Management Discussion and Analysis

BUSINESS REVIEW

During the six months ended 31 December 2018 (the "period under review"), the Group recorded revenue amounting to HK$2,291.7 million, representing a decrease of HK$90.1 million or 3.8%, as compared with HK$2,381.8 million (restated) for the six months ended 31 December 2017 (the "same period last year"). Profit attributable to equity holders for the period under review was HK$113.5 million, representing a decrease of HK$7.4 million or 6.1% as compared with HK$120.9 million (restated) for the same period last year, mainly attributable to a decline in the Group's finance income following the utilization of its cash on hand and proceeds from sale of investments to acquire the facility services (cleaning and laundry services) business in April 2018. The expanded business scale after the completion of the acquisition of the facility services business provides a broader and more diversified revenue stream and enhanced profit source to the Group. The Group's profit attributable to equity holders of the Company for the period under review of HK$113.5 million (equivalent to basic earnings per share of HK$0.25) increased by 30.8% as compared with HK$86.8 million (equivalent to basic earnings per share of HK$0.19) as previously reported in the Group's condensed consolidated interim financial statements for the same period last year before its inclusion of the profit of HK$34.1 million made by the facility services business.

E&M ENGINEERING SEGMENT

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

In addition, the Group is committed to creating a greener society. To help build a sustainable environment, it has been constantly optimising design and exploring innovative methods. At the project level, the Group incorporates green building principles into application of building services equipment; and adopts green building design, Modular Integrated Construction (MiC), Design for Manufacture and Assembly (DfMA) to reduce energy usage, carbon emission and construction waste. In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as Building Information Modelling (BIM), modularisation and prefabrication, laser scanning and mobile solutions.

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

As at 31 December 2018, the Group's E&M engineering projects encompassed a wide range of buildings and facilities, including offices, shopping malls, convention and exhibition centres, hotels, integrated resorts, residential properties, universities, hospitals, airport and public transportation facilities buildings, which have a total gross value of contract sum of HK$10,050 million with a total outstanding contract sum of HK$5,531 million. During the period under review, the Group submitted tenders for 302 E&M engineering projects (with a contract sum equal to or exceeding HK$1 million for each project, if awarded) with a total tender sum of HK$13,467 million.

During the period under review, this business segment was awarded new contracts with a total value of HK$1,480 million, which include 59 contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$1,367 million.

Management Discussion and Analysis

ENVIRONMENTAL MANAGEMENT SERVICES SEGMENT

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

As at 31 December 2018, this business segment has a total gross value of contract sum of HK$101 million with a total outstanding contract sum of HK$59 million. During the period under review, the Group submitted tenders for 16 environmental management service contracts (with a contract sum equal to or exceeding HK$1 million for each contract, if awarded) with a total tender sum of HK$55 million.

During the period under review, this business segment was awarded new contracts with a total value of HK$42 million, which include 6 projects (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$19 million.

FACILITY SERVICES SEGMENT

Cleaning Services

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

As one of leading service providers in the Hong Kong's cleaning service industry, the Group's cleaning business group, Waihong, is mainly engaged in providing specialist cleaning services, including general cleaning, initial cleaning, housekeeping, recycling, marble and granite floor maintenance, food and solid waste management, integrated pest management and support services. Waihong became a member of FSE Services Group since 11 April 2018.

Regarding its cleaning services business, growing public awareness for clean and hygienic environment with better life style and better home is boosting the demand of quality service providers. Waihong will focus on providing efficient, effective and the highest professional standard services to meet its customer needs.

During the period under review, the Group's cleaning services business submitted tenders for 188 cleaning service projects (with a contract sum equal to or exceeding HK$1 million for each project) with a total tender sum of HK$2,203 million.

During the period under review, the Group's cleaning services business was awarded new service contracts with a total value of HK$349 million, which include 53 service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total contract sum of HK$338 million. Among these 53 service contracts, 10 of them are major service contracts (with contract sum equal to or more than HK$10 million for each service contract) with a total contract sum of HK$193 million, which include large-scale service facilities for a premier mixed-use commercial complex in Causeway Bay, an international bank's office building together with all its branches in Hong Kong, an academic campus for art and performance training, a newly-completed private luxury real estate in Sham Shui Po, a leisure facility with golf and tennis training in Sai Kung District, a large-scale shopping mall in Tsuen Wan, a tourism facility in The Peak, two large-scale residential estates in Quarry Bay and Shatin and a mid-scale residential estate in Tung Chung.

With the growing demand for outsourcing in cleaning and hygiene services, Waihong has partly recovered its loss of revenue from the discontinuation of a transportation company's contracts during the period under review. It will invest more resources to participate in tendering government or semi-government service projects and explore business opportunities from different markets to widen our service portfolios.

The cleaning service industry is also facing the challenge of labour shortage. Waihong has encountered a problem of serious labour shortage resulted in pressure of rising operations costs to comply with contract stipulations. Following the proposed increase of statutory minimum wage by 8% with effect from 1 May 2019 subject to approval by the Legislative Council, Waihong is able to adjust the rates it charges to customers supported by its strong market competitiveness.

Laundry

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

During the period under review, NCL has started to provide laundry services to a new customer segment of Airport VIP Lounge. It continued to maintain its existing client segments and explored new segments that require high quality of laundry services. In addition, NCL has been awarded the dry cleaning services of non-catering sector in a renowned world-class racing club contract starting July 2018. Moreover, NCL keeps working closely with its international theme park client for its expansion plan and prepares for its operation development by upgrading its machinery. For NCL's existing clients, the expansion of flight schedules of a leading airline company also boosted up its revenue during the period under review.

During the period under review, the Group's laundry business was awarded new contracts with a total value of HK$7 million, which include 4 service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total contract sum of HK$6 million.

As at 31 December 2018, this business segment has a total gross value of contract sum of HK$2,865 million with a total outstanding contract sum of HK$1,049 million for the cleaning services business.

FINANCIAL REVIEW

Revenue

During the period under review, the Group's revenue dropped by HK$90.1 million or 3.8% to HK$2,291.7 million from HK$2,381.8 million (restated) for the same period last year, attributable mostly to a decrease in revenue derived from its E&M engineering segment and facility services segment amounting to HK$53.2 million and HK$38.3 million, respectively.

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

	For the six months ended 31 December			
	2018	**% of total revenue**	2017 (restated)	% of total revenue
	HK$'M		HK$'M	
E&M engineering*	**1,676.1**	**73.2%**	1,729.3	72.6%
Environmental management services*	**35.2**	**1.5%**	33.8	1.4%
Facility services*	**580.4**	**25.3%**	618.7	26.0%
Total	**2,291.7**	**100.0%**	2,381.8	100.0%

* Segment revenue does not include inter-segment sales.

Management Discussion and Analysis

	For the six months ended 31 December			
	2018	2017 (restated)	Change	% change
	HK$'M	HK$'M	HK$'M	
Hong Kong	**1,863.5**	1,945.0	(81.5)	-4.2%
Mainland China	**371.3**	249.6	121.7	+48.8%
Macau	**56.9**	187.2	(130.3)	-69.6%
Total	**2,291.7**	2,381.8	(90.1)	-3.8%

- *E&M (electrical and mechanical) engineering:* This segment continued to be the key turnover driver of the Group and contributed 73.2% (2017: 72.6% (restated)) of the Group's total revenue. Segment revenue dropped slightly by 3.1%, or HK$53.2 million, to HK$1,676.1 million from HK$1,729.3 million (restated), owing mainly to a reduced revenue contribution from Hong Kong and Macau by HK$44.6 million and HK$130.3 million, respectively, partly mitigated by an increase in revenue contribution from Mainland China of HK$121.7 million. The decrease in revenue contribution from Hong Kong and Macau reflects a number of E&M projects which had been substantially completed and made significant progress in the same period last year, including Ocean Pride and Ocean Supreme in Tsuen Wan, Victoria Dockside in Tsim Sha Tsui and Morpheus Hotel at City of Dreams in Macau, partly mitigated by the revenue contribution from a sizeable engineering installation project of West Kowloon Government Office in Yau Ma Tei. Also, works in relation to a number of sizeable engineering installation projects, including design and construction of Inland Revenue Tower in Kai Tak, Transport Department's Vehicle Examination Centre in Tsing Yi and a residential development at Tai Wai Station, were still at an early stage and yet to contribute significant revenue. Nevertheless, there was an increase in contribution from Mainland China with HVAC and electrical installation for the podium of Spring City 66 in Kunming which had significant progress in the period under review.

- *Environmental management services:* Revenue contribution of this business segment, which principally operates in Hong Kong currently, increased to HK$35.2 million from HK$33.8 million (restated), representing a growth of 4.1%, or HK$1.4 million, as compared with the same period last year. The increase was mainly attributable to the increase in revenue from its environmentally-related contracting and maintenance services, primarily water treatment services and bio-technology services.

- *Facility services:* This segment, which presently provides services in Hong Kong, contributed 25.3% (2017: 26.0%) of the Group's total revenue. The revenue of HK$580.4 million for the period under review composed of revenue from provision of cleaning and laundry services amounting to HK$493.3 million and HK$87.1 million, respectively. Segment revenue recorded a drop of 6.2%, or HK$38.3 million, to HK$580.4 million for the period under review from HK$618.7 million, owing mainly to the discontinuation of one of the cleaning service contracts with a transportation company upon expiry in January 2018, despite a partly mitigation of this decline by the revenue contribution generated from a number of new cleaning service contracts, including a heritage project managed by a world-class racing club, a large-scale service facilities for public transportation and two shopping arcades in North Point and Sheung Wan, respectively.

Management Discussion and Analysis

Gross profit

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

	For the six months ended 31 December			
	2018		2017 (restated)	
	Gross profit HK$'M	**Gross profit margin %**	Gross profit HK$'M	Gross profit margin %
E&M engineering	**214.0**	**12.8**	198.2	11.5
Environmental management services	**9.6**	**27.3**	8.7	25.7
Facility services	**68.1**	**11.7**	81.3	13.1
Total	**291.7**	**12.7**	288.2	12.1

The Group's overall gross profit increased by HK$3.5 million or 1.2% to HK$291.7 million for the period under review from HK$288.2 million (restated) for the six months ended 31 December 2017, whereas its overall gross profit margin remained relatively stable at 12.7% (Six months ended 31 December 2017: 12.1% (restated)). The increase in gross profit was driven by the E&M engineering business recording an increase in gross profit margin during the period under review to 12.8% from 11.5%. The gross profit margin of the environmental management services segment remained relatively stable at 27.3% (Six months ended 31 December 2017: 25.7%) with gross profit rose by 10.3% to HK$9.6 million for the period under review from HK$8.7 million for the same period last year, mainly attributable to the contribution from biological deodorizing maintenance services. The gross profit of facility services segment dropped by HK$13.2 million to HK$68.1 million from HK$81.3 million with segment gross profit margin decreased to 11.7% from 13.1% mainly the combined result from a decreased revenue contribution from the provision of cleaning services and an escalation of labour costs due to labour shortage for provision of cleaning and laundry services.

Other income/gains, net

For the period under review, other income/net gains, which amounted to HK$0.7 million (Six months ended 31 December 2017: HK$3.0 million (restated)), mainly included rental income, partly offset by net foreign exchange losses.

Finance income

The Group recorded finance income of HK$2.6 million (Six months ended 31 December 2017: HK$9.9 million (restated)). The decrease was mainly due to the interest income from the investments in available-for-sale financial assets and financial assets at fair value through profit or loss in the same period last year and all investments had been sold as at 30 June 2018.

General and administrative expenses

General and administrative expenses of the Group for the period under review increased by 3.3% to HK$158.4 million, compared to HK$153.4 million (restated) for the same period last year. The increase of HK$5.0 million was mainly attributable to a provision for impairment of one of the third party trade receivables of the E&M engineering business and higher rental of the Fanling laundry plant from April 2018.

Taxation

The effective tax rate of the Group declined to 16.9% from 18.1% (restated) for the same period last year as a result of a higher profit contribution from Mainland China in the same period last year which has a relatively higher applicable corporate income tax rate.

Management Discussion and Analysis

Profit attributable to equity holders of the Company

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

	For the six months ended 31 December			
	2018	2017 (restated)	Change	% change
	HK$'M	HK$'M	HK$'M	
E&M engineering	**88.3**	84.0	4.3	+5.1%
Environmental management services	**4.1**	2.8	1.3	+46.4%
Facility services	**21.1**	34.1	(13.0)	-38.1%
Total	**113.5**	120.9	(7.4)	-6.1%

As a result of the foregoing, the Group's profit for the period under review decreased by 6.1% or HK$7.4 million to HK$113.5 million, compared to HK$120.9 million (restated) for same period last year. The decrease was mainly the combined result of a decrease in finance income and an increase in general and administrative expenses due to the provision for impairment of one of the third party receivables and higher rental of the Fanling laundry plant from April 2018, partly mitigated by a higher gross profit contribution mostly from the Group's core E&M engineering business segment. The net profit margin of the Group remained stable at 5.0% for the period under review (Six months ended 31 December 2017: 5.1%).

Other comprehensive income

The Group recorded an other comprehensive loss of HK$6.0 million for the period under review, mostly reflective of a decrease in exchange reserve from the depreciation of the Renminbi ("RMB") for conversion of net investments in Mainland China operations.

Liquidity and financial resources

The Group's finance and treasury functions are centrally managed and controlled at its headquarters in Hong Kong. As at 31 December 2018, the Group had total cash and bank balances of HK$521.9 million, of which 71%, 23% and 6% (30 June 2018: 48%, 28% and 24%) were denominated in Hong Kong dollars, RMB and other currencies, respectively. As compared to HK$407.6 million as at 30 June 2018, the Group's cash and bank balances increased by HK$114.3 million to HK$521.9 million, which primarily reflects an increase in net cash inflow from operating activities, partly offset by the Company's distribution of final dividend of HK$59.9 million for the year ended 30 June 2018.

The Group maintained a healthy liquidity position throughout the reporting period with no bank and other borrowings outstanding as at 31 December 2018 (30 June 2018: Nil), Its net gearing ratio was maintained at zero as at 31 December 2018 (30 June 2018: zero). This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents. As at 31 December 2018, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$1,604.3 million (30 June 2018: HK$1,537.5 million) (excluding unutilised banking facilities shared with FSE Management Company Limited ("FMC", a direct wholly-owned subsidiary of FSE Holdings Limited) and its subsidiaries, which are guaranteed by FMC). Amongst the total banking facilities as at 31 December 2018, HK$201.8 million (30 June 2018: HK$242.1 million) were guaranteed by FMC. As at 31 December 2018, HK$229.5 million (30 June 2018: HK$263.5 million) had been utilised for bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet its current business operation and capital expenditure requirements.

Foreign currency exposure

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

As part of our business is carried out in Mainland China, part of our assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in Mainland China operations with net assets of HK$180.0 million as at 31 December 2018 (30 June 2018: HK$179.0 million). 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 period under review, the fluctuation of RMB against Hong Kong dollars was 5.2% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the period under review).

As at 31 December 2018, if the Hong Kong dollars had strengthened/weakened by another 5.2% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$9.4 million lower/higher.

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 31 December 2018, the net proceeds of HK$264.5 million received from the Company's Initial Public Offering (referred to the prospectus issued by the Company on 26 November 2015) and the revised use of unutilized proceeds of HK$133.5 million as stated in the Company's announcement dated 26 June 2018 were applied in the manner as shown in the table below:

	Original use of proceeds from Global offering HK$'M	Utilised amount as at 26 June 2018 HK$'M	Revised use of proceeds as announced pursuant to the Company's announcement dated 26 June 2018 HK$'M	Aggregated utilised amount as from 27 June 2018 to 31 December 2018 HK$'M	Unutilised amount as at 31 December 2018 HK$'M
Investment in/acquisition of companies engaged in the installation and maintenance of ELV system	81.6	5.9	–	–	–
Development of environmental management business	51.0	3.6	20.0	4.1	15.9
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	2.1	13.9
Enhancement of quality testing laboratory	12.2	4.9	7.3	0.8	6.5
Upgrade of corporate information technology system and software	8.0	5.9	2.1	2.1	–
General working capital	25.0	25.0	–	–	–
Total	264.5	131.0	133.5	97.2	36.3

The Group has utilised HK$228.2 million of the net proceeds from the Company's Global offering, of which HK$96.6 million was utilised during the period under review and expects that the remaining balance of the IPO proceeds would be utilised within 5 years up to 2023. The Group held the unutilised net proceeds mainly in short-term deposits or time deposits with licensed banks and authorised financial institutions in Hong Kong.

Capital commitments

The Group had capital commitments of approximately HK$9.7 million (30 June 2018: HK$1.3 million) as at 31 December 2018 in relation to the purchase of equipment.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2018 and 30 June 2018.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had a total of 7,736 employees (31 December 2017: 7,894), including 1,332 casual workers (31 December 2017: 792). Staff costs for the period under review, including salaries and benefits, was HK$642.1 million (Six months ended 31 December 2017: HK$701.0 million (restated)). The decrease mainly reflects a reduced headcount at the Group's cleaning service division.

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

The Company maintains a share option scheme, which aims at providing incentives to the eligible participants (including the employees of the Group) to contribute to the Group and enables us to recruit high-caliber employees and attract human resources that are valuable to the Group.

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

OUTLOOK

Overview

Leveraging its market leadership and buttressed by a proven track record, a well-established customer network and ample financial reserves, the Group will be able to continuously seek acquisition opportunities and engage competent professional talent to help it explore new market opportunities and expand geographical coverage in Hong Kong, Macau and Mainland China.

The Group will stay focused on applying its core competencies to raise customer satisfaction and to ensure the sustainable growth and profitability of its business. The Board is confident that the Group, through its unwavering efforts, can maximise shareholders' value and enhance its corporate image as well as its position in the E&M engineering, environmental management services and facility services industries.

Management Discussion and Analysis

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

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

E&M Engineering Segment

1. **Installation Services**

   According to the construction expenditure forecast provided by the Construction Industry Council of Hong Kong, the annual expenditure in E&M construction works will amount to over HK$22 billion for the public sector and over HK$25 billion for the private sector over the next few years.

   The long-term housing strategy of the Hong Kong Government, as stated in its 2017 Policy Address, aims at continuing its ongoing efforts in increasing the land and housing supply. 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. Therefore, the Government is allocating more land to public housing development and increasing the ratio of public housing to 70% of the housing units on its newly developed land in accordance with its revised public-private housing ratio to 7:3 under its long-term strategy announced in December 2018. One of the six new housing initiatives announced in June 2018 is to reallocate nine private housing sites for public housing development in Kai Tak and Anderson Road Quarry, and a total of 10,600 units are expected to be provided.

   To prepare for the challenges brought by the an aging population, the Hong Kong Government earmarked HK$200 billion in 2016 for a ten-year hospital development plan covering, among others, the redevelopment of Queen Mary Hospital, Kwong Wah Hospital, United Christian Hospital and Kwai Chung Hospital, construction of a new acute hospital at the Kai Tak Development Area and the redevelopment or expansion of various hospitals such as the Tuen Mun Hospital Operating Block, Prince of Wales Hospital, North District Hospital, Princess Margaret Hospital and Grantham Hospital. On top of the HK$200 billion invested in the first 10-year plan, the Government has committed to an extra HK$300 billion capital works programme to support the second 10-year hospital development plan, improve the clinic facilities of the Department of Health, and upgrade and increase healthcare training facilities.

   To promote sport in the community and maintain Hong Kong as a centre for major international sporting events, the Hong Kong Government plans to spend a total of HK$20 billion between 2017 and 2021 to launch 26 projects to develop new or improve existing sports and recreation facilities. Besides, construction at the Kai Tak Sports Park, the largest sport project with an investment over HK$30 billion, is expected to commence in early 2019 and to be completed in 2022/2023.

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

Management Discussion and Analysis

To encourage and enhance innovation and technology, the infrastructure works of the Hong Kong-Shenzhen Innovation and Technology Park at the Lok Ma Chau Loop has commenced in June 2018, with the objective of providing the first batch of land parcels for superstructure development not later than 2021. The Hong Kong Science and Technology Parks expansion project including the InnoCell residential building for talent, as well as the Data Technology Hub and the Advanced Manufacturing Centre in Tseung Kwan O Industrial Estate are to be completed progressively starting from 2020 as scheduled.

Of course, the construction engineering sectors in Hong Kong are also facing a multitude of problems and serious challenges. According to forecasts, there will be a severe labour shortage of skilled workers in the E&M engineering services industry over the next few years, which, coupled with the aging workforce, are going to push up labour wages and hence construction cost. The filibustering in the Legislative Council has delayed the award of new public works contracts, which adds to the rising construction cost. The Group has thus strived to maintain a relatively stable workforce and retain loyal staff members so as to preserve its competitiveness.

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

Since the establishment of the new ELV division, the Group has been awarded several ELV projects including four residential 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 Area 27, an office development project at King's Road in North Point, an Aviation Training Centre at Chek Lap Kok and Inland Revenue Tower.

Looking ahead, the Group will keep working with vendors to customise those systems according to the specific needs of customers, using advanced technologies such as intelligent IP/IT-based and mobile Apps systems. The Group believes that with a highly qualified and experienced staff and sound project management skills, it can fulfill its commitment of delivering quality and professional services to all its valued customers.

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 Phases 3 and 4 (HK$43 billion investment), Londoner Macao (HK$8 billion investment) and Studio City Phase 2 and the renewal of casino licences in 2020 and 2022 are expected to create emerging business opportunities for the Group in the coming few years.

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

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

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

2. **Maintenance Services**

   As reflected in the statistics available, there are currently over 65% of the existing buildings (approximately 42,000) aged over 20 years in Hong Kong including 1,700 commercial buildings, 1,600 industrial buildings and 24,000 residential buildings. Thus, the maintenance section of the Group's E&M engineering services envisages a growing demand for the term maintenance contracts from different prestigious commercial and residential buildings, hospitals, the public sector and educational institutions seeking the service of quality contractors to assist them in maintaining their properties in the best possible condition. The Group expects an increase in revenue from fitting-out works, system upgrade and replacement works following the implementation of the Mandatory Building Inspection Scheme (MBI Scheme) on 30 June 2012. Large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the maintenance section.

Environmental Management Services Segment

Increasing public awareness of the importance of sustainable environment has fueled the demand for environmental engineering services and products. The 2017 Policy Address for Hong Kong highlights the Hong Kong Government's determination to combat climate change with a view to promoting energy efficiency, energy conservation and green building. "Going green" is an obvious trend to the Group spurring a demand to provide customers with total solutions for energy saving and the use of renewable energy and environmentally-friendly technologies.

The Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) enacted in 2012 continues to support the business development of the Group's environmental consultancy services. Its seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively have brought steady growth to its environmental engineering segment.

Laboratory Services

With the growing public demand for better water quality, increasingly strict water control procedures drive the market demand for water quality testing services of the Group's laboratory. This laboratory has been accredited by the Hong Kong Accreditation Service under the Hong Kong Laboratory Accreditation Scheme (HOKLAS) since 2015, and can provide testing for fresh water inside service, fresh water for the Quality Water Supply Scheme, Fresh Water Cooling Tower Scheme, air quality laboratory analyses, environmental monitoring and baseline monitoring and waste water monitoring. The laboratory services thus complement the work of the E&M engineering and environmental engineering segments.

During the period under review, the Group has been approved as an Accredited Indoor Air Quality ("IAQ") Certificate Issuing Body ("CIB") and assigned the registration number HKIAS032. The inspection works of IAQ further strengthen the Group's environmental consultancy services.

Technology Development

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

Facility Services Segment

1. **Cleaning Services**

   New Business Opportunity

   Due to the completion of a substantial number of large-scale infrastructure facilities, commercial buildings and residential buildings in succession during the years to come, which include a large number of commercial, residential buildings and hotels in Hong Kong, along with mega facilities and properties to be gradually launched at the West Kowloon Cultural District, the Kai Tak development area, the Kwun Tong business area and New Town extensions, the Group's prime marketing strategy will be to focus on these newly-completed properties. Waihong is one of the companies capable of providing stable and quality services to this kind of new projects in the face of a labour shortage in this area. Furthermore, Waihong also aims at providing initial cleaning services to those buildings under construction and offering fine cleaning services to flats for developers before handover to owners. This type of one-off cleaning services may potentially generate higher returns to the Group. Also, with the increasing need for outsourcing environmental services, it is expected that the demand for environmental services from property management companies and property owners will be raised as well.

   In addition, due to past outbreaks of disease in prior years, it is expected that the Hong Kong Government will place increasing emphasis on environmental and hygiene control and allocate funds for reinforcing its related policies, including waste management and recycling. It is envisaged that Waihong will have competitive advantages to win new tenders or attain a high renewal rate for its existing contracts related to the above-mentioned business opportunities through capitalising on its extensive experience, quality and customised services and distinctive brand.

   Business Development

   With thousands of tenders and quotations to be released to the market year to year, cleaning services providers benefit from contracts totalling billions of Hong Kong dollars from both the private and public sectors. Waihong, as one of major players in the cleaning services market, strives to retain a higher ratio of its existing service contracts and explore more new business from different market segments leveraging its competitive advantages. Moving forward, the Group will focus on the high-end market including premier office towers and hotel facilities, in particular, those newly-built properties.

   Despite the challenges of labour shortages that could result in higher costs, Waihong will continue to control its overall quality of services through its experienced management team in supervising the labour force.

2. **Laundry**

In the coming years, the Hong Kong laundry service market is expected to achieve a moderate growth and attain a value of HK$10.5 billion by the end of 2021. NCL intends to continue to invest and upgrade its advanced and innovative laundry equipment, such as an upgrade of one of its continuous batch washers scheduled in June 2019, to enhance its service and efficiency and provide value-added services to its clients, including international hotel groups and large enterprises.

Moreover, NCL will keep exploring advanced energy-saving methods with major utility companies in order to achieve a Green Laundry.

Conclusion

As the Group can provide a comprehensive range of E&M engineering, environmental management services and facilities services and run well-established E&M engineering operations in Hong Kong, Mainland China and Macau, it is ready to grasp the ample business opportunities that the forthcoming above-mentioned infrastructure and large-scale projects are expected to bring. The Group shall endeavour to maintain a strong financial position so as to stay poised for new investment as well as evaluating alternative business opportunities as and when they arise.