

Notes to the Condensed Consolidated Interim Financial Statements

1 GENERAL INFORMATION

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

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

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

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated.

This condensed consolidated interim financial information has been approved for issue by the board of directors of the Company (the “Board”) on 26 February 2020.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information for the six months ended 31 December 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2019, which has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The significant accounting policies applied are consistent with those set out in the annual report for the year ended 30 June 2019, except for the adoption of new standards as described below.

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

For the six months ended 31 December 2019, the Group adopted the following new standard, amendments, interpretations and improvements to existing standards which are effective for the accounting periods beginning on or after 1 January 2019 and relevant to the Group’s operations:

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

(a) Adoption of new standard, amendments, interpretations and improvements to existing standards by the Group *(Continued)*

HKFRS 16 "Leases"

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

The Group has adopted HKFRS 16 from 1 July 2019, but has not restated its comparative amounts for the period ended 31 December 2018 as permitted under the specific transition provisions in the standards. The effects of the adoption are set out in Note 3 below.

(b) Amendments to existing standards that have been issued but not yet effective and have not been early adopted by the Group

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

		Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and HKAS 8 Amendments	Definition of Material	1 January 2020
HKFRS 3 Amendments	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	To be determined

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

Notes to the Condensed Consolidated Interim Financial Statements

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

(c) Application of merger accounting for business combinations under common control by the Group

On 18 October 2019, the Company and FSE Property Management Group Limited ("FPMGL"), a wholly-owned subsidiary of the Company, as the purchaser and FSE Management Company Limited ("FMC"), a fellow subsidiary of the Company, as a vendor entered into a conditional sale and purchase agreement, pursuant to which FMC agreed to sell, and the Company agreed to purchase (or to procure a wholly-owned subsidiary to purchase) the entire issued share capital (the "Sale Share") of Legend Success Investments Limited and its subsidiaries (the "Target Group") at an initial sum of consideration of HK\$704.9 million, subject to subsequent adjustment by reference to the change in the net tangible asset value ("NTAV") of the Target Group from 30 June 2019 to the date of completion of the acquisition. Pursuant thereto, the Company has nominated FPMGL to buy the Sale Share. The initial sum of consideration was satisfied by the Company through (i) the payment of HK\$564.0 million in cash and (ii) a non-cash consideration of HK\$140.9 million through the issuance and allotment by the Company of 43,676,379 non-voting redeemable convertible preference shares of HK\$0.10 each at the issue price of HK\$3.2260 per share to FMC, credited as fully paid. The Group's payment for the initial cash consideration for this transaction was mainly financed by a bank loan with a principal amount of HK\$563.9 million drawn in December 2019, which bears interest at 0.7% per annum over Hong Kong Interbank Offered Rate. As at 31 December 2019, the carrying amount of this bank loan, net of unamortised transaction costs, was HK\$562.8 million. The convertible preference shares are convertible into 43,676,379 ordinary shares of the Company at an initial price of HK\$3.2260 per share, subject to adjustments, at any time within 10 years following its issuance date of 16 December 2019. The acquisition was completed on 16 December 2019 (the "Completion Date") and a positive NTAV adjustment of HK\$38.5 million was made to the consideration for this transaction, which thus in aggregate amounts to HK\$743.4 million. The total amount of such consideration has been charged directly to the Group's reserves. A final cash payment of the consideration of HK\$38.5 million was made on 13 February 2020 with reference to the unaudited net tangible asset value of the Target Group as at the Completion Date of the acquisition. The Target Group (or the "Acquired Group") is principally engaged in the provision of property and facility management services, property agency and related services for buildings, car parks management services and guarding services in Hong Kong.

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

Notes to the Condensed Consolidated Interim Financial Statements

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

(c) Application of merger accounting for business combinations under common control by the Group *(Continued)*

- (i) Effect on the condensed consolidated income statement for the six months ended 31 December 2019 (unaudited):

	The Group (before business combination under common control) HK\$'000	Effect of business combination under common control of the Acquired Group HK\$'000	Adjustments (Note) HK\$'000	Consolidated HK\$'000
Revenue	2,163,655	277,626	(20,945)	2,420,336
Cost of services and sales	(1,880,634)	(187,760)	20,945	(2,047,449)
Gross profit	283,021	89,866	–	372,887
Other income/gains, net	1,460	467	–	1,927
General and administrative expenses	(158,181)	(41,735)	–	(199,916)
Operating profit	126,300	48,598	–	174,898
Finance income	3,248	49	–	3,297
Finance costs	(1,918)	(585)	–	(2,503)
Share of result of an associated company and joint ventures	–	467	–	467
Profit before income tax	127,630	48,529	–	176,159
Income tax expenses	(24,235)	(7,890)	–	(32,125)
Profit for the period	103,395	40,639	–	144,034
Attributable to:				
Shareholders of the Company	103,395	40,628	–	144,023
Non-controlling interests	–	11	–	11
	103,395	40,639	–	144,034
Earnings per share for profit attributable to shareholders of the Company (expressed in HK\$)				
— Basic and diluted	0.23	0.09	–	0.32

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

Notes to the Condensed Consolidated Interim Financial Statements

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

(c) Application of merger accounting for business combinations under common control by the Group *(Continued)*

- (ii) Effect on the condensed consolidated statement of comprehensive income for the period ended 31 December 2019 (unaudited):

	The Group (before business combination under common control) HK\$'000	Effect of business combination under common control of the Acquired Group HK\$'000	Consolidated HK\$'000
Profit for the period	103,395	40,639	144,034
Other comprehensive (loss)/income:			
<i>Items that may be subsequently reclassified to consolidated income statement:</i>			
Currency translation differences	(3,400)	–	(3,400)
<i>Item that will not be subsequently reclassified to consolidated income statement:</i>			
Remeasurement gains on defined retirement scheme, net of tax	–	1,048	1,048
Remeasurement losses on long service payment liabilities, net of tax	(1,415)	(222)	(1,637)
Other comprehensive (loss)/income for the period, net of tax	(4,815)	826	(3,989)
Total comprehensive income for the period	98,580	41,465	140,045
Attributable to:			
Shareholders of the Company	98,580	41,454	140,034
Non-controlling interests	–	11	11
	98,580	41,465	140,045

Notes to the Condensed Consolidated Interim Financial Statements

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

(c) Application of merger accounting for business combinations under common control by the Group *(Continued)*

(iii) Effect on the condensed consolidated statement of financial position as at 31 December 2019 (unaudited):

	The Group (before business combination under common control) HK\$'000	Effect of business combination under common control of the Acquired Group HK\$'000	Adjustments (Note) HK\$'000	Consolidated HK\$'000
ASSETS				
Non-current assets				
Property, plant and equipment	383,151	13,402	–	396,553
Investment property	11,043	–	–	11,043
Right-of-use assets	54,293	13,450	–	67,743
Land use rights	20,060	–	–	20,060
Other intangible assets	51,401	25,858	–	77,259
Interests in an associated company	–	64	–	64
Interests in joint ventures	–	934	–	934
Deferred income tax assets	7,008	32	–	7,040
Pension assets	–	3,903	–	3,903
	526,956	57,643	–	584,599
Current assets				
Trade and other receivables	1,344,234	101,545	(8,791)	1,436,988
Contract assets	349,148	–	–	349,148
Inventories	52,832	–	–	52,832
Cash and bank balances	377,758	124,917	–	502,675
	2,123,972	226,462	(8,791)	2,341,643
Total assets	2,650,928	284,105	(8,791)	2,926,242
EQUITY				
Ordinary shares	45,000	–	–	45,000
Convertible preference shares	140,900	–	–	140,900
Reserves	28,672	123,701	–	152,373
Shareholders' funds	214,572	123,701	–	338,273
Non-controlling interests	–	78	–	78
Total equity	214,572	123,779	–	338,351

Note: The adjustment represents the elimination of trade and other receivables of the Group owed by the Acquired Group.

Notes to the Condensed Consolidated Interim Financial Statements

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

(c) Application of merger accounting for business combinations under common control by the Group *(Continued)*

(iii) Effect on the condensed consolidated statement of financial position as at 31 December 2019 (unaudited): *(Continued)*

	The Group (before business combination under common control) HK\$'000	Effect of business combination under common control of the Acquired Group HK\$'000	Adjustments (Note) HK\$'000	Consolidated HK\$'000
LIABILITIES				
Non-current liabilities				
Borrowings	562,817	–	–	562,817
Lease liabilities	24,609	5,877	–	30,486
Long service payment liabilities	22,367	11,721	–	34,088
Deferred income tax liabilities	26,748	2,607	–	29,355
	636,541	20,205	–	656,746
Current liabilities				
Trade and other payables	1,542,216	113,785	(8,791)	1,647,210
Contract liabilities	156,428	–	–	156,428
Current portion of lease liabilities	31,156	7,689	–	38,845
Taxation payable	70,015	18,647	–	88,662
	1,799,815	140,121	(8,791)	1,931,145
Total liabilities	2,436,356	160,326	(8,791)	2,587,891
Total equity and liabilities	2,650,928	284,105	(8,791)	2,926,242
Net current assets	324,157	86,341	–	410,498
Total assets less current liabilities	851,113	143,984	–	995,097

Note: The adjustment represents the elimination of trade and other receivables of the Group owed by the Acquired Group.

Notes to the Condensed Consolidated Interim Financial Statements

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

(c) Application of merger accounting for business combinations under common control by the Group *(Continued)*

- (iv) Effect on the condensed consolidated income statement for the six months ended 31 December 2018 (unaudited):

	The Group (before business combination under common control) HK\$'000	Effect of business combination under common control of the Acquired Group HK\$'000	Adjustments (Note) HK\$'000	Consolidated HK\$'000
Revenue	2,291,720	255,442	(14,609)	2,532,553
Cost of services and sales	(2,000,000)	(175,007)	14,609	(2,160,398)
Gross profit	291,720	80,435	–	372,155
Other income/gains, net	678	343	–	1,021
General and administrative expenses	(158,383)	(50,675)	–	(209,058)
Operating profit	134,015	30,103	–	164,118
Finance income	2,629	11	–	2,640
Finance costs	–	(201)	–	(201)
Share of result of an associated company and joint ventures	–	473	–	473
Profit before income tax	136,644	30,386	–	167,030
Income tax expenses	(23,096)	(5,028)	–	(28,124)
Profit for the period	113,548	25,358	–	138,906
Attributable to:				
Shareholders of the Company	113,548	25,340	–	138,888
Non-controlling interests	–	18	–	18
	113,548	25,358	–	138,906
Earnings per share for profit attributable to shareholders of the Company (expressed in HK\$)				
— Basic and diluted	0.25	0.06	–	0.31

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

Notes to the Condensed Consolidated Interim Financial Statements

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

(c) Application of merger accounting for business combinations under common control by the Group *(Continued)*

- (v) Effect on the condensed consolidated statement of comprehensive income for the period ended 31 December 2018 (unaudited):

	The Group (before business combination under common control) HK\$'000	Effect of business combination under common control of the Acquired Group HK\$'000	Consolidated HK\$'000
Profit for the period	113,548	25,358	138,906
Other comprehensive (loss)/income:			
<i>Items that may be subsequently reclassified to consolidated income statement:</i>			
Currency translation differences	(6,925)	–	(6,925)
<i>Item that will not be subsequently reclassified to consolidated income statement:</i>			
Remeasurement losses on defined retirement scheme, net of tax	–	(1,294)	(1,294)
Remeasurement gains on long service payment liabilities, net of tax	938	41	979
Other comprehensive loss for the period, net of tax	(5,987)	(1,253)	(7,240)
Total comprehensive income for the period	107,561	24,105	131,666
Attributable to:			
Shareholders of the Company	107,561	24,087	131,648
Non-controlling interests	–	18	18
	107,561	24,105	131,666

Notes to the Condensed Consolidated Interim Financial Statements

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

(c) Application of merger accounting for business combinations under common control by the Group *(Continued)*

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

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

Note: The adjustment represents the elimination of trade and other receivables of the Group owed by the Acquired Group.

Notes to the Condensed Consolidated Interim Financial Statements

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

(c) Application of merger accounting for business combinations under common control by the Group *(Continued)*

(vi) Effect on the condensed consolidated statement of financial position as at 30 June 2019 (unaudited):
(Continued)

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

Note: The adjustment represents the elimination of trade and other receivables of the Group owed by the Acquired Group.

No other significant adjustments were made by the Group during the period to the net profit or loss of any entities of the Group and Acquired Group as a result of the business combination under common control to achieve consistency of accounting policies.

Notes to the Condensed Consolidated Interim Financial Statements

3 CHANGES IN ACCOUNTING POLICIES

As explained in Note 2(a) above, the Group has adopted HKFRS 16 starting from 1 July 2019, which resulted in changes in its accounting policies and adjustments to the amounts recognised in the condensed consolidated interim financial statements. As allowed in the specific transition provision in the standard, comparative amounts have not been restated.

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

The following table summarises the opening effect on the Group's adoption of HKFRS 16 as at 1 July 2019 and the amounts of right-of-use assets and lease liabilities recognised as at 1 July 2019 and 31 December 2019:

	As at 31 December 2019 HK\$'000	As at 1 July 2019		As restated HK\$'000
		Without the adoption of HKFRS 16 HK\$'000	Effects of the adoption of HKFRS 16 HK\$'000	
Condensed consolidated statement of financial position (extract)				
Non-current assets				
Right-of-use assets	67,743	–	78,913	78,913
Non-current liabilities				
Lease liabilities	30,486	–	44,049	44,049
Current liabilities				
Lease liabilities	38,845	–	34,864	34,864

The adoption of HKFRS 16 has no significant impact to the Group's condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and net cash flow from operating, investing and financing activities on the condensed consolidated statement of cash flows for the six months ended 31 December 2019.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk and foreign exchange risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 30 June 2019.

There have been no changes in the risk management policies since the Group's financial year ended 30 June 2019.

4.2 Fair value estimation

At 31 December 2019, the carrying amounts of Group's financial assets and liabilities approximate their fair values due to the short-term maturities of these assets and liabilities.

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5 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to its consolidated financial statements for the year ended 30 June 2019.

6 REVENUE AND SEGMENT INFORMATION

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

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

	For the six months ended 31 December	
	2019 HK\$'000	2018 (restated) HK\$'000
Revenue		
Contracting	1,413,231	1,597,124
Maintenance services	72,405	69,599
Sales of goods	34,988	44,596
Facility services	622,086	565,792
Property and facility management services	277,626	255,442
Total	2,420,336	2,532,553

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

- (i) E&M engineering — Provision of engineering services and trading of building materials;
- (ii) Environmental management services — Trading of environmental products and provision of related engineering and consultancy services;
- (iii) Facility services — Management of cleaning and waste disposal services, recycling and environmental disposal services and provision of laundry services; and
- (iv) Property and facility management services — Provision of property and facility management services, property agency and related services for buildings, carparks management services and guarding services.

Notes to the Condensed Consolidated Interim Financial Statements

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

The CODM assesses the performance of the operating segments based on each segment's operating profit. The measurement of segment operating profit excludes the effects of unallocated corporate expenses and non-recurring events. In addition, finance income and costs are not allocated to segments.

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

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

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

As at 31 December 2019, unallocated assets and unallocated liabilities represented the assets and liabilities not arising from the operations of the operating segments.

Prior year's corresponding segment information that is presented for comparative purposes has been restated to conform with AG 5 issued by the HKICPA as a result of the acquisition of the Target Group which detailed in Note 2(c).

Capital expenditure comprises mainly additions to property, plant and equipment and right-of-use assets (Note 12).

Notes to the Condensed Consolidated Interim Financial Statements

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) For the six months ended and as at 31 December 2019

The segment results for the six months ended 31 December 2019 and other segment items included in the condensed consolidated income statement are as follows:

	E&M engineering HK\$'000	Environmental management services HK\$'000	Facility services HK\$'000	Property and facility management services HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue — External	1,484,093	36,531	622,086	277,626	–	2,420,336
Revenue — Internal	4,019	1,918	23,095	–	(29,032)	–
Total revenue	1,488,112	38,449	645,181	277,626	(29,032)	2,420,336
Timing of revenue recognition						
Over time	1,455,158	36,384	645,181	277,626	(29,001)	2,385,348
At a point of time	32,954	2,065	–	–	(31)	34,988
Total revenue	1,488,112	38,449	645,181	277,626	(29,032)	2,420,336
Operating profit before unallocated corporate expenses	113,719	5,453	20,960	48,528	–	188,660
Unallocated corporate expenses						(13,762)
Operating profit						174,898
Finance income						3,297
Finance costs						(2,503)
Share of results of an associated company and joint ventures						467
Profit before income tax						176,159
Income tax expenses						(32,125)
Profit for the period						144,034
Other items						
Depreciation (Note 12)	12,346	747	6,334	1,755	–	21,182
Amortisation of right-of-use assets (Note 12)	8,361	–	7,432	4,065	–	19,858
Amortisation of land use rights (Note 12)	290	–	–	–	–	290
Amortisation of other intangible assets (Note 12)	185	–	240	333	–	758

Notes to the Condensed Consolidated Interim Financial Statements

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) For the six months ended and as at 31 December 2019 *(Continued)*

The segment assets and liabilities as at 31 December 2019 and capital expenditure for the six months ended 31 December 2019 are as follows:

	E&M engineering HK\$'000	Environmental management services HK\$'000	Facility services HK\$'000	Property and facility management services HK\$'000	Total HK\$'000
Segment assets	1,809,923	40,880	533,536	284,105	2,668,444
Unallocated assets					257,798
Total assets					2,926,242
Segment liabilities	1,560,601	15,259	245,425	151,535	1,972,820
Unallocated liabilities					615,071
Total liabilities					2,587,891
Total capital expenditure	9,322	974	7,251	2,160	19,707

Notes to the Condensed Consolidated Interim Financial Statements

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) For the six months ended 31 December 2018 and as at 30 June 2019

The segment results for the six months ended 31 December 2018, as restated, and other segment items included in the condensed consolidated income statement are as follows:

	E&M engineering HK\$'000	Environmental management services HK\$'000	Facility services HK\$'000	Property and facility management services HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue — External, as restated	1,676,109	35,210	565,792	255,442	–	2,532,553
Revenue — Internal, as restated	910	1,547	16,252	–	(18,709)	–
Total revenue, as restated	1,677,019	36,757	582,044	255,442	(18,709)	2,532,553
Timing of revenue recognition						
Over time, as restated	1,634,194	34,947	582,044	255,442	(18,670)	2,487,957
At a point of time	42,825	1,810	–	–	(39)	44,596
Total revenue, as restated	1,677,019	36,757	582,044	255,442	(18,709)	2,532,553
Operating profit before unallocated corporate expenses, as restated	106,246	5,057	23,978	31,012	–	166,293
Unallocated corporate expenses						(2,175)
Operating profit, as restated						164,118
Finance income, as restated						2,640
Finance costs, as restated						(201)
Share of result of an associated company and joint ventures, as restated						473
Profit before income tax, as restated						167,030
Income tax expenses, as restated						(28,124)
Profit for the period, as restated						138,906
Other items						
Depreciation, as restated (Note 12)	12,813	898	8,565	1,754	–	24,030
Amortisation of right-of-use assets (Note 12)	–	–	–	–	–	–
Amortisation of land use rights (Note 12)	290	–	–	–	–	290
Amortisation of other intangible assets, as restated (Note 12)	185	–	240	333	–	758

Notes to the Condensed Consolidated Interim Financial Statements

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) For the six months ended 31 December 2018 and as at 30 June 2019 *(Continued)*

The segment assets and liabilities as at 30 June 2019 and capital expenditure for the six months ended 31 December 2018, as restated, are as follows:

	E&M engineering HK\$'000	Environmental management services HK\$'000	Facility services HK\$'000	Property and facility management services HK\$'000	Total HK\$'000
Segment assets, as restated	1,887,204	46,816	486,357	273,393	2,693,770
Unallocated assets, as restated					259,115
Total assets, as restated					2,952,885
Segment liabilities, as restated	1,677,243	22,292	203,885	191,079	2,094,499
Unallocated liabilities, as restated					4,052
Total liabilities, as restated					2,098,551
Total capital expenditure, as restated	2,374	247	3,183	5,113	10,917

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

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

	For the six months ended 31 December	
	2019 HK\$'000	2018 (restated) HK\$'000
Revenue		
Hong Kong	2,096,107	2,104,339
Mainland China	207,086	371,311
Macau	117,143	56,903
Total	2,420,336	2,532,553

Notes to the Condensed Consolidated Interim Financial Statements

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	As at 31 December 2019 HK\$'000	As at 30 June 2019 (restated) HK\$'000
Non-current assets, other than deferred tax assets and pension assets		
Hong Kong	514,642	463,305
Mainland China	29,388	29,789
Macau	29,626	24,680
Total	573,656	517,774

7 OTHER INCOME/GAINS, NET

	For the six months ended 31 December	
	2019 HK\$'000	2018 (restated) HK\$'000
Rental income	1,176	1,264
Ex-gratia payment from the government for retirement of motor vehicles	225	87
Exchange losses, net	(614)	(906)
Gain/(loss) on disposal of property, plant and equipment, net	635	(8)
Sundries	505	584
Total	1,927	1,021

Notes to the Condensed Consolidated Interim Financial Statements

8 OPERATING PROFIT

		For the six months ended 31 December	
		2019	2018 (restated)
		HK\$'000	HK\$'000
Notes			
Operating profit is stated after charging/(crediting):			
	Cost of inventories sold	21,324	27,727
	Raw materials and consumables used	387,113	532,809
	Subcontracting fees	828,713	853,310
	Staff costs (including Directors' emoluments)	834,329	777,850
12	Depreciation of property, plant and equipment	20,990	23,838
12	Depreciation of investment property	192	192
12	Amortisation of right-of-use assets	19,858	–
12	Amortisation of land use rights	290	290
12	Amortisation of other intangible assets	758	758
	Operating lease rental for land and buildings	5,414	26,275
	Impairment loss on receivables	2	3,198
	Reversal of impairment loss on trade receivables (Reversal of provision)/provision for inventories	(46) (18)	(627) 351

9 INCOME TAX EXPENSES

		For the six months ended 31 December	
		2019	2018 (restated)
		HK\$'000	HK\$'000
	Current income tax		
	Hong Kong profits tax	29,903	25,104
	Mainland China taxation	167	2,260
	Macau taxation	(378)	(2,033)
	Deferred income tax expenses	2,433	2,793
	Total	32,125	28,124

Hong Kong profits tax has been provided at the rate of 16.5% (Six months ended 31 December 2018: 16.5%) on the estimated assessable profit. Taxation on Mainland China and Macau profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the jurisdictions in which the Group operates. These rates range from 12% to 25% for the six months ended 31 December 2018 and 2019.

Notes to the Condensed Consolidated Interim Financial Statements

10 EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(a) Basic

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

	For the six months ended 31 December	
	2019 HK\$'000	2018 (restated) HK\$'000
Profit attributable to shareholders of the Company	144,023	138,888
Less: Preferred distribution to the holder of convertible preference shares	(371)	–
Earnings used in the basic earnings per share calculation	143,652	138,888
Weighted average number of ordinary shares in issue (shares in thousands)	450,000	450,000
Basic earnings per share (HK\$)	0.32	0.31

(b) Diluted

During the six months ended 31 December 2019, the Company issued convertible preference shares, with details set out in Notes 2(c) and 15, which are treated as contingently issuable potential ordinary shares under HKAS 33 "Earnings per Share". Since the conditions for their conversion were not met as at 31 December 2019, therefore, the effect of their conversion is not included in the calculation of the diluted earnings per share for six months ended 31 December 2019. As a result, the diluted earnings per share equals to the basic earnings per share for the six months ended 31 December 2019.

During the six months ended 31 December 2018, the Company did not have any dilutive potential ordinary shares and therefore the diluted earnings per share equals basic earnings per share for the six months ended 31 December 2018.

11 DIVIDEND

At a meeting held on 26 February 2020, the Board has resolved to declare the payment of an interim dividend of HK12.8 cents (For the six months ended 31 December 2018: HK10.1 cents) per ordinary share to the ordinary shareholders of the Company for the six months ended 31 December 2019, equivalent to a total amount of HK\$57.60 million (For the six months ended 31 December 2018: HK\$45.45 million). The interim dividend will be paid in cash.

Notes to the Condensed Consolidated Interim Financial Statements

12 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY, RIGHT-OF-USE ASSETS, LAND USE RIGHTS AND OTHER INTANGIBLE ASSETS

	Property, plant and equipment HK\$'000	Investment property HK\$'000	Right-of-use assets HK\$'000	Land use rights HK\$'000	Other intangible assets HK\$'000
Six months ended 31 December 2018					
Opening net book value as at					
1 July 2018					
As previously reported	412,242	11,620	–	21,230	52,796
Acquisition of the Acquired Group	10,494	–	–	–	26,855
As restated	422,736	11,620	–	21,230	79,651
Exchange differences	(206)	–	–	(214)	–
Additions, as restated	10,917	–	–	–	–
Disposals	(33)	–	–	–	–
Depreciation and amortisation charges, as restated	(23,838)	(192)	–	(290)	(758)
Closing net book value as at					
31 December 2018, as restated	409,576	11,428	–	20,726	78,893
Six months ended 31 December 2019					
Opening net book value as at					
1 July 2019					
As previously reported	406,957	11,235	–	20,432	78,137
Effect of adoption of HKFRS 16 (Note 3)	–	–	78,913	–	–
As restated	406,957	11,235	78,913	20,432	78,137
Exchange differences	(102)	–	–	(82)	–
Additions	10,719	–	8,688	–	300
Disposals	(31)	–	–	–	(420)
Depreciation and amortisation charges	(20,990)	(192)	(19,858)	(290)	(758)
Closing net book value as at					
31 December 2019	396,553	11,043	67,743	20,060	77,259

Notes to the Condensed Consolidated Interim Financial Statements

13 TRADE AND OTHER RECEIVABLES

	As at 31 December 2019 HK\$'000	As at 30 June 2019 (restated) HK\$'000
Trade receivables		
Third parties	478,296	504,701
Related companies (Note 18(c))	81,280	77,817
	559,576	582,518
Less: Provision for impairment		
Third parties	(7,286)	(7,389)
	552,290	575,129
Retention receivables		
Third parties	134,310	139,080
Related companies (Note 18(c))	203,134	205,697
	337,444	344,777
Other receivables and prepayments		
Third parties	135,382	106,415
Related companies (Note 18 (c))	17,027	24,774
	152,409	131,189
Accrued contract revenue	394,845	478,597
Total	1,436,988	1,529,692

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

Notes to the Condensed Consolidated Interim Financial Statements

13 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	As at 31 December 2019 HK\$'000	As at 30 June 2019 (restated) HK\$'000
Current to 90 days	492,740	529,771
91 to 180 days	44,539	34,264
Over 180 days	15,011	11,094
Total	552,290	575,129

14 CASH AND BANK BALANCES

	As at 31 December 2019 HK\$'000	As at 30 June 2019 (restated) HK\$'000
Time deposits with original maturities within three months	158,537	214,768
Other cash at banks and on hand	344,138	347,437
Total	502,675	562,205

15 SHARE CAPITAL

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

	As at 31 December 2019		As at 30 June 2019	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	900,000,000	90,000	1,000,000,000	100,000
Convertible preference shares of HK\$0.10 each (Note i)	100,000,000	10,000	–	–
	1,000,000,000	100,000	1,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK\$0.10 each	450,000,000	45,000	450,000,000	45,000
Convertible preference shares of HK\$0.10 each (Note i)	43,676,379	4,368	–	–
	493,676,379	49,368	450,000,000	45,000
Issue price:				
Convertible preference shares issued at HK\$3.2260 each (Note i)	43,676,379	140,900	–	–

Notes to the Condensed Consolidated Interim Financial Statements

15 SHARE CAPITAL *(Continued)*

Note

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

- Each convertible preference share shall entitle the holder to convert within a period of 10 years after the Issue Date, provided that any conversion shall not result in the Company failing to comply with any public float requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
- Each convertible preference share is convertible into such number of ordinary share(s) being one multiplied by the conversion rate. The conversion rate is determined by dividing the Issue Price of convertible preference shares by the conversion price.
- The conversion price is the Issue Price, subject to adjustment upon the occurrence of certain prescribed events.
- Each convertible preference share shall confer on the holder the right to receive preferred distributions from the Issue Date at a rate of 6.0% per annum on the Issue Price, payable annually in arrears. Each preferred distribution is cumulative. The Board may, in its sole discretion, elect to defer or not to pay a preferred distribution. No interest accrues on any unpaid preferred distribution. If the Board elects to defer or not to pay a preferred distribution, the Company shall not (a) pay any dividends, distributions or make any other payment on any ordinary shares or (b) redeem, cancel, repurchase or acquire for any consideration any ordinary shares, unless at the same time it pays to the holder of the convertible preference shares any deferred or unpaid preferred distribution which was scheduled to be paid on a day falling in the same financial year in respect of which payment of such dividends, distributions or other payments is made or during which such redemption, cancellation, repurchase or acquisition occurs.
- The holder of the convertible preference shares shall not have the right to attend or vote at any general meeting of the Company (except a general meeting for winding up of the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of such holder).
- The holder of the convertible preference shares will have priority over the holders of ordinary shares of the Company on the assets and funds of the Company available for distribution in a distribution of assets on liquidation, winding up or dissolution of the Company.
- At any time after 10 years following the Issue Date, the Company may at its sole discretion serve at least ten days' prior written notice to the holder of the convertible preference shares to redeem either in whole or in part of the convertible preference shares for the time being outstanding, at a redemption price equals to the Issue Price together with all outstanding preferred distributions accrued to the date fixed for redemption.

Notes to the Condensed Consolidated Interim Financial Statements

16 TRADE AND OTHER PAYABLES

	As at 31 December 2019 HK\$'000	As at 30 June 2019 (restated) HK\$'000
Trade payables		
Third parties	251,295	223,997
Related companies (Note 18(c))	1,299	334
	252,594	224,331
Other creditors		
Third parties	108,769	121,796
Related companies (Note 18 (c))	43,395	27,729
	152,164	149,525
Bills payable		
Third parties	–	12,025
Retention payables		
Third parties	219,974	231,157
Accrued expenses	239,604	240,186
Provision for contracting costs	782,874	861,378
Total	1,647,210	1,718,602

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

	As at 31 December 2019 HK\$'000	As at 30 June 2019 (restated) HK\$'000
1 to 90 days	218,798	217,574
91 to 180 days	13,005	4,835
Over 180 days	20,791	1,922
Total	252,594	224,331

Notes to the Condensed Consolidated Interim Financial Statements

17 NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	For the six months ended 31 December	
		2019 HK\$'000	2018 (restated) HK\$'000
Profit before income tax		176,159	167,030
Finance income		(3,297)	(2,640)
Finance costs		2,503	201
(Gain)/loss on disposal of property, plant and equipment	7	(635)	8
(Reversal of provision)/provision for inventories	8	(18)	351
Impairment loss on receivables	8	2	3,198
Reversal of impairment loss on trade receivables	8	(46)	(627)
Depreciation of property, plant and equipment	12	20,990	23,838
Depreciation of investment property	12	192	192
Amortisation of right-of-use assets	12	19,858	–
Amortisation of land use rights	12	290	290
Amortisation of other intangible assets	12	758	758
Share of results of an associated company and joint ventures		(467)	(473)
Pension (income)/costs on defined benefits plan		(6)	204
Long service payment liabilities			
Expenses recognised in the condensed consolidated income statement		2,185	3,579
Benefit paid		(1,625)	(1,077)
Unrealised exchange differences		517	(2,486)
Operating cash flows before changes in working capital		217,360	192,346
Change in working capital:			
Inventories		(12,608)	(10,707)
Contract assets and liabilities		(127,495)	132,606
Trade and other receivables		85,607	63,723
Trade and other payables		(104,180)	(129,778)
Pension assets		–	(31)
Cash generated from operations		58,684	248,159

Notes to the Condensed Consolidated Interim Financial Statements

17 NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Cash consideration for acquisition of a business

On 16 December 2019, the Group acquired the Acquired Group at a total consideration of HK\$743.4 million upon which the initial sum of consideration of HK\$704.9 million was satisfied by the Company through (i) the payment of HK\$564.0 million in cash and (ii) a non-cash consideration of HK\$140.9 million through the issuance and allotment by the Company of non-voting redeemable convertible preference shares. A final cash payment of the consideration of HK\$38.5 million was made on 13 February 2020. Details of the transaction are set out in Note 2(c) to the condensed interim consolidated financial statements.

(c) Exchange differences

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

(d) Non-cash transaction

On 16 December 2019, the Company issued HK\$140.9 million of convertible preference shares as part of its consideration for the acquisition of the Acquired Group. Details of the transaction are set out in Note 2(c) to the condensed interim consolidated financial statements.

18 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated interim financial information, the Group undertook the following transactions with related parties, which in the opinion of the directors of the Company, were carried out in the normal course of business during the six months ended 31 December 2018 and 2019.

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

Name	Relationship
FSE Management Company Limited	Note i
Beamland Limited	Note i
DMI Development Limited	Note i
Fast Solution Ltd	Note i
General Security (H.K.) Limited	Note i
Great City Developments Limited	Note i
Hong Kong Island Landscape Company Limited	Note i
Nova Insurance Consultants Limited	Note i
Nova Risk Services Holdings Limited	Note i
Perfect Modern Limited	Note i
Power Estate Investments Limited	Note i
Silver Asia Investments Ltd	Note i
Success Ocean Limited	Note i
上海新尚賢坊房地產發展有限公司	Note i
上海豐昌物業管理有限公司	Note i

Notes to the Condensed Consolidated Interim Financial Statements

18 RELATED PARTY TRANSACTIONS *(Continued)*

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

Name	Relationship
ACE Island Limited	Note ii
Anway Ltd	Note ii
AOS Management Ltd	Note ii
ATL Logistics Centre Hong Kong Ltd	Note ii
Bright Link Engineering Limited	Note ii
Bright Moon Company Limited	Note ii
Broadway-Nassau Investments Limited	Note ii
Build King Construction Ltd	Note ii
Calpella Limited	Note ii
Cheer Globe Limited	Note ii
CHI Studio Company Limited	Note ii
Chow Tai Fook Enterprises Ltd	Note ii
Chow Tai Fook Jewellery and Watch (Macau) Limited	Note ii
Chow Tai Fook Jewellery Company Limited	Note ii
CiF Solution Limited	Note ii
Cititop Limited	Note ii
Citybus Limited	Note ii
Daily Land Limited	Note ii
Diamond International Limited	Note ii
Discovery Park Commercial Services Limited	Note ii
Donut Cafe Company Limited	Note ii
Donut Village Company Limited	Note ii
Earning Yield Limited	Note ii
Ever Light Limited	Note ii
Ever Right Limited	Note ii
Gentworld Development Limited	Note ii
GH Hotel Company Limited	Note ii
GHK Hospital Limited	Note ii
Global Winner Limited	Note ii
Gold Victory Investments Limited	Note ii
Great TST Limited	Note ii
Head Step Ltd T/A Pentahotel HK Kowloon	Note ii
Hip Hing Builders Company Limited	Note ii
Hip Hing Construction Company Limited	Note ii
Hip Hing Engineering Company Limited	Note ii
Hip Hing Joint Venture	Note ii
Hip Seng Builders Ltd	Note ii
Hip Seng Construction Company Limited	Note ii
Hong Kong Convention and Exhibition Centre (Management) Limited	Note ii

Notes to the Condensed Consolidated Interim Financial Statements

18 RELATED PARTY TRANSACTIONS *(Continued)*

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

Name	Relationship
Hong Kong Golf & Tennis Academy Management Co., Ltd.	Note ii
Hong Kong Island Development Ltd	Note ii
Hong Kong Multiple Intelligence Education Company Limited	Note ii
Hyatt Regency Hong Kong	Note ii
Joy Century Limited	Note ii
K11 Art Mall Properties Company Limited	Note ii
K11 Artus Limited	Note ii
K11 Concepts Limited	Note ii
K11 IP Licence & Creation Company Limited	Note ii
K11 Property Management Company Limited	Note ii
K11 Retail & Corporate Sales Company Limited	Note ii
K11 Select Ltd	Note ii
Kai Tak Sports Park Ltd	Note ii
Keep Harvest Development Limited	Note ii
Kid World Services Limited	Note ii
Kiu Lok Properties Services (China) Limited	Note ii
Long Gain Development Limited	Note ii
Loyalton Limited	Note ii
Lucky Gold Development Limited	Note ii
Main Choice Development Limited	Note ii
Maronne Limited	Note ii
Marriott Properties (International) Limited	Note ii
Nature Discovery Park Limited	Note ii
New Gain Limited	Note ii
New Town Project Management Ltd	Note ii
New World China Construction Limited	Note ii
New World China Land Limited	Note ii
New World Construction Company Limited	Note ii
New World Department Stores Limited	Note ii
New World Development (China) Limited	Note ii
New World Development Company Limited	Note ii
New World Facilities Management Company Limited	Note ii
New World First Bus Services Limited	Note ii
New World Harbourview Hotel Co Ltd	Note ii
New World Hotel Management Ltd	Note ii
New World Project Management (China) Limited	Note ii
New World Property Management Company Limited	Note ii
New World Strategic Investment Ltd	Note ii

Notes to the Condensed Consolidated Interim Financial Statements

18 RELATED PARTY TRANSACTIONS *(Continued)*

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

Name	Relationship
New World TMT Ltd	Note ii
New World Tower Company Ltd	Note ii
NW Project Management Limited	Note ii
NWS Holdings Limited	Note ii
Paterson Plaza Properties Limited	Note ii
Polytown Company Limited	Note ii
Pridemax Ltd	Note ii
Renaissance Harbour View Hotel HK	Note ii
Rosewood Hotels (HK) Limited	Note ii
Seaworthy Investment Limited	Note ii
Sky Connection Limited	Note ii
Space Enterprises Limited	Note ii
Sunny Goal Limited	Note ii
Techni Development Investment Limited	Note ii
The Dynasty Club Ltd	Note ii
Treasure Tower Holdings Limited	Note ii
Urban Parking Limited	Note ii
Vibro (H.K.) Ltd	Note ii
Vibro Construction Company Limited	Note ii
Wealth Master Corporation Limited	Note ii
Wise City Investment Limited	Note ii
上海三聯物業發展有限公司	Note ii
北京新世界物業管理有限公司	Note ii
北京崇文•新世界房地產發展有限公司	Note ii
北京祥和物業管理有限公司	Note ii
大連僑樂物業服務有限公司	Note ii
天津新世界環渤海房地產開發有限公司	Note ii
天津新世界百貨有限公司	Note ii
寧波公泰置業有限公司	Note ii
寧波新立房地產開發有限公司	Note ii
廊坊新世界房地產開發有限公司	Note ii
廣州市新御運營管理有限公司	Note ii
廣州新世界地產策劃有限公司	Note ii
新世界(中國)地產投資有限公司	Note ii
新世界(瀋陽)房地產開發有限公司	Note ii
新世界協中建築有限公司	Note ii
新世界嘉業(武漢)有限公司	Note ii
新世界發展(武漢)有限公司	Note ii

Notes to the Condensed Consolidated Interim Financial Statements

18 RELATED PARTY TRANSACTIONS *(Continued)*

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

Name	Relationship
深圳天得房地產開發有限公司	Note ii
清遠新世界旅遊發展有限公司	Note ii
鄭州新世界百貨有限公司	Note ii

Notes:

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

(b) Transactions with related parties

	For the six months ended 31 December	
	2019 HK\$'000	2018 (restated) HK\$'000
Contract revenue (Note i)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	925	4,349
Other related companies (Note ii)	604,225	793,934
Total	605,150	798,283
Facility service income (Note i)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	91	868
Other related companies (Note ii)	84,327	67,076
Total	84,418	67,944
Premises management service fee and building manager remuneration (Note iii)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	435	414
Other related companies (Note ii)	8,145	7,266
Total	8,580	7,680
Handling fee income from a related company commonly controlled by the Ultimate Controlling Shareholder (Note iv)	20	22
Insurance broking service expenses to related companies commonly controlled by the Ultimate Controlling Shareholder (Note v)	14,383	17,341

Notes to the Condensed Consolidated Interim Financial Statements

18 RELATED PARTY TRANSACTIONS *(Continued)* (b) Transactions with related parties *(Continued)*

	For the six months ended 31 December	
	2019 HK\$'000	2018 (restated) HK\$'000
Rental expenses/additions of right-of-use assets (Note vi)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	55	13,838
Other related companies (Note ii)	3,187	890
Total	3,242	14,728
Management fees expenses to a related company commonly controlled by the Ultimate Controlling Shareholder (Note vii)	–	4,750
Appointment fees to related companies (Note viii)	1,233	1,231
Miscellaneous service fees (Note ix)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	1,490	470
Other related companies (Note ii)	103	77
Total	1,593	547

Notes:

- (i) Revenue from provision of contracting work and facility service income is principally charged in accordance with the terms of the respective contracts.
- (ii) These related companies are companies of which the key management personnel are close members of the family of the ultimate controlling shareholder (Mr. Doo Wai Hoi, William).
- (iii) Premises management service fee and building manager remuneration was charged based on certain percentages of total expenditures of the properties in accordance with the management contracts.
- (iv) Handling fee income was charged at a rate mutually agreed between the parties.
- (v) Insurance broking service expenses were principally charged in accordance with the terms of the respective insurance policies.
- (vi) Rental expenses/additions of rights-of-use assets were principally calculated in accordance with the terms of the respective rental agreements.
- (vii) Management fee expenses were charged at prices and terms as agreed by both parties involved.
- (viii) Appointment fees were charged at prices and terms as agreed by both parties.
- (ix) Miscellaneous service fees were charged based on fixed amounts mutually agreed by the parties.
- (x) The above transactions with related parties are based upon mutually agreed terms and conditions.
- (xi) As at 31 December 2019, the Group had banking facilities amounting to HK\$125.0 million (30 June 2019: HK\$137.0 million (restated)) guaranteed by a related company.

Notes to the Condensed Consolidated Interim Financial Statements

18 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

	As at 31 December 2019 HK\$'000	As at 30 June 2019 (restated) HK\$'000
Trade receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	16	451
Other related companies (Note i)	81,264	77,366
Total	81,280	77,817
Retention receivables due from related companies (Note i)	203,134	205,697
Other receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	57	12,178
Other related companies (Note i)	16,970	12,596
Total	17,027	24,774
Contract assets due from related companies (Note i)	155,044	77,502
Trade payables due to related companies commonly controlled by the Ultimate Controlling Shareholder	1,299	334
Other payables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	40,294	24,326
Other related companies (Note i)	3,101	3,403
Total	43,395	27,729
Contract liabilities due to related companies (Note i)	22,917	51,402

Note:

- (i) These related companies are companies of which the key management personnel are close members of the family of the Ultimate Controlling Shareholder (Mr. Doo Wai Hoi, William).

Notes to the Condensed Consolidated Interim Financial Statements

18 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

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

	For the six months ended	
	31 December	
	2019	2018
	HK\$'000	(restated) HK\$'000
Fees	764	734
Salaries and other emoluments	21,358	25,313
Contributions to defined contribution schemes	917	1,161
Total	23,039	27,208

19 CAPITAL COMMITMENTS

	As at	As at
	31 December	30 June
	2019	2019
	HK\$'000	(restated) HK\$'000
Contracted but not provided for	12,797	2,987