Management Discussion and Analysis

BUSINESS REVIEW

In FY2021, the Group recorded revenue amounting to HK$6,452.7 million, representing an increase of HK$796.6 million or 14.1%, as compared with HK$5,656.1 million (restated) in FY2020. Profit attributable to shareholders for the year was HK$586.9 million, representing an increase of HK$174.7 million or 42.4% as compared with HK$412.2 million (restated) in FY2020, mainly resulted from (i) an increase in new contracts awarded in facility/property management, and ad-hoc cleaning and disinfection projects following the outbreak of COVID-19; and (ii) the receipt of subsidies under the Employment Support Scheme (the "ESS Scheme") of the Hong Kong SAR Government; which are offset by (i) the loss recognised by the Group during the year in relation to its disposal of laundry business, (ii) an increase in staff costs and (iii) a decrease in gross profit from the Group's E&M services segment, mostly due to the additional income from completed E&M installation projects in Hong Kong and Macau in the prior year which are not repeated in the Year. Details of the subsidies recognised by the Group are set out in Note 8 to the consolidated financial statements. The expanded business scale after the completion of the Group's acquisition of security guarding & event services, insurance solutions and landscaping services businesses provides a broader and more diversified revenue stream and enhanced profit source to the Group.

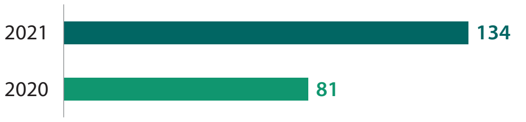
Property & Facility Management Services

Number of staff
Over
5,600

Service contracts
Over
300

Revenue*
HK$'million

Profit
HK$'million



Remaining Works
HK$'million

* Segment revenue does not include inter-segment revenue.

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

Urban and Kiu Lok are experts in six core property and facility management pillars: (i) residential property assets management; (ii) facilities management and operations, including both public and private sectors; (iii) commercial, retail and industrial premises operations; (iv) project management;

(v) leasing and tenancy management and (vi) car park operations and management. Their property asset and facility services cover all kinds of property and facility assets including government offices and quarters, academic campus and educational institutes, service apartments, Grade A intelligent buildings and commercial complexes, modern industrial premises, composite residential developments to regional car parks and various kinds of public and private facility assets.

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

On 30 June 2021, the Group expanded its property and facility management services business portfolio through the acquisition of the entire issued capital of Kiu Lok Properties (International) Limited (formerly known as Marriott Properties (International) Limited) ("Kiu Lok Properties") by its 70%-owned subsidiary, Wise Plaza Limited, at a total cash consideration of HK$74.9 million. Such consideration is 70% financed by the Group's internal resources, which amounts to HK$52.4 million, and 30% financed by equity contributions from Wise Plaza Limited's 30% shareholder, which amounts to HK$22.5 million. Kiu Lok Properties principally engages in the provision of property agency and management, and housekeeping services in Hong Kong.

During FY2021, Urban and Kiu Lok submitted tenders for 20 service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total tender sum of HK$409 million and was awarded 27 service contracts (with a net contract sum equal to or exceeding HK$1 million for each service contract) with a total contract sum of HK$273 million, including previously submitted tenders. Among these 27 service contracts, 3 of them were major service contracts (with net contract sum equal to or more than HK$20 million) for 2 carparks of shopping malls and a residential estate in Tuen Mun.

As at 30 June 2021, the property & facility management services segment has a total gross value of contract sum of HK$2,050 million with total outstanding contract sums of HK$1,446 million.

FSE Lifestyle has been introducing modern technologies and innovative thinking into its property and facility management services, striving to become the market leader in the industry.

Cassie Chan
Assistant Property Asset Officer

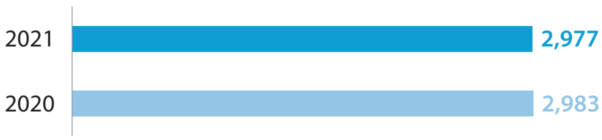
City Essential Services

Number of staff
Over
11,500

Service contracts
Over
8,200

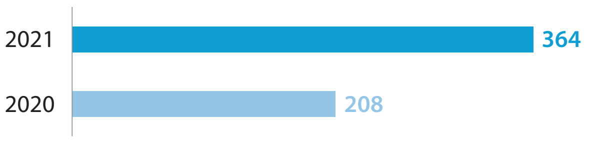
Revenue*

HK$'million



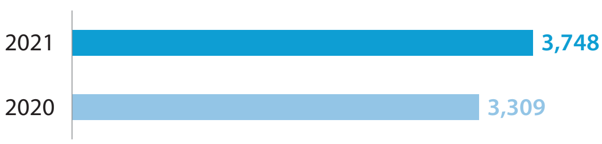
Profit

HK$'million



Remaining Works

HK$'million



* Segment revenue does not include inter-segment revenue.

Cleaning Services

The Group's cleaning services business, Waihong, encompasses a wide range of private buildings and public facilities in every corner of Hong Kong, which includes office towers, shopping malls, hotels, university campuses, international schools, tourism facilities, government properties, public utilities, convention and exhibition centres, railway stations, airport terminal building, hospitals, industrial buildings and residential properties. It is mainly engaged in providing specialist cleaning services including general cleaning, initial cleaning, housekeeping, recycling, marble and granite floor maintenance, food and solid waste collection, clinical and construction waste disposal, clinic support, sterilisation and integrated pest management services.

Facing with the downturn of economy in Hong Kong, the specialist cleaning services industry is full of challenges and opportunities. During FY2021, Waihong has seized the opportunity to successfully enter the government market segment through acquiring several service contracts from different government departments. Such breakthrough led Waihong to increase its revenue share ratio for the government sector from 5% to 9% for FY2021. Moreover, with the benefit from tremendous amount of sterilisation service orders, Waihong gained considerable revenue and profit during the outbreak period of COVID-19. As always, Waihong has successfully secured numbers of new service contracts and attain a high renewal rate for its existing contracts over the past financial year. Waihong will extend its business strategies to broaden its service portfolio in the private and public sectors to sustain its market competitiveness.

During FY2021, Waihong submitted tenders for 579 cleaning service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total tender sum of HK$5,352 million and was awarded 126 new service contracts (with a net contract sum equal to or exceeding HK$1 million for each service contract) with a total contract sum of HK$1,096 million. Among these 126 service contracts, 15 of them were major service contracts (with net contract sum equal to or more than HK$20 million for each service contract), which include 3 universities' campuses and training centres in Kowloon and Hong Kong, 3 residential estates in Sha Tin, Fo Tan and the Island East District, 2 shopping malls in Shatin and Kowloon Bay, 2 government department head offices, a sports wellness facility in Sai Kung, an exhibition centre in Wan Chai, a hospital in the North District, a museum in Tsim Sha Tsui and a commercial complex building in Sheung Wan.

Technical Support & Maintenance Services

The Group's technical support & maintenance services business covers renovation projects for replacement of chiller units, upgrade of electrical supply systems, modification and enhancement of fire services and plumbing and drainage systems, system maintenance and repairing works, testing and commissioning, periodic inspection, testing and certification of electrical installation works, consultancy, and heat, air ventilation, and cooling central plant room routine operation and maintenance services in Hong Kong, Mainland China and Macau.

During FY2021, the Group submitted tenders for 348 maintenance service contracts (with a contract sum equal to or exceeding HK$1 million for each contract, if awarded) with a total tender sum of HK$2,860 million and was awarded 118 projects (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$583 million.

Security Guarding & Event Services

The Group's security guarding & event services business comprises General Security and Perfect Event Services Limited ("Perfect Event"). General Security serves a broad range of clients of residential properties (including estates, service apartments and luxury detached houses), office towers, shopping malls and buildings, private clubs, construction sites, horse racing facilities, event and exhibition venues. Perfect Event's main clients are property developers and provides services for their property sales events.

General Security holds all three types of licences required for operating as a security company in Hong Kong, including Type I Licence for provision of security guarding services, Type II Licence for providing armoured transportation services and Type III Licence for installation, maintenance and/or repairing of a security device and/or designing a security system incorporating a security device.

Perfect Event provides comprehensive one-stop support services for event activities covering service design and planning, provision of customer service ambassadors and concierge services, security guarding and system, alarm installation and maintenance, cleaning, insurance brokerage, electrical and mechanical supporting, landscaping and IT services.

During FY2021, General Security and Perfect Event submitted tenders for 100 security guarding and event services contracts, including 40 renewal and 60 new contracts (with a contract sum equal to or exceeding HK$1 million for each contract, if awarded) with a total tender sum of HK$1,754 million and was awarded 49 service contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total contract sum of HK$531 million. Among these 49 service contracts, 7 of them were major service contracts (with net contract sum equal to or more than HK$20 million for each service contract), which included 6 residential estates in Kowloon Station, Shatin, Fo Tan, Pokfulam and Tin Hau and a shopping centre in Tseung Kwan O.

Insurance Solutions

The Group's insurance solutions business, Nova, comprising Nova Insurance Consultants Limited and International Reinsurance Management Limited, which both holds an Insurance Broker Company License granted by the Insurance Authority. Nova Insurance Consultants Limited is also a registered Mandatory Provident Fund ("MPF") Intermediary under the Mandatory Provident Fund Schemes Authority. With a highly professional team of brokers and specialists, Nova serves many clients who are leaders within their respective industries including international hotel chains, listed companies, property developers, public transportation companies, manufactories, trading companies, telecommunication companies and non-governmental organisations.

During FY2021, Nova got many new clients including a hotel chain with properties in 20 countries, a property development in Southeast Asia, international contractors, listed companies, schools and non-governmental organisations. Nova also has good growth in areas like yacht insurance, facultative reinsurance for overseas property insurance programme. Nova received more enquiries on financial lines products such as directors and officers liability insurance, professional indemnity insurance and cyber insurance. Construction insurance is an important segment for Nova which continued to grow steadily. Nova's client retention ratio has always been over 90% which ensures it a stable income. Because of COVID-19, people tend not to visit doctors or having operations unless for emergency situation. Hence, the renewal premium for group medical insurance tend to decrease. Nevertheless, this impact is offset by Nova's growth in new businesses.

During FY2021, Nova submitted tenders for 13 service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total tender sum of HK$23 million and was awarded service contracts with a total value of HK$12 million.

Environmental Solutions

The Group's environmental solutions business (i) provides environmental assessment and energy efficient solutions to assist its customers in achieving their environmental protection and energy conservation objectives and landscape design and maintenance services to a diversified business portfolio and (ii) engaged in the trading of retail sales of wall and floor tiles, E&M engineering equipment and materials and other building materials.

During FY2021, the Group submitted tenders for 45 environmental and landscape service contracts (with a contract sum equal to or exceeding HK$1 million for each contract, if awarded) with a total tender sum of HK$157 million and was awarded 17 service contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total contract sum of HK$41 million. In addition, the Group submitted 166 quotations for building material trading (with a quotation sum equal to or exceeding HK$1 million for each quotation, if accepted) with a total quotation sum of HK$924 million and was accepted 9 orders (with a sum equal to or exceeding HK$1 million for each order) with a total sum of HK$28 million.

Laundry Services

New China Laundry Group ("NCL") provides laundry and dry cleaning services in Hong Kong. Its clientele covers hotels, service apartments, clubhouses, an international theme park and major airlines.

During the period from July 2020 to December 2020, NCL submitted tenders for 3 service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total tender sum of HK$16 million and was awarded 1 new service contract with a total contract sum of HK$3 million.

Since the outbreak of COVID-19, NCL's business has been adversely affected. The hard hit retail, tourism and hospitality industries have impacted its turnovers. As it offers laundry, dry cleaning and linen management services to corporate customers including major high-end hotels, restaurant chains and theme parks, its business is impacted by the plummeted tourist arrivals and low hotel room occupancy rates. The unprecedented economic contraction, particularly the total shutdown of tourism and hospitality industries, has resulted in an overwhelming drop in the volume of NCL's laundry service. The prospect of NCL is far from being optimistic in the near future, in particular, in view of the continued adverse impact of the COVID-19 outbreak on the general economy of Hong Kong. Moreover, substantial amount of capital injection from the Group would be required for NCL's capital expenses in the coming years.

In view of the above, the Group disposed of NCL at a consideration of HK$4.0 million on 31 December 2020. The disposal provides the Group with a good opportunity to dispose of its loss-making operation and to redeploy its resources to other profitable business divisions. All employees of NCL had been laid off prior to completion. Nevertheless, the Group offered employment opportunities within its other members to the affected NCL employees.

As at 30 June 2021, the city essential services segment has a total gross value of contract sum of HK$6,203 million with a total outstanding contract sum of HK$3,748 million.

FSE's City Essential Services emphasises on fully integrated solutions, enabling our clients to enjoy innovative, passionate and customised services.

Cheng Kam Chuen
Acting Security Manager

E&M Services

Number of staff
Over
1,200

Service contracts
Over
100

Revenue*

HK$'million

Profit

HK$'million

Remaining Works

HK$'million

* Segment revenue does not include inter-segment revenue.

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

In addition, the Group is committed to creating a greener society. To help build a sustainable environment, it has been constantly optimising design and exploring innovative methods. At the project level, the Group incorporates the application of green building principles into building services equipment; and adopts green building design, Modular Integrated Construction (MiC), Multi-trade Integrated Mechanical, Electrical and Plumbing (MiMEP), Design for Manufacture and Assembly (DfMA) to reduce energy usage, carbon footprint and construction waste. In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as Building Information Modelling (BIM), Digital Works Supervision System (DWSS), modularisation and prefabrication, Robotic Total Solution (RTS) and Sky Drilling Machine (SDM), 3D laser scanning and mobile Apps solutions etc.

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

As at 30 June 2021, the Group's E&M projects encompassed a wide range of buildings and facilities, including government buildings and facilities, offices, shopping malls, hotels, integrated resorts, sports park, residential properties, hospitals and airport facilities.

During FY2021, the Group submitted tenders for 202 E&M projects (with a contract sum equal to or exceeding HK$1 million for each project, if awarded) with a total tender sum of HK$24,827 million and was awarded 28 contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$1,723 million. Among these contracts, 6 of them are major projects (with net contract sum equal to or exceeding HK$100 million for each project), which include a public housing development in Tai Po, 11 SKIES commercial development in Chek Lap Kok, a private residential development in Kai Tak, Chow Tai Fook Finance Tower in Shenzhen Qianhai, a complex development in Guangzhou Zengcheng and the redevelopment of Ramada Square in Shanghai.

As at 30 June 2021, the E&M services segment has a total gross value of contract sum of HK$8,719 million with a total outstanding contract sum of HK$5,474 million.

The E & M teams under FSE Lifestyle are serving our clients with professionalism and passion, aiming to contribute to a safe and comfortable living environment for the people of Hong Kong.

Gary Tang
Assistant Service Manager

FINANCIAL REVIEW

Revenue

In FY2021, the Group's revenue increased by HK$796.6 million or 14.1% to HK$6,452.7 million from HK$5,656.1 million (restated) in FY2020, reflecting higher revenue from the E&M services segment and property & facility management services segment amounting to HK$691.5 million and HK$111.4 million respectively, partly offset by lower revenue from the city essential services segment amounting to HK$6.3 million.

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

	For the year ended 30 June			
	2021 HK$'M	**% of Total revenue**	2020 (restated) HK$'M	% of Total revenue
Property & facility management services*	**658.2**	**10.2%**	546.8	9.7%
City essential services*	**2,976.8**	**46.1%**	2,983.1	52.7%
E&M services*	**2,817.7**	**43.7%**	2,126.2	37.6%
Total	**6,452.7**	**100.0%**	5,656.1	100.0%

* Segment revenue does not include inter-segment revenue.

	For the year ended 30 June			
	2021 HK$'M	2020 (restated) HK$'M	Change HK$'M	% Change
Hong Kong	**5,780.7**	4,943.3	837.4	16.9%
Mainland China	**436.3**	382.3	54.0	14.1%
Macau	**235.7**	330.5	(94.8)	(28.7%)
Total	**6,452.7**	5,656.1	796.6	14.1%

- *Property & facility management services*: This segment, which presently principally provides services in Hong Kong, contributed 10.2% (2020: 9.7% (restated)) of the Group's total revenue.

  Segment revenue grew by 20.4% or HK$111.4 million to HK$658.2 million from HK$546.8 million (restated). Such growth was mainly driven by newly awarded property management contracts for government buildings in the New Territories and car parks of shopping malls and pandemic-induced additional works.

- *City essential services*: This segment contributed 46.1% (2020: 52.7% (restated)) of the Group's total revenue. Segment revenue of HK$2,976.8 million (2020: HK$2,983.1 million (restated)) comprises provision of cleaning services of HK$1,262.6 million (2020: HK$1,126.9 million), technical support & maintenance services of HK$783.6 million (2020: HK$850.5 million (restated)), security guarding & event services of HK$660.1 million (2020: HK$661.9 million (restated)), insurance solutions of HK$85.9 million (2020: HK$86.2 million (restated)), environmental solutions of HK$155.5 million (2020: HK$155.5 million (restated)) and laundry services of HK$29.1 million (2020: HK$102.1 million). Such revenue reflected a decrease in revenue contribution from Macau amounting to HK$87.6 million, partly mitigated by an increase in revenue contributions from Hong Kong and Mainland China of HK$80.0 million and HK$1.3 million respectively.

The total revenue for this segment in the Year was stable compared with last year and reflected (i) a number of new general cleaning service contracts, which encompassed a wide range of buildings and facilities, including shopping malls, government buildings, residential and commercial properties and an exhibition centre and (ii) additional ad-hoc intensive disinfection cleaning contracts following the outbreak of COVID-19, partly offset by (i) a reduction in revenue from the laundry business resulted from the plummeting tourist arrivals and lower hotel room occupancy rates following the outbreak of COVID-19, coupled with the Group's disposal of this business in December 2020, and (ii) a lower revenue contribution from this segment's technical support and maintenance services following the substantial progress of renovation works for the Four Seasons Service Apartment project in Macau last year.

- *E&M services*: This segment contributed 43.7% (2020: 37.6% (restated)) of the Group's total revenue. Segment revenue increased by 32.5% or HK$691.5 million to HK$2,817.7 million from HK$2,126.2 million (restated) and reflected an increase in revenue contribution from Hong Kong and Mainland China by HK$646.0 million and HK$52.7 million respectively, partly offset by a reduction in revenue contribution from Macau amounting to HK$7.2 million.

  The increased revenue contribution from Hong Kong and Mainland China reflected a number of E&M engineering installation projects, including 11 SKIES in Chek Lap Kok, District Cooling System at Kai Tak Development Phase III and Inland Revenue Tower in Kai Tak in Hong Kong and Qianhai Chow Tai Fook Finance Tower in Mainland China, which had substantial progress this year, partly offset by lower revenue contribution from several residential developments at LOHAS Park in Hong Kong and Tianjin Chow Tai Fook Financial Centre in Mainland China which had substantial progress last year. It should be noted that, under contract terms, only the management fees and reimbursable costs are reflected in the revenue of the Kai Tak Sports Park project.

Gross profit

The following tables present the breakdown of the Group's gross profit by business segment:

	For the year ended 30 June			
	2021		2020 (restated)	
	Gross profit HK$'M	% of total gross profit	Gross profit HK$'M	% of total gross profit
Property & facility management services	242.9	21.4%	178.1	18.9%
City essential services	623.2	54.9%	455.1	48.3%
E&M services	269.0	23.7%	309.6	32.8%
Total	1,135.1	100.0%	942.8	100.0%

	For the year ended 30 June			
	2021		2020 (restated)	
	Gross profit HK$'M	Gross profit Margin %	Gross profit HK$'M	Gross profit Margin %
Property & facility management services	242.9	36.9	178.1	32.6
City essential services	623.2	20.9	455.1	15.3
E&M services	269.0	9.5	309.6	14.6
Total	1,135.1	17.6	942.8	16.7

In FY2021, the Group's property & facility management services segment, city essential services segment and E&M services segment contributed 21.4% (2020: 18.9% (restated)), 54.9% (2020: 48.3% (restated)) and 23.7% (2020: 32.8% (restated)) of its gross profit respectively. The Group's gross profit increased by HK$192.3 million or 20.4% to HK$1,135.1 million from HK$942.8 million (restated) in FY2020, with an overall gross profit margin increased to 17.6% from 16.7% (restated).

The property & facility management services segment recorded an increase in its gross profit of HK$64.8 million to HK$242.9 million from HK$178.1 million (restated), with its gross profit margin increased to 36.9% from 32.6% (restated), reflected an increase in new contracts awarded in facility/property management and the receipt of COVID-19 related government grants.

The city essential services segment recorded a growth in its gross profit of HK$168.1 million to HK$623.2 million from HK$455.1 million (restated), with its gross profit margin increased to 20.9% from 15.3% (restated), mostly attributable to an increase in new general cleaning service contracts, especially government buildings and an exhibition centre, ad-hoc cleaning and intensive disinfection projects following the outbreak of COVID-19 and the receipt of COVID-19 related government grants.

The gross profit of the E&M services segment reduced by HK$40.6 million to HK$269.0 million from HK$309.6 million with its gross profit margin decreased to 9.5% from 14.6% (restated), principally due to the additional income from completed E&M installation projects in Hong Kong and Macau in the prior year which are not repeated in the Year.

General and administrative expenses

General and administrative expenses of the Group for the Year remained stable at HK$458.1 million compared to HK$458.7 million (restated) last year, reflected a successful cost saving campaign, reduced rental expenses and depreciation of leasehold improvements and the COVID-19 related government grants, offset by an increase in staff costs.

Other expenses, net

Other net expenses in FY2021 amounted to HK$28.6 million as compared with HK$0.7 million (restated) recorded in FY2020. The net expenses recorded during the Year mainly represented the Group's losses related to disposal of its laundry business of HK$26.2 million.

Finance income

In FY2021, the Group recorded finance income of HK$2.3 million (2020: HK$6.2 million (restated)). The decrease mainly reflected lower average market interest rates on the Group's bank deposits placed in Hong Kong.

Finance costs

The Group's finance costs of HK$5.4 million (2020: HK$10.2 million (restated)) for FY2021 included interest expenses of (i) HK$3.5 million (2020: HK$7.4 million) for the Group's bank loan financing its acquisition of property & facility management services business in December 2019, (ii) HK$1.5 million (2020: HK$2.5 million (restated)) for lease liabilities and (iii) HK$0.4 million (2020: HK$0.3 million) for other bank borrowings.

Income tax expenses

The effective tax rate of the Group reduced by 5.1% to 9.2% (2020: 14.3% (restated)), mainly attributable to the non-taxable COVID-19 related government grants.

Profit for the year attributable to shareholders of the Company

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

	For the year ended 30 June			
	2021	2020 (restated)	Change	% Change
	HK$'M	HK$'M	HK$'M	
Property & facility management services	**134.1**	80.6	53.5	66.4%
City essential services	**364.3**	208.2	156.1	75.0%
E&M services	**112.1**	148.5	(36.4)	(24.5%)
Unallocated corporate expenses and finance costs*	**(23.6)**	(25.1)	1.5	(6.0%)
Total	**586.9**	412.2	174.7	42.4%

* Unallocated corporate expenses and finance costs comprise the Company's corporate expenses of HK$20.1 million (2020: HK$17.7 million) and interest expenses of HK$3.5 million (2020: HK$7.4 million). The corporate expenses for the Year included legal and professional fees of HK$14.1 million incurred for the acquisition of Business Investments Group as mentioned in the section "Major transaction" on pages 52 and 53, whereas the amount for last year included legal and professional fees of HK$12.1 million incurred for the acquisition of property and facility management services business.

As a result of the foregoing, the Group's profit in FY2021 increased by 42.4% or HK$174.7 million to HK$586.9 million compared to HK$412.2 million (restated) in FY2020. The increase mainly resulted from (i) an increase in new contracts awarded in facility/property management and cleaning business, and ad-hoc cleaning and disinfection projects following the outbreak of COVID-19; and (ii) the receipt of subsidies under the ESS Scheme of the Hong Kong SAR Government; which are offset by (i) the loss recognised by the Group during the Year in relation to its disposal of laundry business, (ii) an increase in staff costs and (iii) a decrease in gross profit from the Group's E&M services segment, mostly due to the additional income from completed E&M installation projects in Hong Kong and Macau in the prior year which are not repeated in the Year. Details of the subsidies recognised by the Group are set out in Note 8 to the consolidated financial statements. The net profit margin of the Group improved to 9.1% for the Year from 7.3% (restated) for last year.

Other comprehensive income/(loss)

The Group recorded other comprehensive income for the Year of HK$27.6 million (2020: other comprehensive loss of HK$7.9 million (restated)), reflected a favourable exchange reserve movement of HK$15.4 million (2020: unfavourable exchange movement of HK$5.9 million) recorded during the Year following an appreciation of the Renminbi ("RMB") for conversion of the Group's net investments in Mainland China, remeasurement gains on long service payment liabilities of HK$8.5 million (2020: losses of HK$2.2 million (restated)) and defined benefit retirement scheme of HK$3.7 million (2020: gains of HK$0.2 million (restated)).

Liquidity and financial resources

The Group's finance and treasury functions are centrally managed and controlled at its headquarters in Hong Kong. As at 30 June 2021, the Group had total cash and bank balances of HK$549.9 million (30 June 2020: HK$894.8 million (restated)), of which 91%, 7% and 2 % (30 June 2020: 93%, 5% and 2% (restated)) were denominated in Hong Kong dollars, RMB and other currencies respectively, and total borrowings of HK$383.8 million (30 June 2020: HK$463.2 million) denominated in Hong Kong dollars. The Group's net cash balance decreased by HK$265.5 million to HK$166.1 million as at 30 June 2021 as compared to HK$431.6 million (restated) as at 30 June 2020 mainly reflecting the cash outflow for the Group's acquisitions, including HK$418.3 million for the Business Investments Group and HK$72.3 million for Kiu Lok (International) Properties Limited, distribution of the Company's FY2020's final dividend of HK$64.8 million and FY2021's interim dividend of HK$130.1 million, Business Investments Group's dividends paid to its original shareholder of HK$73.0 million and the Group's payments for principal portions of lease liabilities of HK$48.9 million, partly mitigated by net cash inflow from operating activities. The Group's net gearing ratio was maintained at zero as at 30 June 2021 (30 June 2020: 0%). This ratio is calculated as net debt divided by total equity. Net debt is calculated as total bank borrowings less cash and cash equivalents.

Adopting a prudent financial management approach in implementing its treasury policies, the Group maintained a healthy liquidity position throughout the reporting period. As at 30 June 2021, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$2,754.3 million (30 June 2020: HK$2,656.4 million (restated)). As at 30 June 2021, the Group has banking facilities of HK$100 million (30 June 2020: HK$100 million (restated)) guaranteed by FSE Management Company Limited (a direct wholly-owned subsidiary of FSE Holdings Limited). As at 30 June 2021, HK$821.8 million (30 June 2020: HK$1,004.6 million (restated)) of the Group's banking facilities had been utilised for bank borrowings, bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet current business operation and capital expenditure requirements.

Debt profile and maturity

As at 30 June 2021, the Group's total debts amounted to HK$383.8 million (30 June 2020: HK$463.2 million), of which HK$233.8 million matures in December 2021 and HK$150.0 million matures in June 2023. The Group is in the process of discussing with the bank in renewal of the debt of HK$233.8 million which matures in December 2021. The Group has managed its debt maturity profile to minimise it refinancing risks. All of these debts are denominated in Hong Kong Dollar and bears interest at floating rates.

Foreign currency exposure

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

As part of the Group's business is carried out in Mainland China, some of its assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in Mainland China operations with net assets of HK$121.2 million (30 June 2020: HK$144.3 million (restated)) as at 30 June 2021. The foreign currency translation arising from translation of these Mainland China operations' financial statements from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the Group's presentation currency) does not affect the Group's profit before and after tax and will be recognised in its other comprehensive income.

During the Year, the fluctuation of RMB against Hong Kong dollars was 11.2% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the Year).

As at 30 June 2021, if the Hong Kong dollars had strengthened/weakened by another 11.2% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$13.6 million lower/higher.

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 30 June 2021, the net proceeds of HK$264.5 million received from the Company's Initial Public Offering ("IPO") or Global Offering (referred to the prospectus issued by the Company on 26 November 2015) and the revised use of unutilised proceeds of HK$133.5 million as stated in the Company's announcement dated 26 June 2018 were applied in the manner as shown in the table below:

	Original use of proceeds from Global Offering HK$'M	Utilised amount as at 26 June 2018 HK$'M	Revised use of proceeds pursuant to the Company's announcement dated 26 June 2018 HK$'M	Aggregated utilised amount from 27 June 2018 to 30 June 2020 HK$'M	Aggregated utilised amount from 1 July 2020 to 30 June 2021 HK$M	Unutilised amount as at 30 June 2021 HK$'M
Investment in/acquisition of companies engaged in the installation and maintenance of ELV system	81.6	5.9	–	–	–	–
Development of environmental management business	51.0	3.6	20.0	20.0	–	–
Operation of E&M engineering projects on hand and prospective projects	47.4	47.4	88.1	88.1	–	–
Staff-related additional expenses	20.0	20.0	–	–	–	–
Development and enhancement of design capability	19.3	18.3	16.0	16.0	–	–
Enhancement of quality testing laboratory	12.2	4.9	7.3	3.7	2.0	1.6
Upgrade of corporate information technology system and software	8.0	5.9	2.1	2.1	–	–
General working capital	25.0	25.0	–	–	–	–
Total	264.5	131.0	133.5	129.9	2.0	1.6

The Group has utilised HK$262.9 million of the net proceeds from Global Offering, of which HK$2.0 million was utilised during FY2021 with the actual usage consistent with the usage as intended and previously disclosed by the Company. The Group expects that the remaining balance of the IPO proceeds in the amount of HK$1.6 million will be utilised in accordance with the manner as shown in the table above within 3 years up to 2023. The Group held the unutilised net proceeds mainly in short-term deposits or time deposits with licensed banks and authorised financial institutions in Hong Kong.

Capital commitments

As at 30 June 2021, the Group had capital commitments of HK$1.7 million (30 June 2020: HK$0.5 million) in relation to purchase of equipment and a motor vehicle.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2021 and 30 June 2020.

Convertible preference shares

On 16 December 2019, the Group acquired Legend Success Investments Limited ("Legend Success") (together with its subsidiaries, the "Legend Success Group"), which principally engaged in the provision of property and facility management services, 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 43,676,379 non-voting redeemable convertible preference shares of HK$0.10 each at the issue price of HK$3.2260 per share. A final cash payment of the consideration of HK$38.5 million was made on 13 February 2020. Details of the transaction are set out in Note 2(iii)(b) to the consolidated financial statements.

The convertible preference shares are (i) convertible into 43,676,379 ordinary shares of the Company at an initial price of HK$3.2260 per share (subject to adjustments upon occurrence of certain prescribed events, including consolidation, subdivision or reclassification of shares in the capital of the Company, capitalisation of profits or reserves etc., in each case if not also made available to the holder(s) of the convertible preference shares), provided that any conversion shall not result in the Company failing to comply with any public float requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, within a period of 10 years after their date of issue of 16 December 2019 (the "Issue Date") and (ii) redeemable by the Company at its sole discretion at a redemption price equals to the Issue Price together with all outstanding preferred distributions accrued to the date fixed for redemption at any time after 10 years following the Issue Date. The convertible preference shares are treated as contingently issuable potential ordinary shares under Hong Kong Accounting Standard ("HKAS") 33 "Earnings per Share" and, since the conditions for their conversion were not met as at 30 June 2021, the effect of their conversion is not included in the calculation of the diluted earnings per share for years ended 30 June 2021 and 2020 pursuant to HKAS 33's requirements as described in Note 12 to the consolidated financial statements. Assuming that all of the outstanding convertible preference shares were converted as at the end of the financial year of 30 June 2021 and assuming their conditions for conversion were met, the Company's earnings per share after taking into account of the dilutive impact of such conversion for the year ended 30 June 2021 would be HK$1.19 per share, calculated as the Group's profit attributable to shareholders of the Company of HK$586.9 million divided by the weighted average number of the Company's ordinary shares in issue of 493.7 million (after taking into account the weighted average number of incremental number of ordinary shares that would be issued from the conversion of the convertible preference shares on its Issue Date of 43.7 million). The convertible preference shares confer their holder(s) the right to receive preferred distributions from the Issue Date at a rate of 6.0% per annum on its Issue Price, payable annually in arrears. As (i) the Company may at its sole discretion redeem either in whole or in part the convertible preference shares for the time being outstanding (i.e. it has no obligation to settle them in cash unless it elects at its sole discretion to redeem) and (ii) the convertible preference shares are only convertible within a period of 10 years after the Issue Date but redeemable only after 10 years following the Issue Date, an analysis on the Company's share price at which it would be equally financially advantageous for the convertible preference share holder(s) to convert or redeem the convertible preference shares based on their implied rate of return at a range of dates in the future is not applicable. Based on the financial and liquidity position of the Group (with details set out in the paragraphs headed "Liquidity and financial resources" of this section), to the best knowledge of the Company, the Company expects that it will be able to meet its redemption obligations under the outstanding convertible preference shares issued by it.

Major transaction

On 26 February 2021, the Company, FSE City Essential Services Limited (the "Buyer Co", a direct wholly-owned subsidiary of the Company) and FSE Management Company Limited ("FMC", a direct wholly-owned subsidiary of FSE Holdings Limited) entered into a conditional sale and purchase agreement pursuant to which the Company agreed to nominate the Buyer Co to acquire from FMC the entire issued share capital in Business Investments Limited (the "Target Company", together with its subsidiaries and a joint venture company (the "JV") indirectly owned as to 20% by the Target Company, the "Target Group") at a total consideration of HK$840.6 million (the "Consideration") (subject to adjustments, if any) (the "Acquisition"), comprising (i) a non-cash consideration of HK$442.6 million settled through the disposal of certain subsidiaries which own properties (the "Property Holdcos") and a property (the "Disposal Property") to FMC (the "Disposal"); and (ii) a cash consideration of HK$398.0 million, funded by the Group's internal resources. The Property Holdcos comprise Best Culture Holdings Limited and its subsidiary, Fultech Development Limited, Heritage Star Limited and its subsidiary, Optimum Result Holdings Limited and its subsidiary and Top Line Investment Limited. The Target Group is principally engaged in the provision of security guarding & event services, insurance solutions and landscaping services in Hong Kong.

Each of the Acquisition and the Disposal constituted a major and connected transaction of the Company and was approved by the independent shareholders at the extraordinary general meeting of the Company held on 9 April 2021. Completion of the Acquisition and the Disposal took place simultaneously on 19 April 2021 (the "Completion Date") upon which the cash portion of the Consideration of HK$398.0 million was paid by the Group to FMC. A final cash payment of the Consideration of HK$20.3 million was made on 20 May 2021 with reference to the unaudited net tangible asset value of the Target Group as at the Completion Date.

Upon completion,

(i) the Target Company and each of its subsidiaries became a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of each of them have been consolidated in the financial statements of the Company for the Year;

(ii) the JV became an associated company of the Company; and

(iii) the Group ceased to hold any right, title and interest in the Disposal Property and the Property Holdcos.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Addressing sustainability issues and managing Environmental, Social and Governance ("ESG") risks are essential to demonstrating our sustainability performance and meeting the expectations of our stakeholders. Under the guidance of an Executive Director, the Group's management committee oversees the management of ESG-related risks and the implementation of our Integrated Management System ("IMS") for the majority of our Group's operations. The IMS combines three international management system standards — ISO 9001 Quality Management System, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System — providing a systematic approach to monitoring and managing ESG-related matters.

A stand-alone ESG report which references Appendix 27, Environmental, Social and Governance Reporting Guide, to the Listing Rules will be published on the websites of the Company and Hong Kong Exchanges and Clearing Limited in November 2021.

Discussion on environmental policies and performance

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

We are committed to reducing energy consumption and greenhouse gas ("GHG") emissions throughout all business operations. The Group has set reduction targets for energy consumption, GHG emissions, water consumption and paper procured, demonstrating strong dedication to reducing its environmental footprint. We continue to nurture environmental stewardship among our employees and foster behavioural change including paper use reduction, energy conservation and materials recycling.

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

Account of key relationships with employees, customers and suppliers

Employees

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

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

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

Customers

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

Suppliers and subcontractors

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

Compliance status with relevant laws and regulations that have a significant impact on the business

During the Year, there were no reported cases of non-compliance with relevant laws and regulations that have had a significant impact on business regarding the environment, health and safety, labour standards, and data privacy.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group had a total of 18,460 employees (30 June 2020: 17,889 (restated)), including 7,147 (30 June 2020: 6,840 (restated)) casual workers and employees whose relevant costs are directly reimbursed by or charged to our customers or sub-contractors. Staff costs for the Year, including salaries and benefits, was HK$2,390.5 million (2020: HK$2,353.6 million (restated)). The increase reflects higher staff costs as a result of an increase in the average number of staff, mainly in the cleaning and property and facility management services businesses, partly offset various grants received by the Group from the Hong Kong, Mainland China and Macau governments recognised as deductions in its staff costs.

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

The Company maintained a share option scheme, which aims at providing incentives to the eligible participants (including the employees of the Group) to contribute to the Group and enables us to recruit high-caliber employees and attract human resources that are valuable to the Group. As at the date of this report, no share options under this scheme have been granted.

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

OUTLOOK

Property & Facility Management Services Segment

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

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

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

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

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

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

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

City Essential Services Segment

1. **Cleaning Services**

Although the pandemic of COVID-19 is getting stable in Hong Kong, the demands of services for preventive infection measures for public and private facilities are still growing as citizens increase their awareness of virus prevention and personal hygiene. Waihong will reap the benefit from the increase in sterilisation service orders from its current and ad-hoc customers in the coming year. Waihong believes that such kind of disinfectant services will remain in high demand in the market until the pandemic finally eases. Waihong will continue to engage in antiviral coating and sterilisation services as these services can generate higher profit to it.

Foreseeably, the rebound of Hong Kong economy will benefit its tourism and catering service industries in the coming years when the pandemic eases. Waihong may benefit from the rising demands of quality cleaning and hygiene services in the market. It has invested more resources to bid for mega service contracts from different government departments since the success of entering this market segment in FY2021. By capitalising on its extensive experience, systematic and customised services, Waihong has competitive advantages to sustain its business growth in the long-run.

As always, retaining the current service contracts in a higher successful ratio is one of Waihong's business development objectives. With a view to increasing Waihong's competitiveness to keep its current service contracts, Waihong's management has strived to lower its operating costs and introduced smart innovative equipment to attract clients for contract renewal.

Hong Kong economy has been hard-hit by the outbreak of COVID-19, the unemployment rate is over 5% for a certain period. Waihong may utilise this difficult moment to attract management talents from other industries to cater the Group's long-term development. We also prudently reallocate labour resources to lower operations costs to seek for new business from relatively stable clients such as public institutions or government facilities. Aged functional vehicles are gradually replaced for improving Waihong's fleet and reducing GHG emissions. It can strengthen the transport capacity with energy efficient on business expansion for food waste, clinical waste and municipal solid waste collection services.

Towards global trend of smart city development embracing innovation and technology, Waihong has introduced some innovative technologies comprising over ten units of robotic equipment used for different workplaces to enhance productivity and competitiveness. Waihong is partnering with some strategic business vendors to establish the competitive edges in the industry for further expanding specialist and sterilisation services to prestige clients by smart and advance systems. Further, Waihong has set up smart toilet system at selected commercial towers for enhancing supervisory process and establishing strategic partnership with value added services to prime clients. Waihong's management will continue to explore diversified services with innovative strategies to satisfy market demands.

2. **Technical Support & Maintenance Services**

Hundreds of new buildings will be constructed each year and over 65% of the existing buildings are aged over 20 years in Hong Kong including commercial buildings, industrial buildings and residential buildings. The local economy remains on track for recovery recently. The Group's technical support & maintenance services section envisages a continuous demand for the term maintenance contracts from different prestigious commercial and residential buildings, hospitals, the public sector and educational institutions seeking the services of quality contractors to assist them in maintaining their properties in the best possible condition. Besides, large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the Group's technical support & maintenance services section.

3. **Security Guarding & Event Services**

   Demand for security services had grown at a steady pace over the years and most noticeably at the residential sector, with over 4.8 million square feet new usable floor area built in 2020, creating huge demands for security services. General Security is a major player in the security industry with a long history for providing high end professional services.

   Despite the economic downturn which also affects the security industry following a drastic reduction in exhibition activities, unique business opportunities still exist for the industry. During FY2021, COVID-19 vastly increased demands for manpower conducting temperature screening in all sort of setting. In addition, the exhibition venue near the airport was converted into a medical facility and resulted in the need for round the clock security services. General Security was able to grasp these non-regular demands by means of its professionalism and its capacity in providing manpower.

4. **Insurance Solutions**

   In the coming year, Nova will further leverage its leading position in the market and expertise to develop more clientele in industries it is well experienced with, such as construction, property managers, hospitality, jewellery and non-government organisations. Nova will also focus more on specialty products with higher yields and where in-depth professional skills and knowledge are required such as cyber insurance and warranty and indemnity insurance. By taking advantage of Nova's international broker networks, it will penetrate clients in Hong Kong who have overseas investments.

5. **Environmental Solutions**

   Increasing public awareness of the importance of sustainable environment has fueled the demand for environmental engineering services and products. The Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) enacted in 2012 continues to support the business development of the Group's environmental consultancy services. Its seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively have brought steady growth to its environmental engineering business. Our laboratory has been accredited by the Hong Kong Accreditation Service under the Hong Kong Laboratory Accreditation Scheme (HOKLAS) since 2015 which complement the work of the environmental engineering business. The Group has also been approved as an Accredited Indoor Air Quality ("IAQ") Certificate Issuing Body ("CIB"). The inspection works of IAQ further strengthen the Group's environmental consultancy services.

   The higher market demand of green elements in indoor and outdoor spaces, coupled with the customers' needs to enhance visual and ecological environment have provided more opportunities for green solutions provided by our Group's landscape services. The greening policies, town planning initiatives and various support provided by the government will be highly beneficial to the development of the industry and our landscape services business. We embrace technology to enhance our business operation efficiency. Systems such as landscape management apps and automated irrigation system will be used in our operation to cope with the dynamic business environment.

   With the technological advancement and emphasis of green concept, there are opportunities for our building material trading business in promoting new products with new features in these aspects. Strategy collaboration with our Group's environmental solutions teams will help our building material trading business keep abreast of the market trends and facilitate identification of new products.

E&M Services Segment

In Hong Kong, the government targets to maintain an annual works expenditure of over HK$100 billion in the next few years as stated in its 2020 Policy Address. According to the construction expenditure forecast provided by the Construction Industry Council in June 2021, expenditure in E&M construction works each year will amount to over HK$24 billion for the public sector and over HK$22 billion for the private sector over the next five years.

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

In its 2020 Policy Address, the Hong Kong Government has identified 330 hectares of land to build 316,000 public housing units to meet the demand in the coming 10 years. The supply of land mainly comes from Tung Chung New Town Extension, Kai Tak Development Area, Anderson Road Quarry, Hung Shui Kiu/Ha Tsuen, Kwu Tung North/Fanling North, etc. The Hong Kong Government also plans to provide in the coming 10 to 15 years over 150,000 public and private housing units along the Northern Link and Siu Ho Wan MTR Depot topside development, and the redevelopment of three urban squatter areas (namely Cha Kwo Ling Village, Ngau Chi Wan Village and Chuk Yuen United Village) and Tai Hang Sai Estate. Furthermore, the Housing Authority had decided to redevelop its four factory estates into 4,800 public housing units in the next 10 years.

The Hong Kong Government has also dedicated HK$8.3 billion funding to build 15,000 transitional housing units by non-government organisations (NGOs) with the use of the MiC method starting from 2020 to 2023.

For private residential and commercial developments, the redevelopments driven by the Urban Renewal Authority and the Hong Kong Housing Society, the developments at the Kai Tak Development Area, Yau Tong and Ap Lei Chau, together with the railway property developments including West Kowloon High Speed Rail Station, LOHAS Park Station, Wong Chuk Hang Station, Ho Man Tin Station, Kam Sheung Road Station, etc. The Hong Kong Government will also examine the development of Tseung Kwan O Area 137 for residential and commercial development and other relevant purposes.

Furthermore, the reclamation of artificial islands at Kau Yi Chau under the "Lantau Tomorrow Vision" includes the benefits of creating new land for increasing housing supply, optimising the transport network by linking up roads and railways on Hong Kong Island, North Lantau and the coastal areas of Tuen Mun. The Group foresees great business opportunities in construction of infrastructure works, residential and commercial development and associated public facilities in these areas.

To prepare for the challenges brought by the aging population, the Hong Kong Government earmarked HK$200 billion in 2016 for a ten-year hospital development plan covering, among others, the construction of a new acute hospital at Kai Tak and the redevelopment or expansion of various hospitals such as Prince of Wales Hospital, North District Hospital, Princess Margaret Hospital, Our Lady of Maryknoll Hospital and Grantham Hospital.

On top of the HK$200 billion invested in the first 10-year plan, the Hong Kong Government has committed to an extra HK$300 billion capital works programme to support the second 10-year hospital development plan, improve the clinic facilities of the Department of Health, and upgrade and increase healthcare training facilities. In addition, the Hong Kong Government has decided to finance over HK$10 billion for the construction of a Chinese medicine hospital and the Government Chinese Medicines Testing Institute at Pak Shing Kok in Tseung Kwan O which is expected to be operated in 2025.

To promote sport in the community and maintain Hong Kong as a centre for major international sporting events, the Hong Kong Government has planned to spend a total of HK$20 billion between 2017 and 2021 to launch 26 projects to develop new or improve existing sports and recreation facilities. Besides, the construction of the Kai Tak Sports Park, the largest sport project with an investment over HK$30 billion, has commenced in early 2019 and planned to be completed in 2023.

Apart from the above, construction of the Shatin to Central Link, investments in the West Kowloon Cultural District, expansion of convention and exhibition venues in Wan Chai, development of university hostel, and revitalisation of industrial buildings in Kwun Tong and Wong Chuk Hang will definitely help boost the construction industry in Hong Kong in the coming decade. The Hong Kong Government has also successfully transformed Kowloon East (namely the vicinity of Kwun Tong, Kowloon Bay and Kai Tak) into the second core business district under the "Energising Kowloon East" Initiative, thereby increasing the commercial gross floor area to about 3.5 million square metres, making the scale comparable with the core business district in Central.

The Hong Kong Government, in its 2020 Policy Address, strives to implement seven new railway projects in a proactive manner: the MTRC is embarking on the detailed planning and design for the Tung Chung Line Extension and the Tuen Mun South Extension; and will commence the planning and design of the Northern Link shortly. The MTRC will also submit the South Island Line (West) project proposal to the government.

The Hong Kong Government also requested the Airport Authority Hong Kong to create at Lantau an Aerotropolis connecting the Greater Bay Area and the world. These include the construction of a three-runway system (2022) and modification North Runway (2024), the expansion of the existing Terminal 2 (2024), the development of a high value-added logistics centre at the South Cargo Precinct (2023), the 11 SKIES development projects (2022 - 2025) and the development of phase two of AsiaWorld-Expo at the Hong Kong International Airport.

Use of district cooling systems ("DCS") is also one of the Hong Kong Government's initiatives and commitment to low-carbon development. Apart from the additional DCS in the West Kowloon Cultural District, providing DCS in new development areas – Tung Chung and Kwu Tung North - have also been planned. Feasibility, design and construction studies of DCS continue in all future new development areas, such as in Hung Shui Kiu/Ha Tsuen and Tseung Kwan O industrial estate.

To encourage and enhance Innovation and Technology (I&T), the Hong Kong Government will collaborate with Shenzhen in the development of Shenzhen-Hong Kong I&T Co-operation Zone under the "one zone, two parks" model. In addition, the infrastructure works of the Hong Kong-Shenzhen Innovation and Technology Park at the Lok Ma Chau Loop has commenced in June 2018, with the objective of providing the first batch of land parcels for superstructure development in 2021. Since the promulgation of the Smart City Blueprint for Hong Kong in late 2017, the Hong Kong Government has released over 130 smart city initiatives in the Smart City Blueprint for Hong Kong 2.0 in 2020.

Regarding the Extra Low Voltage ("ELV") business, with more property developers adopting information and technology ("IT") infrastructure and advanced technologies in their projects to enhance building sustainability and energy control, this presents good opportunities to generate business revenues and profit in the ELV business segment.

Since the establishment of the new ELV division, the Group has been awarded several ELV projects including four projects on Sai Yuen Lane, Sheung Heung Road, Luk Hop Street and Waterloo Road, two public housing projects on Texaco Road in Tsuen Wan and Tung Chung, an office development project at King's Road in North Point, an Aviation Training Centre at Chek Lap Kok, Inland Revenue Tower at Kai Tak, Immigration Headquarters at Tseung Kwan O, Kai Tak Sports Park and 11 SKIES commercial development at Chep Lap Kok.

Looking ahead, the Group will keep working with vendors to customise those systems according to the specific needs of customers and smart city blueprint, using advanced technologies and smart solutions such as Artificial Intelligence (AI) and Internet of Things (IOT), intelligent IP/IT-based and various 5G mobile applications. The Group believes that with a highly qualified and experienced staff and sound project management skills, it can fulfill its commitment of delivering quality and professional services to all its valued customers.

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

The filibustering in the Legislative Council delaying award of new public works contracts may have passed. The Legislative Council has gradually approved and released new public works contracts for tendering in coming years, and the Group is strived to secure more new public works.

The construction expenditure in 2020 was not seriously reduced due to the economic downturn and uncertainties as a result of the COVID-19 pandemic; though the Group foresees that the office and hotel development will be slowed down in 2021 but should recover in early 2022 as people get vaccination gradually since early 2021. The Group has implemented and constantly updated preventive measures and contingency plans both in offices and construction sites to fight against the virus. Managing construction projects are still effective and not affected by swapping teams workplace (i.e. Teams A and B) arrangements, working from home, etc. Although there are delays in supply of materials and equipment from the supply chain due to the pandemic worldwide, the delays were cautiously under control.

In Macau, there is a constant demand for renovation and improvement works for hotels and casinos. In addition, the robust demand for public and private residential housing, the development of Galaxy Macau Phase 4 and Studio City Phase 2, the renovation work of existing casinos and hotel areas, and the renewal of casino licenses in 2022 are expected to create emerging business opportunities for the Group in the coming few years.

For the Mainland China market, the Group has followed a disciplined business development approach focusing on the provision of E&M services to major property developments of Hong Kong and foreign investors. Apart from the two core bases in Beijing and Shanghai, the Group has also established its presence in other first- and second-tier cities in Mainland China such as Tianjin, Shenyang, Chengdu, Wuhan, Nanjing, Kunming and Hangzhou.

The development of the Greater Bay Area will certainly enhance the economic and social growth in 11 cities of that Area. In addition, the 3 rapidly developing Guangdong Pilot Free Trade Zones – Hengqin, Qianhai and Nansha – will bring in new business opportunities to the Group.

In recent years, the Group has been providing project management services across Mainland China to an international exhibition centre development in Shenyang, 2 high-rise building complexes in Tianjin and Guangzhou, and 2 commercial buildings in Beijing. The Group firmly believes that due to its high market recognition and strong value-added E&M project management expertise in the areas of, among others, integrated services coordination, coordinated services drawing production, Building Information Modelling (BIM) techniques, project planning, quality assurance and system testing and commissioning, it will be a preferred partner of foreign and Hong Kong-based developers of high-end projects in Mainland China.

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

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

Our property and facility management, cleaning, security guarding and insurance solutions businesses have faced relatively less disruptions. The COVID-19 outbreak has created additional works from the existing property and facility management contracts, more ad-hoc demands for intensive disinfection cleaning services and security services demand for new medical facility set up near the airport. In addition, COVID-19 leads to an increase in premium rates for certain types of insurances due to poor claims experience caused by the pandemic, which is positive to our insurance solutions business. Nevertheless, for the sake of containing the risks arising from the pandemic, our cleaning and property and facility management services operations have implemented various precautionary measures including the followings:

- set policies to arrange some staff to work in alternative offices or from home if there are any reported COVID-19 cases among them and designated different entrances and exits in office for different groups of staff to reduce their interactions at our cleaning services operation; and
- implemented a well-defined sanitation management process for owners and tenants of properties, users of public and private facilities and own staff at the property and facility management services operation, including prompt sanitation actions to be taken once suspected COVID-19 cases in the work areas are reported.

Our environmental services business remains as usual and stable under the current situation. Our landscape business with hotels and service apartments is however affected by the frozen tourism industry in Hong Kong. Our building material trading business is also impacted under the current soften retail market. Our landscape and building material trading businesses have applied stringent cost controls to mitigate the above adverse impacts caused by the pandemic.

Regarding our E&M business, as a result of the government's measures to contain the spread of the virus, our construction projects have experienced disruptions mainly caused by delay in the supply and distribution channels and shortage of labour force consequent to the mandatory quarantine measures.

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

- analysed the contract provisions on extension of time and force majeure clauses and issued notifications promptly to engineers and architects for our projects on the likelihood of any delays;
- made detailed records of site activities together with their cost implications for those delayed portions;
- closely monitored the supplies of materials and considered re-scheduling works or sourcing other suppliers; and
- checked insurance arrangements on deferred material delivery and kept updating of new regulatory policies.

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

To cope with the persistence of COVID-19, we will closely monitor its latest development and the effectiveness of remedial measures we adopted and adjust them when required on a timely basis.

Conclusion

Despite the challenges and operational difficulties we face in this financial year, in particular those arising from the outbreak of COVID-19, the Group's operations remained stable and the Group was able to record a remarkable growth in its profit in the Year. The successful acquisition of the security guarding & event services, insurance solutions and landscaping services businesses in April 2021 has enabled the Group to enlarge its customer base, diversify its revenue stream and risks and enhance its profit growth potential. In addition, the Group shall endeavour to maintain a strong financial position so as to stay poised for new investment opportunities as and when they arise. We are confident that the Group will continue to grow.