinations under common control

Business combinations under common control refers to combinations where the combining entities are controlled by the same party or parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is recorded in other reserve. Any direct transaction costs attributable to the business combination are expensed as incurred. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds, respectively.

The Company applies merger accounting to account for the business combinations under common control in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

(iii) Business combinations not under common control

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised in the consolidated income statement.

Intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.2 Consolidation *(Continued)*

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are reclassified to consolidated income statement or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

(v) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in the subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

All other repairs and maintenance costs are charged to the consolidated income statement during the financial year in which they are incurred.

Freehold land is not depreciated.

Depreciation of property, plant and equipment, except for freehold land, is calculated to allocate their costs to their residual values over their estimated useful lives using the straight-line method. Estimated useful lives are summarised as follows:

Leasehold land under finance leases and buildings	Shorter of 20 to 40 years, or the remaining lease terms
Leasehold improvement	Shorter of 5 years or the remaining lease terms
Plant and machinery	2 to 7 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 to 5 years

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Property, plant and equipment *(Continued)*

The residual values and estimated useful lives of the assets are reviewed, and adjusted if appropriate, at each date of statement of financial position.

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount as described in Note 2.10 to the consolidated financial statements.

Gains and losses on disposals of plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised within "Other (expenses)/income, net" in the consolidated income statement.

2.4 Investment property

Investment property is initially measured at cost, including related transaction costs and where applicable borrowings costs. After initial recognition, investment property is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred. The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Buildings are depreciated over their estimated useful lives of 40 years or the relevant lease periods of the leasehold land, whichever is shorter, using the straight-line method. Leasehold land is depreciated over the lease periods using the straight-line method.

The residual values and estimated useful lives of the assets are reviewed, and adjusted if appropriate, at each date of statement of financial position.

Gains or losses on disposals of investment property are determined by comparing the proceeds with the carrying amount and are recognised within "Other (expenses)/income, net" in the consolidated income statement.

Buildings and leasehold land is depreciated over the lease periods using the straight-line method.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.5 Leases

Accounting policies applied from 1 July 2019

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in substance fixed payments less any lease incentives receivable;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liabilities.

The lease payments are discounted using the interest rate implicit in the lease, if that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an assets of similar value to the right-of-use asset in a similar economic environment with similar terms and security conditions.

To determine the incremental borrowing rate, the Group:

- where possible uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance costs. The finance costs are charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Leases *(Continued)*

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liabilities.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessors.

Accounting policies applied before 1 July 2019

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.6 Land use rights

Accounting policies applied before 1 July 2019

The up-front payments made for the land use rights are expensed in consolidated income statement on a straight-line basis over the period of the rights or where there is impairment, the impairment is recognised in consolidated income statement.

2.7 Intangible assets (other than right-of-use assets and land use rights)

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets (other than right-of-use assets and land use rights) *(Continued)*

(ii) Trademarks and brand names

Separately acquired trademarks and brand names are shown at historical cost. Trademarks and brand names acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and brand names have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and brand names over their estimated useful lives of 10 years.

(iii) Internally generated environmental technology

(a) *Environmental technology*

Costs associated with research phase of the internally generated environmental technology are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of the technology controlled by the Group are recognised as intangible assets when the following criteria are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

(b) *Research and development*

Research expenditure and development expenditure that do not meet the criteria in (iii) above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(c) *Amortisation method and period*

The Group amortises intangible assets with a limited useful life using the straight-line method over the following period:

Internally generated environmental technology	10 years

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets (other than right-of-use assets and land use rights) *(Continued)*

(iv) Customer contracts

Separately acquired customer contracts are shown at historical cost. Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. Customer contracts have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and brand names over their estimated useful lives of 5 years.

2.8 Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to consolidated income statement where appropriate.

The Group's share of post-acquisition profits or losses of associate is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of results of an associate" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.9 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method of accounting.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated income statement for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in-first-out or weighted average basis for different type and nature of inventories. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.12 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as a contract asset if its cumulative revenue recognised in the profit or loss exceeds cumulative progress billing to customers. Conversely, the contract is a liability and recognised as contract liability if its cumulative progress billing to customers exceeds the revenue recognised in the profit or loss. Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortised cost. Contract liabilities are recognised as revenue when the Group transfers the goods or services to the customers and therefore satisfies its performance obligations.

The incremental costs of obtaining a contract with a customer are capitalised and presented as contract related assets, if the Group expects to recover those costs, and are subsequently amortised on a systematic basis that is consistent with the transfer to the customers of the goods or services to which the assets relate. The Group recognises an impairment loss in the consolidated income statement to the extent that the carrying amount of the contract related assets recognised exceeds the remaining amounts of consideration that the Group expects to receive less the costs that directly relate to those goods or services and have not been recognised as expenses.

2.13 Financial assets

(i) Classifications

The Group classifies its financial assets in the following measurement categories:

(a) those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss) after initial recognition; and

(b) those to be measured subsequently at amortised cost after initial recognition.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses are either to be recorded in the profit or loss or OCI. For investments in equity instruments that are not held for trading, the accounting treatment for them depends on whether the Group has made an irrevocable election at the time of their initial recognition to account for them as the equity investments at fair value through other comprehensive income (FVOCI) or not.

Financial assets are classified as current assets if they are expected to be settled within 12 months or in the normal operating cycle of the business. Otherwise, they are classified as non-current.

The Group reclassifies debt investments when and only when its business model for managing these assets changes.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Financial assets *(Continued)*

(ii) Recognition and Measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial asset not measured at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

(a) *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the profit or loss and presented in "Other (expenses)/income, net", together with foreign exchange gains and losses. Impairment losses are presented within "General and administrative expenses" in another line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised directly in the profit or loss. When a financial asset is derecognised, its cumulative gain or loss previously recognised in OCI is reclassified from equity to the profit or loss and recognised in "Other (expenses)/income, net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other (expenses)/income, net" and impairment expenses are presented within "General and administrative expenses" in another as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the profit or loss and presented net within "Other (expenses)/income, net" in the period in which it arises.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Financial assets *(Continued)*

(ii) Recognition and Measurement *(Continued)*

(b) Equity instruments

The Group subsequently measures all equity instruments at fair value. When the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in "Other (expenses)/income, net" in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the provision is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivable. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement. See Notes 2.16 and 24 to the consolidated financial statements for descriptions of the Group's impairment policies and methodology for trade and other receivables involving estimation of their expected credit losses.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.16 Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI and trade receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment on these financial assets are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The Group considers the probability of default upon initial recognition of, a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in external credit rating of the debtors;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

2.17 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.21 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of consolidated statement of financial position in the countries where the Group and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax *(Continued)*

(ii) Deferred income tax

(a) Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the date of statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(b) Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except deferred income tax liability where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period when the dividends are approved by the Company's shareholders/directors, where appropriate.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the services and sales of goods in the ordinary course of the Group's activities. If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset. Specific criteria where revenue is recognised are described below.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer;

or

- the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

(i) Engineering contracts

Revenue from engineering contracts is recognised over time as the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. Thus, the Group satisfies a performance obligation over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. In determining the transaction price, the Group adjusts the amount of consideration for the effect of a financing component if it is significant.

(ii) Service fee income

Maintenance service fees, consultancy fees, income from the provision and management of cleaning and waste disposal services, provision of recycling and environmental services, pest control services, laundry services and linen management services are recognised over time and in accordance with the terms of the service agreements when the services are rendered.

(iii) Sales of goods

Revenue from sales of goods is recognised when control of the products has transferred, being when the products are delivered to the customers, and there is no unfulfilled obligations that could affect the customers' acceptance of the products. A delivery occurs when the products have been delivered to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that consideration is unconditional because only the passage of time is required before the payment is due.

(iv) Property management services

Revenue arising from property management services is recognised in the accounting period in which the services are rendered. The Group bills the customers for each month of service provided and recognises as revenue in the amount to which the Group satisfies performance obligations by transferring the services to its customers.

For property management services income from properties managed under lump sum basis, where the Group acts as principal and is primary responsible for providing the property management services to the property owners, the Group recognises the fee received or receivable from property owners as its revenue and all related property management costs as its cost of service. For property management services income from properties managed under commission basis, the Group only recognises the commission, which is calculated by fixed percentage of the costs involved in the management of the property units, as its revenue.

(v) Value-added services

Value-added services income is recognised over time when the services are rendered and the Group's performance provides all of the benefits received and consumed simultaneously by the customer.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

(vi) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(vii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(viii) Rental income of investment property

Rental income net of any incentives given to the lessee is recognised over the periods of the respective leases on a straight-line basis.

2.24 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of consolidated statement of financial position. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plan

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Defined contribution schemes

Contributions to defined contribution schemes, including the Mandatory Provident Fund ("MPF") Scheme and employee pension schemes established by municipal government in Mainland China, are expensed as incurred. Except for the MPF Scheme, contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

(iv) Defined benefit schemes

Defined benefit costs under defined benefit schemes which are assessed using the projected unit credit method, are charged to the profit or loss. Under this method, plan assets are measured at fair value and defined benefit obligations are measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the period end date based on Exchange Fund Notes, which have terms to maturity approximating the terms of the related liability. The current service cost of the defined benefit plan, recognised in the consolidated income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in the consolidated income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated income statement.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Employee benefits *(Continued)*

(v) Long service payment liabilities

The Group's net obligation in respect of long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed by using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the consolidated statement of comprehensive income so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlements accrued under the Group's MPF and Occupational Retirement Schemes Ordinance ("ORSO") scheme that is attributable to contributions made by the Group.

Changes in the present value of the long service payment liabilities resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

2.25 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Foreign currencies *(Continued)*

(iii) Group companies

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement. For all other partial disposals (that is, reductions in the Group's ownership interests in joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to consolidated income statement.

2.26 Government grants

Grants from governments are recognised at their fair values when there are reasonable assurance that the grants will be received and that the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate and offset with the related expenses. Grants related to income are recognised within "Other (expenses)/income, net" in the consolidated income statement.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs are recognised in the consolidated income statement of the period in which the grants become receivable.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.27 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.28 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The executive directors that make strategic decisions have been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

3 CHANGES IN ACCOUNTING POLICIES

As explained in Note 2.1(ii) above, the Group has adopted HKFRS 16 starting from 1 July 2019, which resulted in changes in its accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 16, comparative amounts have not been restated.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.7%.

Upon initial recognition, right-of-use assets for leases were measured at the amounts equal to the lease liabilities in the consolidated statement of financial position. After the initial recognition of right-of-use assets and lease liabilities at 1 July 2019, the Group as a lessee has recognised interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous accounting policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of twelve months or less as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

Set out below is a reconciliation of the Group's operating lease commitments at 30 June 2019 disclosed to lease liabilities recognised on 1 July 2019:

	HK$'000
Operating lease commitments at 30 June 2019 disclosed	70,942
Acquisition of the Acquired Group	18,505
Operating lease commitments at 30 June 2019 restated	89,447
Discounted using the Group's weighted average incremental borrowing rate of 3.7%	84,814
Less: short-term leases not recognised as liabilities	(5,901)
Lease liabilities recognised at 1 July 2019	**78,913**
Of which are:	
Non-current	44,049
Current	34,864
Total	**78,913**

Set out below is a composition of right-of-use assets as at 1 July 2019:

	HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	78,913
Reclassified from land use rights	20,432
Total	**99,345**

The following table summarises the opening effect on the Group's adoption of HKFRS 16 as at 1 July 2019 and the amount of right-of-use assets and lease liabilities recognised as at 1 July 2019:

	As at 1 July 2019		
	As previously reported HK$'000	Effects of the adoption of HKFRS 16 HK$'000	As restated HK$'000
Consolidated statement of financial position (extract)			
Non-current assets			
Right-of-use assets	–	99,345	99,345
Land use rights	20,432	(20,432)	–
Non-current liabilities			
Lease liabilities	–	44,049	44,049
Current liabilities			
Current portion of lease liabilities	–	34,864	34,864

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

The adoption of HKFRS 16 has no significant impact to the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and net cash flows from operating, investing and financing activities on the consolidated statement of cash flows for the year ended 30 June 2020.

The Group does not need to make any adjustments to the accounting for its assets held as lessors under operating leases as a result of the adoption of HKFRS 16.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and foreign exchange risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. It is the Group's policy not to enter into derivative transaction for speculative purposes.

The Group sets financial risk management policies in accordance with policies and procedures approved by the Board of Directors. The Group's treasury function serves as a centralised unit for providing cost efficient funding and managing major risks.

(i) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The credit risk of the Group's financial assets, which mainly comprise deposits with banks and financial institutions and trade and other receivables, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(a) Credit risk of deposits with banks and financial institutions

To manage this risk arising from cash and cash equivalents and restricted bank balances, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(b) Credit risk of trade receivables

The Group applies the HKFRS 9 "Financial Instruments" simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The maximum exposure to credit risk is represented by the carrying amount of each receivable in the statement of financial position after deducting any impairment allowance.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(ii) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. It is the policy of the Group to regularly monitor current and expected liquidity requirements and to ensure that adequate funding is available for operating, investing and financing activities. The Group also maintains undrawn committed credit facilities to further reduce liquidity risk in meeting funding requirements.

The tables below analyse the Group's financial liabilities into relevant maturity groups based on the remaining period at the end of the reporting periods to the contractual maturity date.

As at 30 June 2020	Less than 1 year HK$'000	After 1 year but less than 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Difference from carrying amounts HK$'000	Carrying amounts HK$'000
Borrowings	5,298	466,348	–	471,646	8,403	463,243
Leases liabilities	42,391	20,590	768	63,749	2,358	61,391
Trade and other payables, excluding accrued employee benefits	1,427,035	–	–	–	–	1,427,035

As at 30 June 2019, as restated	Less than 1 year HK$'000	After 1 year but less than 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Difference from carrying amounts HK$'000	Carrying amounts HK$'000
Borrowings	30,308	–	–	30,308	308	30,000
Trade and other payables, excluding accrued employee benefits	1,517,534	–	–	1,517,534	–	1,517,534

(iii) Foreign exchange risk

The Group operates primarily in Hong Kong, Mainland China and Macau. Entities within the Group are exposed to foreign exchange risk from future commercial transactions and monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency. Entities in Macau and Mainland China are not exposed to significant exchange risk.

The Group currently does not have a foreign currency hedging policy. It manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and will consider to enter into forward foreign exchange contracts to reduce the exposure should the need arises.

As at 30 June 2020 and 2019, if Hong Kong dollars had strengthened/weakened by 5% against Renminbi with all other variables unchanged, there would have insignificant impact on the Group's profit for the year before income tax.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(iii) Foreign exchange risk*(Continued)*

At 30 June 2020, the Group had net monetary assets denominated in United States dollar of HK$2.0 million (2019: HK$2.8 million). Under the Linked Exchange Rate System in Hong Kong, Hong Kong dollar is pegged to the United States dollar, management therefore considers that there is no significant foreign exchange risk with respect to the United States dollar.

(iv) Interest rate risk

The Group's exposure to changes in interest rate risk relates primarily to the bank borrowings, the terms of which are disclosed in Note 30.

At 30 June 2020 and 2019, if interest rates on the bank borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the years would have been HK$4.6 million and HK$0.3 million lower/higher respectively. Other components of equity would not be affected by the changes in interest rates.

4.2 Fair value estimation

At 30 June 2020, the carrying amounts of Group's financial assets and liabilities approximate their fair values due to short-term maturities of these assets and liabilities.

4.3 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy is to maintain sufficient capital with the funds generated from operations.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and enhance shareholder value in the long term. The capital structure consists of total equity as shown in the consolidated statement of financial position. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to be paid to shareholder, return capital to equity holder, or issue new shares.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

5.1 Estimation of revenue, costs and foreseeable losses of contracting works

The Group recognises its contract revenue according to the percentage of total estimated costs for each contract of contracting work. The management estimates the completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. In determining the transaction price, the Group adjusts the amount of consideration for the effect of a financing component if it is significant. Because of the nature of the activity undertaken in contracts, the date at which the contract activity entered into and the date when the activity is completed usually fall into different financial periods. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue. Any revision of these costs and revenue will impact the result for the subsequent financial periods.

Budgeted contracting income is determined in accordance with the terms set out in the relevant contracts. Budgeted contracting costs which mainly comprise staff costs, sub-contracting charges and costs of materials are prepared by the management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, the Group's management conducts periodic review on the management budgets by comparing the budgeted amounts to the actual amounts incurred. When it is probable that total budgeted contracting costs will exceed total budgeted contracting income, the expected loss is recognised as an expense immediately.

5.2 Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment according to their recoverable amounts determined by the CGUs based on value in use calculations. These calculations require the use of estimates which are subject to change of economic environment in future. Details are set out in Note 19 to the consolidated financial statements.

5.3 Long service payment liabilities

The present value of the long service payment liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for long service payment liabilities include the discount rate. Any changes in these assumptions will impact the carrying amount of long service payment liabilities.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the long service payment liabilities. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the liabilities will be paid, and that have terms to maturity approximating the terms of the related long service payment liabilities.

Other key assumptions for long service payment liabilities are based in part on current market conditions. Additional information is disclosed in Note 31 to the consolidated financial statements.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

5.4 Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The expected return on plan assets assumption is determined based on historical return trends, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group refers to market yields based on Exchange Fund Notes, which have terms to maturity approximating the terms of the related liability. Other key assumptions used are based on current market conditions.

5.5 Income taxes

The Group is subject to income tax in Hong Kong, Macau and Mainland China. Judgement is required in determining the provision for taxation in these jurisdictions. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income taxation in the financial period in which such determination is made.

5.6 Depreciation and impairment of property, plant and equipment

The expected useful lives and residual values of property, plant and equipment are determined by the management based on the internal accounting guidelines and industrial practices of similar property, plant and equipment. Management will revise the depreciation charges where useful lives and residual values are different to previously estimated.

Management also regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of a CGU is higher than its recoverable amount. The recoverable amount of a CGU is determined based on value in use calculations. In determining the CGU's value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the assets and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimate the future cash flows based on certain assumptions, such as market competition and development and the expected growth in business. Details of such assumptions are set out in Note 15.

6 REVENUE AND SEGMENT INFORMATION

The Executive Directors are the Group's chief operating decision-makers ("CODM"). Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

The Group's revenue represents the electrical and mechanical ("E&M") engineering services income, environmental services income, income from trading of building materials and integrated property & facility services income. An analysis of the Group's revenue is as follows:

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Revenue		
Contracting services	**2,876,010**	3,506,894
Maintenance services	**145,948**	137,879
Sales of goods	**63,543**	92,099
Integrated property & facility services	**1,796,618**	1,685,841
Total	**4,882,119**	5,422,713

Following the acquisition of the property and facility management services business as described in Note 2.1(iv), the Group's CODM has reorganised the Group's businesses into two major business segments as described below to align more closely with the market dynamics and the Group's strategic direction. As a result of such changes occurred during the year ended 30 June 2020, the Group's prior year corresponding segment information that is presented for comparative purpose has been restated accordingly.

The CODM considers the business from the product and service perspectives and the Group is organised into two major business segments according to the nature of services and products provided:

(i) E&M engineering & environmental services — Provision of engineering and consultancy services and trading of building materials and environmental products; and

(ii) Integrated property & facility services — Provision of cleaning and waste disposal services, recycling and environmental disposal services, laundry services, property and facility management services, property agency and related services for buildings, carparks management services and guarding services.

The CODM assesses the performance of the operating segments based on each segment's operating profit. The measurement of segment operating profit excludes the effects of unallocated corporate expenses. In addition, finance income and costs and share of results of an associate and joint ventures are not allocated to segments.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated corporate expenses.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowance that are reported as direct offsets in the statement of financial position. Segment assets consist primarily of property, plant and equipment, investment property, right-of-use assets, land use rights, other intangible assets, deferred income tax assets, pension assets, trade and other receivables, contract assets, interests in an associate, interests in joint ventures, inventories and cash and bank balances.

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include other liabilities that are incurred for financing rather than operating purpose unless the segment is engaged in financing activities.

As at 30 June 2020, unallocated assets and unallocated liabilities represented the assets and liabilities not arising from the operations of the operating segments.

Prior year's corresponding segment information that is presented for comparative purposes has been restated to conform with AG 5 issued by the HKICPA as a result of the acquisition of the Acquired Group which is detailed in Note 2.1(iv).

Capital expenditure comprises mainly additions to property, plant and equipment (Note 15), right-of-use assets (Note 17) and other intangible assets (Note 19).

(a) As at and for the year ended 30 June 2020

The segment results for the year ended 30 June 2020 and other segment items included in the consolidated income statement are as follows:

	E&M engineering & environmental services HK$'000	Integrated property & facility services HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue — External	3,085,501	1,796,618	–	4,882,119
Revenue — Internal	4,801	4,849	(9,650)	–
Total revenue	3,090,302	1,801,467	(9,650)	4,882,119
Timing of revenue recognition				
Over time	3,026,759	1,801,467	(9,650)	4,818,576
At a point in time	63,543	–	–	63,543
Total revenue	3,090,302	1,801,467	(9,650)	4,882,119
Operating profit before unallocated corporate expenses	242,708	142,060	–	384,768
Unallocated corporate expenses				(17,749)
Operating profit				367,019
Finance income (Note 11)				5,535
Finance costs (Note 11)				(10,093)
Share of results of an associate and joint ventures				1,013
Profit before income tax				363,474
Income tax expenses (Note 12)				(53,885)
Profit for the year				309,589
Other items				
Depreciation and amortisation	45,157	40,626	–	85,783
Impairment losses				
— Property, plant and equipment (Note 15)	–	11,394	–	11,394
— Right-of-use assets (Note 17)	–	2,502	–	2,502
— Trade and other receivables (Note 24)	–	2,168	–	2,168

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) As at and for the year ended 30 June 2020 *(Continued)*

The segment assets and liabilities as at 30 June 2020 and capital expenditure for the year then ended are as follows:

	E&M engineering & environmental services HK$'000	Integrated property & facility services HK$'000	Total HK$'000
Segment assets	2,119,499	818,217	2,937,716
Unallocated assets			253,533
Total assets			3,191,249
Segment liabilities	1,858,711	354,347	2,213,058
Unallocated liabilities			533,475
Total liabilities			2,746,533
Total capital expenditure	21,676	16,387	38,063

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) As at and for the year ended 30 June 2019 (restated)

The segment results for the year ended 30 June 2019 and other segment items included in the consolidated income statement are as follows:

	E&M engineering & environmental services HK$'000	Integrated property & facility services HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue — External, as restated	3,736,872	1,685,841	–	5,422,713
Revenue — Internal. as restated	1,625	10,009	(11,634)	–
Total revenue, as restated	3,738,497	1,695,850	(11,634)	5,422,713
Timing of revenue recognition				
Over time, as restated	3,646,384	1,695,850	(11,620)	5,330,614
At a point in time, as restated	92,113	–	(14)	92,099
Total revenue, as restated	3,738,497	1,695,850	(11,634)	5,422,713
Operating profit before unallocated corporate expenses, as restated	243,090	124,276	–	367,366
Unallocated corporate expenses				(4,285)
Operating profit, as restated				363,081
Finance income, as restated (Note 11)				5,196
Finance costs, as restated (Note 11)				(416)
Share of results of an associate and joint ventures, as restated				730
Profit before income tax, as restated				368,591
Income tax expenses, as restated (Note 12)				(61,143)
Profit for the year, as restated				307,448
Other items				
Depreciation and amortisation, as restated	28,525	19,363	–	47,888
Impairment loss — Trade and other receivables (Note 24)	3,215	59	–	3,274

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) As at and for the year ended 30 June 2019 (restated) *(Continued)*

The segment assets and liabilities as at 30 June 2019 and capital expenditure for the year then ended are as follows:

	E&M engineering & environmental services HK$'000	Integrated property & facility services HK$'000	Total HK$'000
Segment assets, as restated	1,934,020	759,750	2,693,770
Unallocated assets			259,115
Total assets, as restated			2,952,885
Segment liabilities, as restated	1,699,535	364,964	2,064,499
Unallocated liabilities, as restated			34,052
Total liabilities, as restated			2,098,551
Total capital expenditure, as restated	5,582	26,504	32,086

Revenue from external customers by geographical areas is based on the geographical location of the customers.

Revenue is allocated based on the regions in which the customers are located as follows:

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Revenue		
Hong Kong	4,171,064	4,430,380
Mainland China	382,256	792,671
Macau	328,799	199,662
Total	4,882,119	5,422,713

The analysis of the Group's major customers, which a single external customer has contributed 10% or more to the Group's revenue, is as follows:

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Customer A	745,031	756,633
Customer B	532,765	1,104,439

The revenue contributed by the above major customers is mainly attributable to the Group's E&M engineering & environmental services segment in Hong Kong and Mainland China, and integrated property & facility services segment in Hong Kong.

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

The non-current assets, other than deferred tax assets and pension assets, are allocated based on the regions in which the non-current assets are located as follows:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Non-current assets, other than deferred tax assets and pension assets		
Hong Kong	**475,101**	463,305
Mainland China	**27,904**	29,789
Macau	**29,492**	24,680
Total	**532,497**	517,774

7 OTHER (EXPENSES)/INCOME, NET

For the year ended 30 June	Notes	2020 HK$'000	2019 (restated) HK$'000
Impairment loss on property, plant and equipment	15	**(11,394)**	–
Impairment loss on right-of-use assets	17	**(2,502)**	–
Exchange loss, net		**(1,334)**	(763)
Rental income	17(e)	**2,346**	2,328
Government grants (Note i)		**1,186**	–
Gain/(loss) on disposal of property, plant and equipment, net		**529**	(388)
Ex-gratia payments from the government for retirement of motor vehicles		**449**	489
Release of exchange reserve upon dissolution of subsidiaries		**–**	1,905
Sundries		**1,375**	1,709
Total		**(9,345)**	5,280

Note:

(i) During the year ended 30 June 2020, the Group has received government grants from the Anti-epidemic Fund set up by the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") under a One-off Subsidy Scheme as financial support for its businesses and licensed goods vehicles. Under this scheme, one-off subsidies are provided to eligible businesses depending on their industries, which have business commenced before 1 January 2020 and is still in operation at the time of application. There are no unfilled conditions or other contingencies attaching to these grants.

8 OPERATING PROFIT

For the year ended 30 June	Notes	2020 HK$'000	2019 (restated) HK$'000
Operating profit is stated after charging/(crediting):			
Staff costs (including Directors' emoluments)	9	**1,744,811**	1,657,068
Subcontracting fees		**1,599,882**	1,952,382
Raw materials and consumables used		**775,029**	1,058,327
Cost of inventories sold		**49,075**	49,937
Depreciation of property, plant and equipment	15	**42,353**	45,408
Depreciation of right-of-use assets	17	**41,531**	–
Operating lease rental for land and buildings	17	**8,491**	50,398
Auditors' remuneration			
Audit services		**5,337**	5,412
Non-audit services		**2,473**	594
Impairment loss on trade and other receivables	24	**2,168**	3,274
Amortisation of intangible assets[(i)]	19	**1,514**	1,514
Depreciation of investment property	16	**385**	385
(Reversal of provision)/provision for inventories		**(50)**	456
Reversal of impairment loss on trade receivables	24	**(47)**	(626)
Amortisation of land use rights	18	**–**	581

Note

(i) Included in general and administrative expenses

Save as disclosed in this note and elsewhere in the consolidated financial statements, the other items charged/credited to the Group's operating profit are of individually immaterial amounts, which include insurance expenses, utility expenses, motor vehicles expenses, etc.

9 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Salaries, wages and bonuses (Note (i))	1,688,861	1,610,228
Contributions to defined contribution schemes	72,016	67,812
Contributions to defined benefits scheme	367	408
Less: Staff costs capitalised under contract assets and contract liabilities	(16,433)	(21,380)
Total	1,744,811	1,657,068

Note:

(i) Government grants have been received or are receivable by the Group from (a) the Anti-epidemic Fund set up by the HKSAR Government under the Employment Support Scheme (the "ESS Scheme") and (b) the Government of the Macau Special Administrative Region (the "Macau SAR Government") under its subsidy scheme (the "Macau Scheme") as financial support. The ESS Scheme is eligible for all employers who have been making Mandatory Provident Fund ("MPF") contribution. Eligible employers are required to provide an undertaking not to make redundancies during the subsidy period from June 2020 to November 2020. Otherwise, depending on the headcount reduction percentage, the employers will have to pay penalties to the HKSAR Government. The grants are disbursable to employers in two tranches during 2020. Under the Macau Scheme, one-off subsidies are provided to each eligible business depending on the number of employees they hired. During the year ended 30 June 2020, the Group has recognised HK$42.4 million (2019: Nil) in relation to these grants as deductions in its staff costs in the consolidated income statement. In addition, for the purpose of easing the burden of enterprises in PRC during the period of prevention and containment of the spread of COVID-19, the Social Security Bureaus of the Government of China has reduced the obligations on social security contributions for the employers of enterprises in PRC during 2020. During the year ended 30 June 2020, the Group was granted reduction in such obligations totalling HK$5.2 million (2019: Nil) which would otherwise be recorded as part of the Group's staff costs if no such reduction was granted.

10 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

For the year ended 30 June	2020 HK$'000	2019 HK$'000
Fees	1,554	1,498
Salaries and other emoluments	17,784	18,493
Contributions to defined contribution schemes	1,088	1,009
Total	20,426	21,000

The directors of the Company represent key management personnel of the Group having authority and responsibility for planning, directing and controlling the activities of the Group.

(i) The remuneration of each Director for the year ended 30 June 2020 is set out below:

	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000	Other benefits HK$'000	Contributions to defined contribution schemes HK$'000	Total HK$'000
Lam Wai Hon, Patrick	–	1,982	325	–	198	2,505
Poon Lock Kee, Rocky	–	3,727	1,251	–	373	5,351
Doo William Junior Guilherme	–	1,651	270	–	124	2,045
Lee Kwok Bong	–	1,374	225	–	103	1,702
Soon Kweong Wah	–	2,900	1,336	–	290	4,526
Wong Shu Hung	–	1,883	860	–	–	2,743
Cheng Kar Shun, Henry	346	–	–	–	–	346
Wong Kwok Kin, Andrew	230	–	–	–	–	230
Kwong Che Keung, Gordon	288	–	–	–	–	288
Hui Chiu Chung, Stephen	230	–	–	–	–	230
Lee Kwan Hung, Eddie	230	–	–	–	–	230
Tong Yuk Lun, Paul	230	–	–	–	–	230
Total	1,554	13,517	4,267	–	1,088	20,426

10 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Directors' emoluments *(Continued)*

(ii) The remuneration of each Director for the year ended 30 June 2019 is set out below:

	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000	Other benefits HK$'000	Contributions to defined contribution schemes HK$'000	Total HK$'000
Lam Wai Hon, Patrick	–	1,910	–	–	191	2,101
Poon Lock Kee, Rocky	–	3,593	3,269	–	359	7,221
Doo William Junior Guilherme	–	1,591	–	–	80	1,671
Lee Kwok Bong	–	1,324	–	–	99	1,423
Soon Kweong Wah	–	2,795	1,721	–	280	4,796
Wong Shu Hung	–	1,775	515	–	–	2,290
Cheng Kar Shun, Henry	333	–	–	–	–	333
Wong Kwok Kin, Andrew	222	–	–	–	–	222
Kwong Che Keung, Gordon	277	–	–	–	–	277
Hui Chiu Chung, Stephen	222	–	–	–	–	222
Lee Kwan Hung, Eddie	222	–	–	–	–	222
Tong Yuk Lun, Paul	222	–	–	–	–	222
Total	1,498	12,988	5,505	–	1,009	21,000

Notes:

(a) Mr. Poon Lock Kee, Rocky is the Chief Executive Officer of the Company.

(b) During the year ended 30 June 2020, no directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office (2019: Nil).

(b) Directors' material interests in transactions, arrangements or contracts

Details of the Group's material related party transactions are set out in Notes 2.1(iv) and 35 to the consolidated financial statements.

Save for the above and contracts amongst group companies, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 30 June 2020 or at any time during the year ended 30 June 2020.

10 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(c) Five highest paid individuals' emoluments

The five individuals whose emoluments were the highest in the Group during the years ended 30 June 2020 include three directors (2019: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2019: two) individuals during the years are as follows:

For the year ended 30 June	2020 HK$'000	2019 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	5,489	4,080
Contributions to defined contribution schemes	221	196
Performance-based bonuses	1,661	1,396
Total	7,371	5,672

The emoluments fell within the following bands:

	2020 Number of individuals	2019 Number of individuals
Emolument bands		
HK$2,500,001 – HK$3,000,000	1	2
HK$4,000,001 – HK$4,500,000	1	–

During the year ended 30 June 2020, no emoluments were paid by the Group to any of the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2019: Nil).

11 FINANCE INCOME AND COSTS

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Finance income		
Interest from bank deposits	5,535	5,196
Finance costs		
Interest on lease liabilities	2,398	–
Interest on bank borrowings	7,695	416
	10,093	416

12 INCOME TAX EXPENSES

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Current income tax		
Hong Kong profits tax	60,266	52,503
Mainland China taxation		
Income tax	245	5,175
Macau taxation	–	(2,777)
Under/(over)-provision in prior years	54	(140)
Deferred income tax expense (Note 22)		
Income tax	(6,571)	5,667
Withholding tax	(109)	715
Total	53,885	61,143

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the year. Taxation on Mainland China and Macau profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates. These rates range from 12% to 25% for the year ended 30 June 2020 (2019: 12% to 25%). According to applicable the People's Republic of China ("PRC") tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the Mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. Hence, the Group used 5% to accrue the withholding tax for certain PRC subsidiaries which are expected to fulfill the aforesaid conditions.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Profit before income tax	363,474	368,591
Less: Share of results of		
An associate (Note 20)	(898)	(937)
Joint ventures (Note 21)	(115)	207
	362,461	367,861
Calculated at a tax rate of 16.5% (2019: 16.5%)	59,806	60,697
Tax losses not recognised	973	881
Expenses not deductible for taxation purposes	4,956	1,764
Withholding tax on undistributed earnings from subsidiaries in Mainland China	(109)	715
Income not subject to taxation	(8,165)	(1,375)
Utilisation of previously unrecognised tax losses	(1,973)	(1,997)
Temporary differences not recognised	35	566
Tax concessions	(868)	(217)
Effect of different taxation rates in other regions	(824)	249
Under/(over)-provision in prior years	54	(140)
Income tax expenses	53,885	61,143

13 EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY

(a) Basic

The calculation of basic earnings per share for the year is based on the following:

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Profit for the year attributable to shareholders of the Company	**309,563**	307,374
Less: Preferred distribution to the holder of convertible preference shares	**(4,573)**	–
Earnings used in the basic earnings per share calculation	**304,990**	307,374
Weighted average number of ordinary shares in issue (shares in thousands)	**450,000**	450,000
Basic earnings per share (HK$)	**0.68**	0.68

(b) Diluted

During the year ended 30 June 2020, the Company issued convertible preference shares, with details set out in Notes 2.1(iv) and 28, which are treated as contingently issuable potential ordinary shares under HKAS 33 "Earnings per Share". Since the conditions for their conversion were not met as at 30 June 2020, therefore, the effect of their conversion is not included in the calculation of the diluted earnings per share for year ended 30 June 2020. As a result, the diluted earnings per share equals to the basic earnings per share for the year ended 30 June 2020.

During the year ended 30 June 2019, the Company did not have any dilutive potential ordinary shares and therefore the diluted earnings per share equals basic earnings per share for the year ended 30 June 2019.

14 DIVIDENDS

For the year ended 30 June	2020 HK$'000	2019 HK$'000
Interim dividend paid of HK12.8 cents (2019: HK10.1 cents) per share	**57,600**	45,450
Final dividend proposed of HK14.4 cents (2019: HK11.9 cents) per share	**64,800**	53,550
Total	**122,400**	99,000

Note:

At a meeting held on 25 September 2020, the Board recommended a final dividend of HK14.4 cents (2019: HK11.9 cents) per ordinary share to the ordinary shareholders of the Company. The final dividend will be paid in cash. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements but will be reflected as an appropriation of the retained earnings for the year ending 30 June 2021.

15 PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Leasehold land and buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and others HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 30 June 2019							
Opening net book value, as previously reported	24,935	291,710	34,640	37,248	13,871	9,838	412,242
Acquisition of the Acquired Group	–	1,095	1,184	–	6,523	1,692	10,494
As restated	24,935	292,805	35,824	37,248	20,394	11,530	422,736
Currency translation differences	–	(68)	(16)	–	(80)	(37)	(201)
Additions, as restated	–	–	6,010	12,526	10,047	3,503	32,086
Disposals, as restated	–	(1,057)	(98)	(949)	(65)	(87)	(2,256)
Depreciation charge, as restated	–	(10,164)	(11,793)	(7,780)	(9,396)	(6,275)	(45,408)
Closing net book value, as restated	24,935	281,516	29,927	41,045	20,900	8,634	406,957
At 30 June 2019							
Cost, as restated	24,935	317,993	84,886	142,184	101,971	51,205	723,174
Accumulated depreciation, as restated	–	(36,477)	(54,959)	(101,139)	(81,071)	(42,571)	(316,217)
Net book value, as restated	24,935	281,516	29,927	41,045	20,900	8,634	406,957
Year ended 30 June 2020							
Opening net book value, as restated	24,935	281,516	29,927	41,045	20,900	8,634	406,957
Currency translation differences	–	(67)	(13)	–	(63)	(32)	(175)
Additions	–	–	527	8,033	5,155	5,626	19,341
Disposals	–	–	(134)	(338)	(18)	(13)	(503)
Depreciation charge	–	(10,125)	(11,035)	(7,900)	(8,792)	(4,501)	(42,353)
Impairment loss	–	–	(1,116)	(9,465)	(433)	(380)	(11,394)
Closing net book value	24,935	271,324	18,156	31,375	16,749	9,334	371,873
At 30 June 2020							
Cost	24,935	316,755	84,776	148,491	105,884	53,567	734,408
Accumulated depreciation	–	(45,431)	(65,504)	(107,651)	(88,702)	(43,853)	(351,141)
Accumulated impairment	–	–	(1,116)	(9,465)	(433)	(380)	(11,394)
Net book value	24,935	271,324	18,156	31,375	16,749	9,334	371,873

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(a) Property, plant and equipment is allocated to the Group's CGUs identified according to Group's reportable segments. In assessing the impairment of property, plant and equipment, the Group compares the carrying amounts of the CGUs to which property, plant and equipment has been allocated against their recoverable amounts (i.e. the higher of the CGUs' fair value less costs of disposal and their value in use). The Group's laundry business, NCL, is a CGU under the Group's integrated property & facility management segment which offers laundry, dry cleaning and linen management services in Hong Kong. Its recoverable amount has been determined based on value in use calculations using pre-tax cash flow projections based on financial budgets approved by management covering a period of five years. Cash flows beyond the five-year period are extrapolated using a 3% growth rate. The pre-tax discount rate applied to the value in use calculation of NCL's cash flow projection at 30 June 2020 is 14.0%. The key assumptions on NCL's annual revenue growth rates, gross margin ratios and discount rate used in the value in use calculations as at 30 June 2020 are based on management's best estimates and specific risks relating to its business. Changes to the assumptions used by management to determine the recoverable amounts, in particular the discount and growth rates, can have a significant impact on the results of the assessment.

During the year ended 30 June 2020, the Group recognised an impairment loss totalling HK$13.9 million in respect of NCL's assets, including HK$11.4 million for its property, plant and equipment and HK$2.5 million for its right-of-use assets. Such impairment loss of HK$13.9 million, representing the difference between the net carrying amount of NCL's operating assets of HK$64.9 million and its estimated recoverable amount based on value in use calculations of HK$51.0 million, has been recognised as "Other expenses" in the consolidated income statement and arose mainly as a result of the impact of plummeting tourist arrivals and low hotel room occupancy rates on NCL's business following the social instability and outbreak of COVID-19 in Hong Kong during the year.

(b) None of the above property, plant and equipment was pledged as security as at 30 June 2020 (2019: None).

16 INVESTMENT PROPERTY

	HK$'000
Year ended 30 June 2019	
Opening net book value	11,620
Depreciation charge	(385)
Closing net book value	11,235
At 30 June 2019	
Cost	14,700
Accumulated depreciation	(3,465)
Net book value	11,235
Year ended 30 June 2020	
Opening net book value	**11,235**
Depreciation charge	**(385)**
Closing net book value	**10,850**
At 30 June 2020	
Cost	**14,700**
Accumulated depreciation	**(3,850)**
Net book value	**10,850**

Notes:

(a) The fair value of the Group's investment property is determined based on direct comparison method and it is within level 3 of the fair value hierarchy. Based on management's estimation, the fair value of the property is approximately HK$50.6 million as at 30 June 2020 (2019: HK$64.4 million).

(b) For the year ended 30 June 2020, the Group's investment property generated rental income of HK$2.3 million (2019: HK$2.3 million (restated)) and incurred direct operating expenses of HK$129 thousand (2019: HK$206 thousand).

17 RIGHT-OF-USE ASSETS AND LEASES LIABILITIES

(a) Group as lessees — Amount recognised in the consolidated statement of financial position

	30 June 2020 HK$'000	1 July 2019 HK$'000
Right-of-use assets		
Properties	49,878	75,574
Leasehold lands	19,666	20,432
Equipment	2,633	3,339
	72,177	99,345
Leases liabilities		
Within one year	41,060	34,864
Within a period of more than one year but not exceeding two years	9,938	30,221
Within a period of more than two years but not exceeding five years	9,631	10,832
Within a period of more than five years	762	2,996
	61,391	78,913
Less: Current portion	(41,060)	(34,864)
Non-current portion	20,331	44,049

On leases that commenced during the year, the Group has recognised HK$18.4 million of right-of-use assets and lease liabilities.

(b) Group as lessees — Amount recognised in the consolidated income statement

	2020 HK$'000
Depreciation of right-of-use assets	
Properties	40,250
Leasehold lands	575
Equipment	706
	41,531
Expense relating to short-term leases (Note 8)	8,491
Interest expenses (Note 11)	2,398
Impairment loss (Note 15(a))	2,502
Total charges recognised in profit or loss for leases	54,922

(c) Group as lessees — Amount recognised in the consolidated statement of cash flows

The total cash outflow for leases in 2020 was HK$45.5 million.

17 RIGHT-OF-USE ASSETS AND LEASES LIABILITIES *(Continued)*

(d) Group as lessees — Other disclosures

(i) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods of 6 months to 8 years, but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(ii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

(iii) Residual value guarantees

As at 30 June 2020, no residual value guarantee is expected to be payable.

(iv) Leases not yet commenced to which the lessee is committed

The Group does not commit at 30 June 2020 to any leases that are not yet commenced.

(v) Restriction or covenants imposed by leases

The lease agreements entered into by the Group do not impose any covenants other than the security interests in the leased assets under such lease agreements that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(e) Group as a lessor

	2020 HK$'000	2019 HK$'000
Rental income (Note 7)	**2,346**	2,328

18 LAND USE RIGHTS

	HK$'000
Year ended 30 June 2019	
Opening net book value	21,230
Currency translation differences	(217)
Amortisation	(581)
Closing net book value	20,432
At 30 June 2019	
Cost	23,469
Accumulated amortisation	(3,037)
Net book value	20,432
Year ended 30 June 2020	
Opening net book value	**20,432**
Reclassification upon adoption of HKFRS 16	**(20,432)**
Closing net book value	**–**

As at 1 July 2019, leasehold lands have been reclassified to right-of-use assets as a result of adoption of HKFRS 16.

19 OTHER INTANGIBLE ASSETS

	Goodwill HK$'000	Trademarks and brand names HK$'000	Development costs HK$'000	Customer contracts HK$'000	Total HK$'000
Year ended 30 June 2019					
Opening net book value, as previously reported	41,757	8,900	2,139	–	52,796
Acquisition of the Acquired Group	19,481	5,644	–	1,730	26,855
As restated	61,238	14,544	2,139	1,730	79,651
Amortisation, as restated	–	(1,107)	–	(407)	(1,514)
Closing net book value, as restated	61,238	13,437	2,139	1,323	78,137
At 30 June 2019					
Cost, as restated	65,909	35,060	2,139	74,936	178,044
Accumulated amortisation, as restated	–	(14,343)	–	(73,613)	(87,956)
Accumulated impairment	(4,671)	(7,280)	–	–	(11,951)
Net book value, as restated	61,238	13,437	2,139	1,323	78,137
Year ended 30 June 2020					
Opening net book value, as restated	**61,238**	**13,437**	**2,139**	**1,323**	**78,137**
Additions	**–**	**–**	**300**	**–**	**300**
Cost adjustment	**–**	**–**	**(420)**	**–**	**(420)**
Amortisation	**–**	**(1,107)**	**–**	**(407)**	**(1,514)**
Closing net book value	**61,238**	**12,330**	**2,019**	**916**	**76,503**
At 30 June 2020					
Cost	**65,909**	**35,060**	**2,019**	**74,936**	**177,924**
Accumulated amortisation	**–**	**(15,450)**	**–**	**(74,020)**	**(89,470)**
Accumulated impairment	**(4,671)**	**(7,280)**	**–**	**–**	**(11,951)**
Net book value	**61,238**	**12,330**	**2,019**	**916**	**76,503**

(a) Impairment tests for goodwill

Goodwill is monitored at the segment level and is allocated to the CGUs of the Group's segments. For the purpose of impairment test, the recoverable amount of the Group's CGUs is determined based on value in use calculations. The key assumptions adopted on growth rates and discount rates used in the value in use calculations are based on management's best estimates and past experience.

A summary of the goodwill allocation to business units is presented below:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
E&M engineering services	**33,841**	33,841
Integrated property & facility services		
— Cleaning services	**7,916**	7,916
— Property and facility management services	**19,481**	19,481
Total	**61,238**	61,238

19 OTHER INTANGIBLE ASSETS *(Continued)*

(a) Impairment tests for goodwill *(Continued)*

The recoverable amount of a group of CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period which the growth rates are stated as below. Cash flows beyond the five-year period are extrapolated using zero growth rate for the E&M engineering services business unit and 1% growth rate for the integrated property & facility services business unit. The growth rate does not exceed the long-term average growth rate for the businesses in which the group of CGUs operates.

	2020		
	E&M engineering services	**Cleaning services**	**Property and facility management services**
Cash flows in the first five years			
Gross margin	**9.2% – 9.3%**	**8.9% – 9.5%**	**28.4% – 29.1%**
Growth rate	**2.6%**	**3.1%**	**2.5% – 5.4%**
Pre-tax discount rate	**14%**	**9.5%**	**15.8%**
Cash flows beyond five-year period			
Terminal growth rate	**0%**	**1%**	**1%**
Pre-tax discount rate	**14%**	**9.5%**	**15.8%**

	2019		
	E&M engineering services	Cleaning services	Property and facility management services
Cash flows in the first five years			
Gross margin	9.5% – 10.8%	8.8% – 9.5%	30.7% – 31.0%
Growth rate	5%	2% – 3%	1.6% – 3.9%
Pre-tax discount rate	14%	9.5%	12.9% – 15.8%
Cash flows beyond five-year period			
Terminal growth rate	0%	1%	1%
Pre-tax discount rate	14%	9.5%	12.9% – 15.8%

These assumptions have been used for the analysis of the group of CGUs within the operating segment.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments and business life-cycle. On the basis of these reviews, management concluded that no impairment was required for goodwill as at 30 June 2020 (2019: Nil).

A reasonably possible change in a key assumption would not cause the recoverable amount to fall below the carrying value of the respective group of CGUs.

20 INTERESTS IN AN ASSOCIATE

	2020 HK$'000	2019 (restated) HK$'000
At beginning of year	79	72
Share of profit for the year	898	937
Dividend	(932)	(930)
At end of year	45	79

Particulars of an associate are as follows:

Name	Place of incorporation	Principal activities	Particular of issued share capital	Effective percentage of equity interest held 2020	 2019
Harbour Place Management Services Limited	Hong Kong	Provision of property management services	1,000 ordinary shares paid up to HK$1,000	30%	30%

The following represent the Group's share of its individually immaterial associate that is accounted for using the equity method of accounting:

	2020 HK$'000	2019 (restated) HK$'000
Carrying amount of interest in an associate	45	79
Share of profit and total comprehensive income for the year	898	937

There are no commitments or contingent liabilities relating to the Group's interests in an associate, and no commitments or contingent liabilities of the equity itself.

21 INTERESTS IN JOINT VENTURES

	2020 HK$'000	2019 (restated) HK$'000
At beginning of year	934	1,141
Share of profit/(loss) for the year	115	(207)
At end of year	**1,049**	934

Particulars of joint ventures are as follows:

Name	Place of incorporation	Principal activities	Particular of issued share capital	Effective percentage of equity interest held 2020	2019
廣州市富城物業管理有限公司	PRC	Provision of property management services	RMB800,000	50%	50%
Urban-Wellborn Property Management Limited	Hong Kong	Provision of property management services	10,000 ordinary shares paid up to HK$100,000	50%	50%

Set out below is, in aggregate, the carrying amounts of the Group's share of all its individually immaterial joint ventures that are accounted for using the equity method of accounting:

	2020 HK$'000	2019 (restated) HK$'000
Carrying amount of interests in joint ventures	1,049	934
Share of profit/(loss) and total comprehensive income/(loss) for the year	115	(207)

There are no commitments or contingent liabilities relating to the Group's interest in joint ventures, and no commitments or contingent liabilities of the entities themselves.

22 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Deferred income tax assets	11,083	9,337
Deferred income tax liabilities	(24,446)	(29,415)
Net	(13,363)	(20,078)

Deferred income tax assets and deferred income tax liabilities are expected to be recovered/settled after more than 12 months. Their movements in the Group's deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year and net balances after offsetting at the end of the reporting periods are as follows:

Deferred income tax assets

	Accelerated accounting depreciation HK$'000	Tax losses HK$'000	Remeasurement of long service payment liabilities HK$'000	Others HK$'000	Total HK$'000
At 1 July 2018, as previously reported	1,293	3,938	–	10,151	15,382
Acquisition of the Acquired Group	14	–	84	–	98
As restated	1,307	3,938	84	10,151	15,480
Currency translation differences	–	–	–	1	1
Credited/(charged) to consolidated income statement, as restated (Note 12)	771	340	–	(5,977)	(4,866)
Charged to other comprehensive loss, as restated	–	–	(84)	–	(84)
At 30 June 2019, as restated	2,078	4,278	–	4,175	10,531
At 1 July 2019	2,078	4,278	–	4,175	10,531
Currency translation differences	–	(10)	–	–	(10)
Credited/(charged) to consolidated income statement (Note 12)	2,198	5,845	–	(364)	7,679
At 30 June 2020	4,276	10,113	–	3,811	18,200

	2020 HK$'000	2019 HK$'000
Total deferred income tax assets before offsetting	18,200	10,531
Less: Amount offset against deferred income tax liabilities	(7,117)	(1,194)
Net deferred income tax assets after offsetting	11,083	9,337

22 DEFERRED INCOME TAX ASSETS/(LIABILITIES) *(Continued)*

Deferred income tax liabilities

	Accelerated deprecation allowance HK$'000	Fair value adjustments on trademarks and brand names HK$'000	Fair value adjustments on property, plant and equipment arising from business combinations HK$'000	Remeasurement of long service payment liabilities HK$'000	Others HK$'000	Total HK$'000
At 1 July 2018, as previously reported	(6,551)	(1,470)	(14,267)	(1,334)	(2,850)	(26,472)
Acquisition of the Acquired Group	(724)	(1,220)	(181)	(358)	–	(2,483)
As restated	(7,275)	(2,690)	(14,448)	(1,692)	(2,850)	(28,955)
Charged to other comprehensive loss, as restated	–	–	–	(138)	–	(138)
(Charged)/credited to consolidated income statement, as restated (Note 12)	(1,683)	249	668	–	(750)	(1,516)
At 30 June 2019, as restated	(8,958)	(2,441)	(13,780)	(1,830)	(3,600)	(30,609)
At 1 July 2019	**(8,958)**	**(2,441)**	**(13,780)**	**(1,830)**	**(3,600)**	**(30,609)**
Credited to other comprehensive loss	**–**	**–**	**–**	**45**	**–**	**45**
(Charged)/credited to consolidated income statement (Note 12)	**1,390**	**250**	**418**	**–**	**(3,057)**	**(999)**
At 30 June 2020	**(7,568)**	**(2,191)**	**(13,362)**	**(1,785)**	**(6,657)**	**(31,563)**

	2020 HK$'000	2019 (restated) HK$'000
Total deferred income tax liabilities before offsetting	**(31,563)**	(30,609)
Less: Amount offset against deferred income tax assets	**7,117**	1,194
Net deferred income tax liabilities after offsetting	**(24,446)**	(29,415)

As at 30 June 2020, the Group did not recognise deferred income tax assets of HK$12 million (2019: HK$13 million), arising from unused tax losses of HK$76 million (2019: HK$80 million). Except for tax losses of HK$1.3 million (2019: HK$0.4 million) as at 30 June 2020 which will expire within three years after the reporting date, the remaining tax losses have no expiry date.

23 PENSION ASSETS

The Group operates a defined benefit retirement scheme (the "Scheme") registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) that provides lump sum benefits based on a multiple of a member's final salary and years of service or employee contribution balance, whichever is higher, upon the member's retirement, death, disability or leaving service. The Scheme has been closed to new employees since 1 December 2000.

The Group has an unconditional right to the surplus of the Scheme.

The Scheme is administered by an independent trustee with its assets held separately from those of the Group. The key responsibilities of the trustee are to ensure that the Scheme is administered in accordance with the trust deed and rules and to act on behalf of all members impartially, prudently and in good faith.

The costs of benefits are jointly funded by the Group and the employees. Employees' contributions are based on 5% of basic salary and the Group's contributions are determined with reference to the funding valuation carried out by the Scheme's actuary. The valuations of the Scheme as at 30 June 2019 and 2020 were prepared by independent qualified actuaries using the projected unit credit method.

The Scheme exposes the Group to actuarial risks, such as investment risk, interest rate risk and salary risk.

(i) The amounts recognised in the consolidated statement of financial position are as follows:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Present value of defined benefit obligations	(14,371)	(15,137)
Fair value of plan assets	17,517	17,986
Net retirement benefit assets	3,146	2,849

Majority of the above liabilities are expected to be settled after more than one year.

However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

23 PENSION ASSETS *(Continued)*

(ii) Movements in net defined benefit assets and its components are as follows:

	Present value of defined benefit obligations HK$'000	Fair value of plan assets HK$'000	Total HK$'000
At 1 July 2018, as previously reported	–	–	–
Acquisition of the Acquired Group	(20,125)	25,908	5,783
As restated	(20,125)	25,908	5,783
Net (charge)/credit to the consolidated income statement			
Current service costs, as restated	(533)	–	(533)
Interest (expenses)/income, as restated	(182)	307	125
	(715)	307	(408)
Net charge to other comprehensive loss, as restated			
Remeasurement loss:			
Actuarial loss arising from change in financial assumptions	(884)	–	(884)
Actuarial loss arising from experience adjustments	(1,559)	–	(1,559)
Loss on plan assets excluding interest income	–	(144)	(144)
	(2,443)	(144)	(2,587)
Actual benefit paid, as restated	8,323	(8,323)	–
Contribution paid by the employees, as restated	(177)	177	–
Contribution paid by the employer, as restated	–	61	61
At 30 June 2019, as restated	(15,137)	17,986	2,849
At 1 July 2019	**(15,137)**	**17,986**	**2,849**
Net (charge)/credit to the consolidated income statement			
Current service costs	**(408)**	**–**	**(408)**
Interest (expenses)/income	**(212)**	**253**	**41**
	(620)	**253**	**(367)**
Net credit/(charge) to other comprehensive loss			
Remeasurement (loss)/gain:			
Actuarial loss arising from change in financial assumptions	**(120)**	**–**	**(120)**
Actuarial gain arising from experience adjustments	**1,659**	**–**	**1,659**
Loss on plan assets excluding interest income	**–**	**(931)**	**(931)**
	1,539	**(931)**	**608**
Contribution paid by the employees	**(153)**	**153**	**–**
Contribution paid by the employer	**–**	**56**	**56**
At 30 June 2020	**(14,371)**	**17,517**	**3,146**

The weighted average duration of the defined benefit obligation is 7.0 years (2019: 8.7 years).

23 PENSION ASSETS *(Continued)*

(iii) Significant actuarial assumptions adopted for the purpose of the actuarial valuation are as follows:

	2020	2019
Discount rate	0.3% p.a.	1.4% p.a.
Salary growth rate	3.0% p.a.	4.0% p.a.

The below analysis shows how the defined benefit obligation as at each year end date would have increased/(decreased) as a result of 0.25% change in significant actuarial assumptions:

	2020		2019	
	Increase in 0.25% HK$'000	Decrease in 0.25% HK$'000	Increase in 0.25% HK$'000	Decrease in 0.25% HK$'000
Discount rate	(240)	249	(327)	327
Salary growth rate	242	(235)	309	(301)

The above sensitivity analyses are based on change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same actuarial valuation method has been applied as when calculating the defined benefit obligation recognised in the consolidated statement of financial position.

(iv) Fair value of the plan assets is analysed as follows:

	2020	2019
Equities	70.5%	66.8%
Bonds	24.3%	23.3%
Cash and others	5.2%	9.9%
	100%	100%

The Scheme has a benchmark asset allocation of 70% in equities and 30% in bonds and cash. The long term strategic asset allocations of the Scheme is set and reviewed from time to time by the Scheme's trustee taking into account the Scheme's membership, liability profile, liquidity requirements, and the risk appetite of the Group.

24 TRADE AND OTHER RECEIVABLES

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Trade receivables		
Third parties	**457,108**	504,701
Related companies (Note 35(c))	**98,144**	77,817
Less: Provision for impairment	**555,252**	582,518
Third parties	**(9,451)**	(7,389)
	545,801	575,129
Retention receivables		
Third parties	**154,622**	139,080
Related companies (Note 35(c))	**193,991**	205,697
	348,613	344,777
Other receivables and prepayments		
Third parties	**154,683**	106,415
Related companies (Note 35(c))	**8,468**	24,774
	163,151	131,189
Accrued contract revenue	**445,546**	478,746
Less: Provision for impairment	**(149)**	(149)
	445,397	478,597
Total	**1,502,962**	1,529,692

Generally, no credit period is granted by the Group to its retail customers for trading of building materials and customers for provision of property and facility management services. The credit period generally granted by the Group to its other customers is 30 to 60 days.

Expected credit losses

The Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. The expected credit loss is minimal as the majority of the trade and other receivables are due from a number of independent customers for whom there is no recent history of default, except for certain trade and other receivables with full impairment provision being provided for during the period because they have been undergoing financial difficulties.

24 TRADE AND OTHER RECEIVABLES *(Continued)*

The ageing analysis of the Group's trade receivables (including amounts due from related parties of trading in nature) based on the invoice due date, net of provision for impairment, is as follows:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Current to 90 days	500,949	529,771
91 – 180 days	35,902	34,264
Over 180 days	8,950	11,094
Total	545,801	575,129

At 30 June 2020, the Group's trade receivables and accrued revenue of HK$9.6 million (2019: HK$7.5 million) were impaired.

The carrying amounts of the trade and other receivables of the Group approximate their fair values and are denominated in the following currencies:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Hong Kong dollars	1,112,810	1,134,651
Renminbi	287,166	347,497
Macau patacas	102,201	46,590
United States dollars	160	104
Euros	579	850
Others	46	–
Total	1,502,962	1,529,692

Movements in provision for impairment of the Group's trade receivables and accrued contract revenue are as follows:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
At the beginning of year	7,538	4,899
Provision for the year	2,168	3,274
Reversal of provision during the year	(47)	(626)
Receivables written off during the year	(59)	(9)
At the end of year	9,600	7,538

Retention receivables in respect of contracting services are settled in accordance with the terms of respective contracts. Other classes within trade and other receivables do not contain material impaired assets.

25 CONTRACT ASSETS AND CONTRACT LIABILITIES

As at 30 June	2020 HK$'000	2019 HK$'000
Contract costs incurred plus attributable profits less foreseeable losses	**2,640,836**	2,440,665
Progress payments received and receivable	**(2,707,247)**	(2,373,962)
Net	**(66,411)**	66,703
Representing:		
Contract assets	**388,390**	290,822
Contract liabilities	**(454,801)**	(224,119)
Net	**(66,411)**	66,703

Notes:

(a) All of the Group's contract assets and contract liabilities at 30 June 2020 and 30 June 2019 relate to its engineering contracts with customers and no loss allowances have been included therein.

(b) During the year ended 30 June 2020, the Group recognised (i) HK$207.3 million (2019: HK$455.0 million) of revenue for its engineering contracts relating to its carried-forward contract liabilities from the previous financial year end and (ii) HK$154.7 million (2019: HK$102.6 million) of revenue from its performance obligations satisfied in previous reporting years.

(c) As at 30 June 2020, the aggregate amount of transaction price allocated to the Group's remaining performance obligations in respect of engineering, environmental management, cleaning and property and facility management services contracts is HK$11,074 million (2019: HK$6,846 million (restated)). The Group will recognise this revenue during the completion of the related works, which is expected to occur over the next 54 months (2019: 51 months) after the reporting date.

(d) The increase in the Group's contract assets and contract liabilities during the year ended 30 June 2020 principally reflects an increase in number of projects in progress.

26 INVENTORIES

As at 30 June	2020 HK$'000	2019 HK$'000
Raw materials	**750**	688
Finished goods	**48,363**	36,221
Spare parts and consumables	**3,112**	3,297
Total	**52,225**	40,206

27 CASH AND BANK BALANCES

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Time deposits — original maturities within three months	194,353	214,768
Other cash at banks and in hand	506,593	347,437
Total	700,946	562,205

At 30 June 2020, the effective interest rate on bank deposits is 0.94% per annum (2019: 2.56% per annum).

The carrying amounts of cash and bank balances of the Group approximate their fair values and are denominated in the following currencies:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Hong Kong dollars	646,252	449,087
Renminbi	42,323	87,458
Macau patacas	7,315	14,057
United States dollars	1,911	2,501
Euros	2,775	3,757
Others	370	5,345
Total	700,946	562,205

28 SHARE CAPITAL

The numbers of the Company's authorised and issued shares are as follows:

	2020 Number of shares	2020 HK$'000	2019 Number of shares	2019 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
As at 1 July	1,000,000,000	100,000	1,000,000,000	100,000
Re-designation	(100,000,000)	(10,000)	–	–
As at 30 June	900,000,000	90,000	1,000,000,000	100,000
Convertible preference shares of HK$0.10 each (Note a)				
As at 1 July	–	–	–	–
Re-designation	100,000,000	10,000	–	–
As at 30 June	100,000,000	10,000	–	–
	1,000,000,000	100,000	1,000,000,000	100,000

28 SHARE CAPITAL *(Continued)*

The numbers of the Company's authorised and issued shares are as follows: *(Continued)*

	2020 Number of shares	2020 HK$'000	2019 Number of shares	2019 HK$'000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
As at 1 July and 30 June	**450,000,000**	**45,000**	450,000,000	45,000
Convertible preference shares of HK$0.10 issued at HK$3.2260 each (Note a)				
As at 1 July	**–**	**–**	–	–
Issued for the acquisition of the Acquired Group (Note a)	**43,676,379**	**140,900**	–	–
As at 30 June	**43,676,379**	**140,900**	–	–
Total	**493,676,379**	**185,900**	450,000,000	45,000

As at 30 June 2020, the total nominal amount of the Company issued shares was HK$49,367,638 (30 June 2019: HK$45,000,000), comprising HK$45,000,000 for ordinary shares (30 June 2019: HK$45,000,000) and HK$4,367,638 for convertible preference shares (30 June 2019: Nil).

Note (a):

On 16 December 2019 (the "Issue Date"), the Company issued and allotted a total of 43,676,379 non-voting redeemable convertible preference shares of HK$0.1 each to FMC at an issue price of HK$3.2260 per share (the "Issue Price"), credited as fully paid. The major terms of the convertible preference shares are set out below:

- Each convertible preference share shall entitle the holder to convert within a period of 10 years after the Issue Date, 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.

- Each convertible preference share is convertible into such number of ordinary share(s) being one multiplied by the conversion rate. The conversion rate is determined by dividing the Issue Price of convertible preference shares by the conversion price.

- The conversion price is the Issue Price, subject to adjustment upon the occurrence of certain prescribed events.

- Each convertible preference share shall confer on the holder the right to receive preferred distributions from the Issue Date at a rate of 6.0% per annum on the Issue Price, payable annually in arrears. Each preferred distribution is cumulative. The Board may, in its sole discretion, elect to defer or not to pay a preferred distribution. No interest accrues on any unpaid preferred distribution. If the Board elects to defer or not to pay a preferred distribution, the Company shall not (a) pay any dividends, distributions or make any other payment on any ordinary shares or (b) redeem, cancel, repurchase or acquire for any consideration any ordinary shares, unless at the same time it pays to the holder of the convertible preference shares any deferred or unpaid preferred distribution which was scheduled to be paid on a day falling in the same financial year in respect of which payment of such dividends, distributions or other payments is made or during which such redemption, cancellation, repurchase or acquisition occurs.

- The holder of the convertible preference shares shall not have the right to attend or vote at any general meeting of the Company (except a general meeting for winding up of the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of such holder).

- The holder of the convertible preference shares will have priority over the holders of ordinary shares of the Company on the assets and funds of the Company available for distribution in a distribution of assets on liquidation, winding up or dissolution of the Company.

- At any time after 10 years following the Issue Date, the Company may at its sole discretion serve at least ten days' prior written notice to the holder of the convertible preference shares to redeem either in whole or in part of the convertible preference shares for the time being outstanding, at a redemption price equals to the Issue Price together with all outstanding preferred distributions accrued to the date fixed for redemption.

29 RESERVES

	Share premium HK$'000	Merger reserve (Note a) HK$'000	Exchange reserve HK$'000	Statutory reserves (Note b) HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 July 2018, as previously reported	743,204	(525,214)	(19,746)	22,198	371,908	592,350
Acquisition of the Acquired Group	–	179,712	–	–	(40,186)	139,526
As restated	743,204	(345,502)	(19,746)	22,198	331,722	731,876
Profit for the year, as restated	–	–	–	–	307,374	307,374
Dividends to shareholders	–	–	–	–	(105,300)	(105,300)
Dividends to the original shareholders of the Acquired Group, as restated	–	–	–	–	(114,636)	(114,636)
Remeasurement losses on defined benefit retirement scheme, as restated	–	–	–	–	(2,587)	(2,587)
Remeasurement gains on long service payment liabilities, as restated	–	–	–	–	2,069	2,069
Deferred tax on remeasurement gains on long service payment liabilities, as restated	–	–	–	–	(222)	(222)
Currency translation differences	–	–	(7,402)	–	–	(7,402)
Release of exchange reserve upon dissolution of subsidiaries	–	–	(1,905)	–	–	(1,905)
Release of statutory reserve upon dissolution of a subsidiary	–	–	–	(588)	588	–
At 30 June 2019, as restated	743,204	(345,502)	(29,053)	21,610	419,008	809,267
At 1 July 2019, as previously reported	**743,204**	**(525,214)**	**(29,053)**	**21,610**	**516,473**	**727,020**
Acquisition of the Acquired Group	**–**	**179,712**	**–**	**–**	**(97,465)**	**82,247**
As restated	**743,204**	**(345,502)**	**(29,053)**	**21,610**	**419,008**	**809,267**
Profit for the year	**–**	**–**	**–**	**–**	**309,563**	**309,563**
Dividends to shareholders	**–**	**–**	**–**	**–**	**(111,150)**	**(111,150)**
Remeasurement gains on defined benefit retirement scheme	**–**	**–**	**–**	**–**	**608**	**608**
Remeasurement losses on long service payment liabilities	**–**	**–**	**–**	**–**	**(347)**	**(347)**
Deferred tax on remeasurement losses on long service payment liabilities	**–**	**–**	**–**	**–**	**45**	**45**
Currency translation differences	**–**	**–**	**(5,885)**	**–**	**–**	**(5,885)**
Acquisition of the Acquired Group (Note 2.1(iv))	**–**	**(743,378)**	**–**	**–**	**–**	**(743,378)**
At 30 June 2020	**743,204**	**(1,088,880)**	**(34,938)**	**21,610**	**617,727**	**258,723**

29 RESERVES *(Continued)*

Notes:

(a) Merger reserve arises from (i) the difference between the consideration for the acquisition of the FSE Engineering Group Limited, FSE Environmental Technologies Limited and Building Materials Supplies Limited by the Company and their issued share capital upon the completion of the reorganisation on 30 June 2015; (ii) the difference between the consideration for the acquisition of Crystal Brilliant Limited and its subsidiaries by the Company's wholly-owned subsidiary, FSE Facility Services Group Limited, and their net asset values at the date when they first came under common control of FSE Holdings Limited upon the completion of the acquisition on 11 April 2018 and (iii) the difference between the consideration for the acquisition of Legend Success Investments Limited and its subsidiaries by the Company's wholly-owned subsidiary, FSE Property Management Group Limited, and their net asset values at the date when they first came under common control of FSE Holdings Limited upon the completion of the acquisition on 16 December 2019.

(b) PRC companies are required to allocate 10% of the companies' net profits to the statutory reserves fund until such fund reaches 50% of the companies' registered capitals. The statutory reserves fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses, if any, or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capitals.

(c) During the year ended 30 June 2020, no (2019: no) appropriation from retained earnings to statutory reserves for PRC companies was made. The remaining statutory reserves of HK$588,000 for a PRC subsidiary dissolved during the year ended 30 June 2019 was transferred to retained earnings.

30 BORROWINGS

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Non-current liabilities		
Bank borrowings — secured	**463,243**	–
Current liabilities		
Bank borrowings — secured	**–**	30,000

Borrowings are interest bearing at effective interest rates of 2.5% (2019: 2.4%) and repayable in the second year (2019: the first year) after the reporting date. The carrying amounts of the borrowings approximate its fair values and are denominated in Hong Kong dollar.

Borrowings are secured by corporate guarantees provided by FSE Engineering Group Limited and FSE Facility Services Group Limited (wholly-owned subsidiaries of the Company) as at 30 June 2020 and by FSE Holdings Limited (a related company of the Company) as at 30 June 2019.

31 LONG SERVICE PAYMENT LIABILITIES

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's MPF and ORSO schemes that are attributable to contributions made by the Group. The Group has not set aside any assets to fund any remaining obligations.

The liability recognised in the consolidated statement of financial position is the present value of unfunded obligations and its movements are as follows:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
At the beginning of the year	31,849	31,019
Expenses recognised in the consolidated income statement	4,131	4,037
Remeasurement losses/(gains) recognised in other comprehensive loss	347	(2,069)
Benefits paid	(4,050)	(1,138)
At the end of the year	32,277	31,849

Significant actuarial assumptions adopted for the purpose of the actuarial valuation are as follows:

As at 30 June	2020	2019 (restated)
Discount rate	0.4%	1.30%
Long term rate of salary increases	3.54% – 4.5%	3.55% – 4.5%
Long term rate of increase of maximum salary and amount of long service payment and MPF Relevant Income limit	2.5%	3.0 – 3.5%
Long term average expected return on MPF and ORSO balances	3.5% – 4.25%	3.00% – 4.25%

The below analysis shows how the long service payment liability as at each year end date would have increased/(decreased) as a result of 0.25% change in significant actuarial assumptions:

As at 30 June	2020		2019 (restated)	
Assumptions	Increase in 0.25% HK$'000	Decrease in 0.25% HK$'000	Increase in 0.25% HK$'000	Decrease in 0.25% HK$'000
Long term rate of salary increases	1,796	(1,692)	1,844	(1,896)
Long term average expected return on MPF and ORSO balances	(1,800)	1,904	(1,466)	1,484

The above sensitivity analyses are based on change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the long service payment liability to significant actuarial assumptions, the same actuarial valuation method has been applied as when calculating the long service payment liability recognised within the consolidated statement of financial position.

32 TRADE AND OTHER PAYABLES

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Trade payables		
Third parties	**196,948**	223,997
Related companies (Note 35(c))	**492**	334
	197,440	224,331
Other creditors		
Third parties	**242,396**	121,796
Related companies (Note 35(c))	**6,924**	27,729
	249,320	149,525
Bills payable		
Third parties	**2,000**	12,025
Retention payables		
Third parties	**242,469**	231,157
Accrued expenses	**253,417**	240,186
Provision for contracting costs	**694,680**	861,378
Total	**1,639,326**	1,718,602

The carrying amounts of the above balances approximate their fair values.

The carrying amounts of the trade and other payables of the Group are denominated in the following currencies:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Hong Kong dollars	**1,230,629**	1,319,202
Renminbi	**303,669**	325,922
Macau patacas	**102,410**	69,034
Euros	**2,559**	1,645
United States dollars	**44**	2,785
Others	**15**	14
Total	**1,639,326**	1,718,602

The ageing analysis of the Group's trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
1 – 90 days	**178,001**	217,574
91 – 180 days	**9,465**	4,835
Over 180 days	**9,974**	1,922
Total	**197,440**	224,331

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to cash generated from operations:

For the year ended 30 June	Notes	2020 HK$'000	2019 (restated) HK$'000
Profit before income tax		**363,474**	368,591
Depreciation of property, plant and equipment	15	**42,353**	45,408
Depreciation of right-of-use assets	17	**41,531**	–
Impairment loss on property, plant and equipment	15	**11,394**	–
Finance costs	11	**10,093**	416
Long service payment liabilities			
Expenses recognised in the consolidated income statement	31	**4,131**	4,037
Benefit paid	31	**(4,050)**	(1,138)
Impairment loss on right-of-use assets	17	**2,502**	–
Impairment loss on trade and other receivables	8	**2,168**	3,274
Amortisation of other intangible assets	19	**1,514**	1,514
Unrealised exchange differences		**1,451**	513
Depreciation of investment property	16	**385**	385
Pension costs on defined benefits scheme	23	**367**	408
Finance income		**(5,535)**	(5,196)
Share of results of an associate and joint ventures		**(1,013)**	(730)
(Gain)/loss on disposal of property, plant and equipment, net	7	**(529)**	388
Write-off on other payables		**(90)**	(564)
(Reversal of provision)/provision for inventories	8	**(50)**	456
Reversal of impairment loss on trade receivables	8	**(47)**	(626)
Release of exchange reserve upon dissolution of subsidiaries	7	**–**	(1,905)
Amortisation of land use rights	18	**–**	581
Operating cash flows before changes in working capital		**470,049**	415,812
Changes in working capital:			
Net contract assets/liabilities		**130,340**	(205,075)
Trade and other receivables		**11,432**	(155,962)
Trade and other payables		**(66,725)**	232,317
Inventories		**(11,969)**	(14,656)
Pension assets		**(56)**	(61)
Cash generated from operations		**533,071**	272,375

(b) Cash consideration for acquisition of a business

On 16 December 2019, the Group acquired the Acquired Group at a total consideration of HK$743.4 million upon which the initial sum of 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 non-voting redeemable convertible preference shares. A final cash payment of the consideration of HK$38.5 million was made on 13 February 2020 and thus resulted in a total cash consideration for the acquisition amounting to HK$602.5 million. Details of the transaction are set out in Note 2.1(iv) to the consolidated financial statements.

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

The movements of the Group's liabilities arising from financing activities during the years ended 30 June 2020 and 2019 are as follows.

	Borrowings HK$'000	Dividends payable to shareholders HK$'000	Dividends payable to the original shareholder of the Acquired Group HK$'000	Dividends payable to non-controlling shareholders HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 July 2018	–	–	–	–	–	–
Dividends, as restated	–	105,300	114,636	64	–	220,000
Financing cash flows, as restated	30,000	(105,300)	(54,936)	(64)	–	(130,300)
Settlements through current accounts, as restated	–	–	(59,700)	–	–	(59,700)
At 30 June 2019, as restated	30,000	–	–	–	–	30,000
Effect of adoption of HKFRS 16 (Note 3)	–	–	–	–	78,913	78,913
At 1 July 2019, as restated	30,000	–	–	–	78,913	108,913
Dividends	–	111,150	–	–	–	111,150
New leases	–	–	–	–	18,422	18,422
Interest portion of lease liabilities	–	–	–	–	2,398	2,398
Financing cash flows	432,792	(111,150)	–	–	(34,578)	287,064
Payments for interest portion of lease liabilities	–	–	–	–	(2,398)	(2,398)
Currency translation differences	–	–	–	–	(106)	(106)
Other changes	451	–	–	–	(1,260)	(809)
At 30 June 2020	463,243	–	–	–	61,391	524,634

(d) Exchange differences

The exchange differences of cash and cash equivalents during the year are mainly arising from the remeasurement of the Group's foreign currency denominated cash and bank balances at the year end exchange rate.

(e) Major non-cash transactions

On 16 December 2019, the Company issued HK$140.9 million of convertible preference shares as part of its consideration for the acquisition of the Acquired Group. Details of the transaction are set out in Note 2.1(iv) to the consolidated financial statements.

During the year ended 30 June 2020, the Group acquired right-of-use assets and recognised lease liabilities totalling HK$18.4 million.

During the year ended 30 June 2019, the Group settled an interim dividend of the Acquired Group of HK$59.7 million to its previous shareholder, FMC, through current account with it.

(f) Funds held on behalf of third parties

As at 30 June 2020, the Group held cash and bank balances totalling HK$816.0 million (2019: HK$771.0 million) in trust for owners of certain buildings which were under its management. These funds have not been included in the consolidated financial statements of the Group.

34 COMMITMENTS

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Property, plant and equipment	**501**	2,927

(b) Operating lease commitments

(i) The Group as lessees

The Group has future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
No later than one year	**1,049**	44,612
Later than one year and no later than five years	**–**	41,763
Over five years	**–**	3,072
Total	**1,049**	89,447

(ii) The Group as a lessor

The Group's investment property is leased to a tenant under a long-term operating lease with rentals payable monthly. Minimum lease payments receivable on the lease of the Group's investment property are as follows:

As at 30 June	2020 HK$'000	2019 HK$'000
No later than one year	**2,034**	2,007
Between one and two year	**2,005**	2,034
Between two and three year	**2,005**	2,005
Between three and four year	**2,104**	2,005
Between four and five year	**2,406**	2,104
Later than five years	**4,210**	6,616
Total	**14,764**	16,771

35 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group undertook the following transactions with related parties, which in the opinion of the Directors of the Company, were carried out in the normal course of business during the year ended 30 June 2020.

(a) The Directors of the Company are of the view that the related parties that had transactions with the Group are listed below:

Name	Relationship
Beamland Limited	Note i
Convention Plaza Apartments Limited	Note i
DMI Development Limited	Note i
Fast Solution Limited	Note i
FSE Charity Fund Limited	Note i
FSE Management Company Limited	Note i
General Security (H.K.) Limited	Note i
Great City Developments Limited	Note i
Hong Kong Island Landscape Company Limited	Note i
Kenbase Engineering Limited	Note i
Nova Insurance Consultants Limited	Note i
Nova Risk Services Holdings Limited	Note i
Onglory International Limited	Note i
Perfect Modern Limited	Note i
Power Estate Investments Limited	Note i
Silver Asia Investments Limited	Note i
Success Ocean Limited	Note i
上海新尚賢坊房地產發展有限公司	Note i
上海華美達廣場有限公司	Note i
上海豐昌物業管理有限公司	Note i
ACE Island Limited	Note ii
Anway Ltd	Note ii
AOS Management Ltd	Note ii
ATL Logistics Centre Hong Kong Ltd	Note ii
Atrend Fashion Limited	Note ii
Belstar Limited	Note ii
Bright Link Engineering Limited	Note ii
Bright Moon Company Limited	Note ii
Broadway-Nassau Investments Limited	Note ii
Build King Construction Ltd	Note ii
Calpella Limited	Note ii
Cheer Globe Limited	Note ii
CHI Studio Company Limited	Note ii

35 RELATED PARTY TRANSACTIONS *(Continued)*

(a) The Directors of the Company are of the view that the related parties that had transactions with the Group are listed below: *(Continued)*

Name	Relationship
Chow Tai Fook Enterprises Ltd	Note ii
Chow Tai Fook Jewellery and Watch (Macau) Limited	Note ii
Chow Tai Fook Jewellery Company Limited	Note ii
Chow Tai Fook Jewellery Group Ltd	Note ii
CiF Solution Limited	Note ii
Cititop Limited	Note ii
Citybus Limited	Note ii
Daily Land Limited	Note ii
Diamond International Limited	Note ii
Discovery Park Commercial Services Limited	Note ii
Donut Cafe Company Limited	Note ii
Donut Village Company Limited	Note ii
Earning Yield Limited	Note ii
East Concept Investments Ltd	Note ii
Ever Light Limited	Note ii
Ever Right Limited	Note ii
Gammon — Hip Hing Joint Venture	Note ii
Gentworld Development Limited	Note ii
GH Hotel Company Limited	Note ii
GHK Hospital Limited	Note ii
Global Winner Limited	Note ii
Gold Victory Investments Limited	Note ii
Grand Hyatt Hong Kong	Note ii
Great TST Limited	Note ii
Head Step Ltd T/A Pentahotel HK Kowloon	Note ii
Hip Hing Builders Company Limited	Note ii
Hip Hing Construction Company Limited	Note ii
Hip Hing Engineering Company Limited	Note ii
Hip Hing Joint Venture	Note ii
Hip Hing Joint Venture (VEC)	Note ii
Hip Hing-Chun Wo Joint Venture (GH)	Note ii
Hip Seng Builders Ltd	Note ii
Hip Seng Construction Company Limited	Note ii
Hong Kong Convention and Exhibition Centre (Management) Limited	Note ii
Hong Kong Golf & Tennis Academy Management Co., Ltd.	Note ii
Hong Kong Island Development Ltd	Note ii
Hong Kong Multiple Intelligence Education Company Limited	Note ii
Hyatt Regency Hong Kong	Note ii

35 RELATED PARTY TRANSACTIONS *(Continued)*

(a) The Directors of the Company are of the view that the related parties that had transactions with the Group are listed below: *(Continued)*

Name	Relationship
Joy Century Limited	Note ii
K11 Art Mall Properties Company Limited	Note ii
K11 Artus Limited	Note ii
K11 Concepts Limited	Note ii
K11 Design Store Ltd	Note ii
K11 IP Licence & Creation Company Limited	Note ii
K11 Property Management Company Limited	Note ii
K11 Retail & Corporate Sales Company Limited	Note ii
K11 Select Ltd	Note ii
Kai Tak Sports Park Ltd	Note ii
Keep Harvest Development Limited	Note ii
Kid World Services Limited	Note ii
Kiu Lok Properties Services (China) Limited	Note ii
Long Gain Development Limited	Note ii
Loyalton Limited	Note ii
Lucky Gold Development Limited	Note ii
Luxba Limited	Note ii
Main Choice Development Limited	Note ii
Markson Limited	Note ii
Maronne Limited	Note ii
Marriott Properties (International) Limited	Note ii
Nature Discovery Park Limited	Note ii
New Gain Limited	Note ii
New Town Project Management Ltd	Note ii
New World China Construction Limited	Note ii
New World China Land Limited	Note ii
New World Construction Company Limited	Note ii
New World Department Stores Limited	Note ii
New World Development (China) Limited	Note ii
New World Development Company Limited	Note ii
New World Facilities Management Company Limited	Note ii
New World First Bus Services Limited	Note ii
New World Harbourview Hotel Co Ltd	Note ii
New World Hotel Management Ltd	Note ii
New World Project Management (China) Limited	Note ii
New World Property Management Company Limited	Note ii
New World Strategic Investment Ltd	Note ii
New World TMT Ltd	Note ii

35 RELATED PARTY TRANSACTIONS *(Continued)*

(a) The Directors of the Company are of the view that the related parties that had transactions with the Group are listed below: *(Continued)*

Name	Relationship
New World Tower Company Ltd	Note ii
NW Project Management Limited	Note ii
NWS Holdings Limited	Note ii
Park New Astor Hotel Ltd	Note ii
Paterson Plaza Properties Limited	Note ii
Pentahotel Hong Kong	Note ii
Polytown Company Limited	Note ii
Pride Success Fashion Trading Limited	Note ii
Pridemax Ltd	Note ii
Renaissance Harbour View Hotel HK	Note ii
Rosewood Hotels (HK) Limited	Note ii
Seaworthy Investment Limited	Note ii
Sky Connection Limited	Note ii
Space Enterprises Limited	Note ii
Sunfield Investments Ltd	Note ii
Sunny Goal Limited	Note ii
Techni Development Investment Limited	Note ii
The Automall Ltd	Note ii
The Dynasty Club Ltd	Note ii
Treasure Tower Holdings Limited	Note ii
Ultimate Vantage Limited	Note ii
Urban Parking Limited	Note ii
Vibro (H.K.) Ltd	Note ii
Vibro Construction Company Limited	Note ii
Victoria Educational Organisation Limited	Note ii
Wealth Master Corporation Limited	Note ii
Win Win Way Construction Co., Ltd	Note ii
Wise City Investment Limited	Note ii
上海三聯物業發展有限公司	Note ii
北京京廣中心有限公司	Note ii
北京新世界物業管理有限公司	Note ii
北京崇文 • 新世界房地產發展有限公司	Note ii
周大福創地置業（武漢）有限公司	Note ii
大連僑樂物業服務有限公司	Note ii
大連新世界大廈有限公司	Note ii
天津新世界環渤海房地產開發有限公司	Note ii
天津新世界百貨有限公司	Note ii
寧波公泰置業有限公司	Note ii

35 RELATED PARTY TRANSACTIONS *(Continued)*

(a) The Directors of the Company are of the view that the related parties that had transactions with the Group are listed below: *(Continued)*

Name	Relationship
寧波新立房地產開發有限公司	Note ii
廊坊新世界房地產開發有限公司	Note ii
廣州市新御運營管理有限公司	Note ii
廣州新世界地產策劃有限公司	Note ii
廣州永沛房地產開發有限公司	Note ii
新世界(中國)地產投資有限公司	Note ii
新世界(瀋陽)房地產開發有限公司	Note ii
新世界(瀋陽)房地產開發第五有限公司	Note ii
新世界協中建築有限公司	Note ii
新世界嘉業(武漢)有限公司	Note ii
新世界房地產發展有限公司	Note ii
新世界發展(武漢)有限公司	Note ii
深圳天得房地產開發有限公司	Note ii
深圳拓勁房地產開發有限公司	Note ii
清遠新世界旅遊發展有限公司	Note ii
湖南成功新世紀投資有限公司	Note ii
湖南梓山湖置業有限公司	Note ii
鄭州新世界百貨有限公司	Note ii

Notes:

(i) These companies are commonly controlled by the Ultimate Controlling Shareholder.

(ii) These related companies include companies of which the key management personnel are close member of the family of the Ultimate Controlling Shareholder.

35 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related companies during the year ended 30 June 2020.

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Contract revenue (Note i)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	1,430	5,721
Other related companies (Note ii)	1,191,697	1,780,826
Total	**1,193,127**	1,786,547
Facility service income (Note i)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	171	1,970
Other related companies (Note ii)	139,624	160,260
Total	**139,795**	162,230
Premises management service fee and building manager remuneration (Note iii)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	898	1,087
Other related companies (Note ii)	17,855	20,178
Total	**18,753**	21,265
Handling fee income from a related company commonly controlled by the Ultimate Controlling Shareholder (Note iv)	40	41
Project management fee from a related company commonly controlled by the Ultimate Controlling Shareholder (Note v)	–	862
Insurance broking service expenses to related companies commonly controlled by the Ultimate Controlling Shareholder (Note vi)	20,451	25,509
Rental expenses/addition of rights-of-use assets (Note vii)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	119	25,883
Other related companies (Note ii)	3,063	1,668
Total	**3,182**	27,551
Management fee expenses to a related company commonly controlled by the Ultimate Controlling Shareholder (Note viii)	–	9,500
Appointment fees to related companies (Note ix)	2,512	2,396
Disposal of properties to a related company commonly controlled by the Ultimate Controlling Shareholder (Note x)	–	1,500
Donation to a related company commonly controlled by the Ultimate Controlling Shareholder (Note xi)	–	125
Security service expenses to a related company commonly controlled by the Ultimate Controlling Shareholder (Note xii)	2,943	3,195
Miscellaneous service fees expenses (Note xiii)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	139	75
Other related companies (Note ii)	128	1,203
Total	**267**	1,278

35 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

Notes:

(i) Revenue from provision of contracting work and facility service income is principally charged in accordance with respective contracts.

(ii) These related companies are companies of which the key management personnel are close members of the family of the ultimate controlling shareholder (Mr. Doo Wai Hoi, William).

(iii) Premises management service fee and building manager remuneration was charged based on certain percentages of total expenditures of the properties in accordance with the management contracts.

(iv) Handling fee income was charged at a rate mutually agreed between the parties.

(v) Project management fee was charged at prices and terms as agreed by both parties.

(vi) Insurance broking service expenses were principally charged in accordance with respective insurance policies.

(vii) Rental expenses/additions of rights-of-use assets were principally calculated in accordance with the terms of the respective rental agreements.

(viii) Management fee expenses were charged at prices and terms as agreed by both parties involved.

(ix) Appointment fees were charged at prices and terms as agreed by both parties.

(x) Disposal of properties is at consideration mutually agreed between the parties.

(xi) Donation expenses were made on a voluntary basis.

(xii) Security service expenses were charged at prices and terms as agreed by both parties.

(xiii) Miscellaneous service fees were charged based on fixed amounts mutually agreed by the parties.

(xiv) The above transactions with related parties are based upon mutually agreed terms and conditions.

35 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

As at 30 June	2020 HK$'000	2019 (restated) HK$'000
Trade receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	20	451
Other related companies (Note i)	98,124	77,366
Total	98,144	77,817
Other receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	88	12,178
Other related companies (Note i)	8,380	12,596
Total	8,468	24,774
Contract assets due from related companies (Note i)	147,138	77,502
Contract liabilities due to related companies (Note i)	113,440	51,402
Retention receivables due from related companies (Note i)	193,991	205,697
Trade payables due to related companies commonly controlled by the Ultimate Controlling Shareholder	492	334
Other payables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	534	24,326
Other related companies (Note i)	6,390	3,403
Total	6,924	27,729
Lease liabilities		
Related companies commonly controlled by the Ultimate Controlling Shareholder	36,405	–
Other related companies (Note i)	1,482	–
Total	37,887	–

Note:

(i) These related companies are companies of which the key management personnel are close members of the family of the ultimate controlling shareholder (Mr. Doo Wai Hoi, William).

35 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

Key management includes directors and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

For the year ended 30 June	2020 HK$'000	2019 (restated) HK$'000
Fees	**1,554**	1,498
Salaries and other emoluments	**37,087**	46,241
Contributions to defined contribution schemes	**1,896**	2,333
Total	**40,537**	50,072

The emoluments to directors and members of the senior management of the Group fell within the following bands:

For the year ended 30 June	2020 Number of individuals	2019 (restated) Number of individuals
Emolument bands		
Nil – HK$1,000,000	**8**	8
HK$1,000,001 – HK$1,500,000	**–**	5
HK$1,500,001 – HK$2,000,000	**2**	5
HK$2,000,001 – HK$2,500,000	**4**	5
HK$2,500,001 – HK$3,000,000	**4**	2
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**–**	–
HK$4,000,001 – HK$4,500,000	**1**	1
HK$4,500,001 – HK$5,000,000	**1**	1
HK$5,000,001 – HK$5,500,000	**1**	–
HK$5,500,001 – HK$6,000,000	**–**	–
HK$6,000,001 – HK$6,500,000	**–**	–
HK$6,500,001 – HK$7,000,000	**–**	–
HK$7,000,001 – HK$7,500,000	**–**	1
Total	**21**	28

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

As at 30 June	2020 HK$'000	2019 HK$'000
ASSETS		
Non-current asset		
Subsidiaries	**501,697**	501,697
Current assets		
Trade and other receivables	**273**	268
Amounts due from subsidiaries	**1,218,148**	1,069,629
Cash and bank balances	**3,333**	950
	1,221,754	1,070,847
Total assets	**1,723,451**	1,572,544
EQUITY		
Ordinary shares	**45,000**	45,000
Convertible preference shares	**140,900**	–
Reserves (Note (a))	**292,859**	421,744
Total equity	**478,759**	466,744
LIABILITIES		
Current liabilities		
Trade and other payables	**6,606**	2,552
Amounts due to subsidiaries	**1,238,086**	1,103,248
Total liabilities	**1,244,692**	1,105,800
Total equity and liabilities	**1,723,451**	1,572,544
Net current liabilities	**(22,938)**	(34,953)
Total assets less current liabilities	**478,759**	466,744

The statement of financial position of the Company was approved by the Board of Directors on 25 September 2020 and was signed on its behalf.

Lam Wai Hon, Patrick
Director

Poon Lock Kee, Rocky
Director

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note (a) Reserve movement of the Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2018	743,204	(211,875)	531,329
Loss for the year	–	(4,285)	(4,285)
Dividends	–	(105,300)	(105,300)
At 30 June 2019	743,204	(321,460)	421,744
At 1 July 2019	**743,204**	**(321,460)**	**421,744**
Loss for the year	**–**	**(17,735)**	**(17,735)**
Dividends	**–**	**(111,150)**	**(111,150)**
At 30 June 2020	**743,204**	**(450,345)**	**292,859**

37 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries as at 30 June 2020:

Company name	Place of incorporation or establishment/ place of operation	Registered/ issued and paid-up capital	Attributable equity interest of the Group As at 30 June 2020	2019	Principal activities
Directly-owned subsidiaries:					
Building Material Supplies Limited	British Virgin Islands	100,000 shares of HK$1 each paid up to HK$1	100	100	Investment holding
FSE Engineering Group Limited	British Virgin Islands/ Hong Kong	50,000,000 shares of HK$1 each paid up to HK$50,000,000	100	100	Investment holding
FSE Environmental Technologies Limited	British Virgin Islands	50,000 shares of US$1 each paid up to US$1	100	100	Investment holding
FSE Facility Services Group Limited	British Virgin Islands	50,000 shares of US$1 each paid up to US$1	100	100	Investment holding
FSE Property Management Group Limited	British Virgin Islands	50,000 shares of US$1 each paid up to US$1	100	–	Investment holding
Lucky Bridge Investments Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 paid up to US$1	100	100	Investment in trading securities

37 PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or establishment/ place of operation	Registered/ issued and paid-up capital	Attributable equity interest of the Group As at 30 June 2020	2019	Principal activities
Indirectly owned subsidiaries:					
Bright Team Enterprises Limited	Hong Kong	1 ordinary share paid up to HK$1	100	100	Provision of transportation services to fellow subsidiaries
Companion Building Material Supplies (H.K.) Limited	Hong Kong	100 ordinary shares paid up to HK$100	100	100	Trading of ceramic tiles and building materials and provision of maintenance and fitting out services
Crystal Brilliant Limited	British Virgin Islands	50,000 shares of US$1 each paid up to US$1	100	100	Investment holding
Espora Company Limited	Hong Kong	2 ordinary shares paid up to HK$2	100	–	Provision of property management services
Environmental Pioneers & Solutions Limited	Hong Kong	1,000 ordinary shares paid up to HK$100,000	100	100	Trading of environmental products and the provision of related engineering and consultancy services
Extensive Trading Company Limited	Hong Kong	8,500,000 ordinary shares and 1,500,000 non-voting deferred shares paid up to HK$10,100,000	100	100	Trading of equipment and materials
EPS Environmental Technologies (Macao) Limited	Macau	MOP25,000	100	100	Trading of environmental products and the provision of related engineering and consultancy services
Far East Engineering Services Limited	Hong Kong	766,714 ordinary shares and 233,288 non-voting deferred shares paid up to HK$10,000,020	100	100	Mechanical and electrical engineering, trading and project management consultancy
Far East Technical Services (Macao) Limited	Macau	MOP25,000	100	100	Mechanical and electrical engineering
FSE Environmental Laboratory Services Limited	Hong Kong	10,000 ordinary shares paid up to HK$10,000	100	100	Provision of testing and calibration services

37 PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or establishment/ place of operation	Registered/ issued and paid-up capital	Attributable equity interest of the Group As at 30 June 2020	2019	Principal activities
FSE Facility Management Limited	Hong Kong	2 ordinary shares paid up to HK$2	100	–	Provision of referral services to a fellow subsidiary engaged in insurance brokerage business
i-Urban Limited	Hong Kong	2 ordinary shares paid up to HK$2	100	–	Inactive
International Property Management Limited	Hong Kong	450,000 ordinary shares and 95,500 non-voting deferred shares[1] paid up to HK$545,500	99	–	Investment holding and provision of property management services for buildings
Joneson Environmental Technologies Limited	Hong Kong	535,000 ordinary shares and 35,000 non-voting deferred shares paid up to HK$570,000	100	100	Trading, building maintenance, chemical engineering
Kleaners Limited	Hong Kong	5,000,000 ordinary shares paid up to HK$5,000,000	100	100	Laundry services
Kiu Lok International Realty Limited	Hong Kong	2 ordinary shares paid up to HK$2	100	–	Provision of property agency and related services for buildings in Hong Kong
Kiu Lok Service Management Company Limited	Hong Kong	2 ordinary shares and 1,002 non-voting deferred shares[1] paid up to HK$1,004	100	–	Provision of property management, property agency and related services for buildings in Hong Kong
KL Property Management Limited	Hong Kong	1 ordinary share paid up to HK$1	100	–	Provision of property management and related services for buildings in Hong Kong
KLPS Group Limited	Hong Kong	20,000,000 ordinary shares paid up to HK$20,000,000	100	–	Investment holding
KOHO Facility Management Limited	Hong Kong	1 ordinary share paid up to HK$1	100	–	Provision of property management services for buildings

37 PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or establishment/ place of operation	Registered/ issued and paid-up capital	Attributable equity interest of the Group As at 30 June 2020	2019	Principal activities
Legend Success Investments Limited	British Virgin Islands	50,000 shares of US$1 each paid up to US$1	100	–	Investment holding
Majestic Engineering Company Limited	Hong Kong	30,000 ordinary shares paid up to HK$30,000,000	100	100	Mechanical and electrical engineering
Majestic Engineering (Macao) Company Limited	Macau	MOP25,000	100	100	Mechanical and electrical engineering
Majestic Plumbing Engineers Limited	Hong Kong	2,000,000 ordinary shares paid up to HK$2,000,000	100	100	Plumbing engineering services
New China Laundry Limited	Hong Kong	40,000,002 ordinary shares and 704,000 non-voting deferred shares paid up to HK$40,704,002	100	100	Laundry services
New China Steam Laundry Limited	British Virgin Islands	100,000 shares of HK$1 each paid up to HK$1	100	100	Investment holding
Ocean Front Investments Limited	Hong Kong	1 share paid up to HK$1	100	100	Property holding
Paramatta Estate Management Limited	Hong Kong	10,000 ordinary shares paid up to HK$10,000	100	–	Estate Manager of City One, Shatin
Park Vale (Management) Limited	Hong Kong	2 ordinary shares paid up to HK$2	100	–	Provision of property management services for buildings
Smart and Safe Fleet Management Limited	Hong Kong	1 ordinary share paid up to HK$1	100	100	Provision of fleet management services in Hong Kong
Sunningdale (Management) Limited	Hong Kong	2 ordinary shares paid up to HK$2	100	–	Provision of property management services for buildings
Turning Technical Services Limited	Hong Kong	200,000 ordinary shares paid up to HK$200,000	99	–	Provision of cleaning, repairs and maintenance services for properties
Urban Management Services Limited	Hong Kong	10,000 ordinary shares paid up to HK$10,000	100	–	Provision of property management services

37 PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or establishment/ place of operation	Registered/ issued and paid-up capital	Attributable equity interest of the Group As at 30 June 2020	2019	Principal activities
Urban Property Management Limited	Hong Kong	49,995,498 ordinary shares and 4,502 non-voting deferred shares[1] paid up to HK$50,000,000	100	–	Provision of property management services for buildings and investment holding
Urban Technical Services Limited	Hong Kong	2 ordinary shares paid up to HK$2	100	–	Provision of repairs and maintenance services
Trident Engineering Company Limited	Hong Kong	34,400,000 ordinary shares and 15,600,000 non-voting deferred shares paid up to HK$50,000,000	100	100	Provision of mechanical and electrical engineering services
Waihong Cleaning Limited	British Virgin Islands	100,000 shares of HK$1 each paid up to HK$1	100	100	Investment holding
Waihong Environmental Services Limited	Hong Kong	400,000 ordinary shares paid up to HK$40,000,000	100	100	Provision and management of cleaning and waste disposal services and provision of recycling and environmental disposal services
Waihong Integrated Green Services Limited	Hong Kong	400,000 ordinary shares paid up to HK$400,000	100	100	Provision of pest control services
Waihong Medicare Services Limited	Hong Kong	1 ordinary share paid up to HK$1	100	100	Provision of cleaning services in hospitals
Yau Fai Building Supplies (Macao) Limited	Macau	MOP25,000	100	100	Trading and supply of building materials
Young's Engineering Company Limited	Hong Kong	4,000,000 ordinary shares paid up to HK$40,000,000	100	100	Mechanical and electrical engineering
Young's Engineering (Macao) Company Limited	Macau	MOP100,000	100	100	Mechanical and electrical engineering

37 PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or establishment/ place of operation	Registered/ issued and paid-up capital	Attributable equity interest of the Group As at 30 June 2020	2019	Principal activities
豐盛機電工程有限公司[2]	Mainland China	RMB50,000,000	100	100	Mechanical and electrical engineering
北京遠東景福機電設備維修有限公司[2]	Mainland China	US$150,000	100	100	Mechanical, electrical engineering and maintenance
景福機電安裝工程(上海)有限公司[2]	Mainland China	RMB15,000,000	100	100	Mechanical and electrical engineering

Notes:

(1) The non-voting deferred shares do not carry any voting rights and are not entitled to any profits distribution by the subsidiary. On a return of assets on winding up or otherwise, the assets of the subsidiary to be returned shall be distributed firstly in paying HK$1 billion per share to the holders of the ordinary shares and secondly in repaying to the holders of non-voting deferred shares the nominal amount paid up or credited as paid upon such shares. The balance of the assets of the subsidiary shall be distributed among the holders of the ordinary shares.

(2) These subsidiaries are limited liability companies incorporated in Mainland China.

38 COMPARATIVE AMOUNTS

As explained in Notes 2.1(iv) and 6 to the consolidated financial statements, due to the Group's application of merger accounting for business combinations under common control and change in operating segments determined by the Group's CODM during the year ended 30 June 2020, certain comparative amounts have been restated to conform with the current year's accounting treatments and presentation.