

Management Discussion and Analysis

BUSINESS REVIEW

During the six months ended 31 December 2019 (the "period under review"), the Group recorded revenue amounting to HK\$2,420.3 million, representing a decrease of HK\$112.3 million or 4.4%, as compared with HK\$2,532.6 million (restated) for the six months ended 31 December 2018 (the "same period last year"). Profit attributable to shareholders for the period under review was HK\$144.0 million, representing an increase of HK\$5.1 million or 3.7% as compared with HK\$138.9 million (restated) for the same period last year, mainly reflecting the stable gross profit contribution with an overall savings in general and administrative expenses despite the one-off professional fees for the acquisition of the property and facility management services business, partly offset by the higher income tax expenses. The expanded business scale after the completion of the acquisition of the property and facility management services business provides a broader and more diversified revenue stream and enhanced profit source to the Group.

E&M ENGINEERING 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 footprint and construction waste. In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as Building Information Modelling (BIM), modularisation and prefabrication, Robotic Total Solution (RTS) and Sky Drilling Machine (SDM), 3D 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 2019, the Group's E&M engineering projects encompassed a wide range of buildings and facilities, including government buildings and facilities, offices, shopping malls, convention and exhibition centres, hotels, integrated resorts, residential properties, universities, hospitals and airport facilities, which have a total gross value of contract sum of HK\$9,137 million with a total outstanding contract sum of HK\$7,428 million.

During the period under review, the Group submitted tenders for 349 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\$10,849 million and was awarded new contracts with a total value of HK\$3,184 million, which included 73 contracts (with a net contract sum equal to or exceeding HK\$1 million for each project) with a total net contract sum of HK\$3,083 million. Among these contracts, 5 of them are major projects (with net contract sum equal to or exceeding HK\$100 million for each project), which include Immigration Headquarters in Tseung Kwan O, SKYCITY commercial development in Chek Lap Kok, residential development projects in Kwun Tong and the Kai Tak Development Area and Resort World in Macau.

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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 2019, this business segment has a total gross value of contract sum of HK\$93 million with a total outstanding contract sum of HK\$53 million.

During the period under review, the Group submitted tenders for 13 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\$56 million and was awarded new contracts with a total value of HK\$38 million, which included 2 projects (with a net contract sum equal to or exceeding HK\$1 million for each project) with a total net contract sum of HK\$4 million.

FACILITY SERVICES SEGMENT

Cleaning Services

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

Regarding its cleaning service business, growing public awareness for clean and hygienic environment with better lifestyle and better home is boosting the demand of prestige service providers. Waihong, as a major player in the cleaning service market, specialises in providing the highest professional standard services efficiently and effectively for fulfilling different customers' needs.

The demand for specialist cleaning services in Hong Kong is full of challenge due to a slowdown of economy. Nevertheless, newly-built commercial buildings, residential properties and public facilities will be increasingly constructed in the coming years. Needs for quality cleaning service will be increased and Waihong may benefit from the rising demand in the service market. By capitalising on its extensive experience, quality and customised service and distinctive brand, Waihong has competitive advantages to secure new service contracts and attain a high renewal rate for its existing contracts. Further, the improvement measures of government outsourcing service contracts have been implemented since April 2019, for which tenderers are encouraged to offer higher wage level to non-skilled workers where innovated technical proposals can be granted higher scores in tender evaluation. This will be beneficial to Waihong as its business development expertise can seize opportunity and competitiveness to cater for the new tender stipulations. It is expected to increase the success rate for obtaining tenders of government organisations and public institutions under the new mechanism of tender evaluation. Waihong will extend its business strategy to widen the service portfolios in private and public sectors to maintain its market leadership.

During the period under review, Waihong submitted tenders for 152 cleaning service contracts (with a contract sum equal to or exceeding HK\$1 million for each service contract) with a total tender sum of HK\$3,135 million and was awarded new service contracts with a total value of HK\$476 million, which included 38 service contracts (with a net contract sum equal to or exceeding HK\$1 million for each service contract) with a total contract sum of HK\$466 million. Among these 38 service contracts, 8 of them were major service contracts (with net contract sum equal to or more than HK\$20 million for each service contract), which included a shopping mall in Sha Tin, an international school and an academic hospital in the Southern District, a residential estate in Ma On Shan, an international bank facilities in Hong Kong, a group of shopping malls in East Kowloon and Tseung Kwan O Districts and an exhibition venue in Lantau Island.

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Laundry

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

During the period under review, NCL has commenced to provide laundry services to a world-class hotel in the Cyberport, maintained its existing client segments and explore new segments that require high quality of laundry services. NCL expanded its business with two luxury hotels on the Kowloon waterfront that were newly opened in 2019. NCL successfully renewed contracts with its key clients including an international theme park and its three hotels, and a global provider of catering and provisioning services for airlines. As its business strategy, NCL keeps its long-term partnership with existing clients and extend its services to any sector that never covered before.

In view of the recent social instability and the outbreak of Coronavirus in Hong Kong, there are knock-on effects felt across the industries especially the retail, tourism and hospitality sectors. As NCL offers laundry, dry cleaning and linen management services to corporate customers including major high-end hotels, restaurant chains and theme parks, its business is impacted by the plummeted tourist arrivals and low hotel room occupancy rates. In view of the challenges, NCL will intensify its focus on key accounts, efficient and effective cost management, ensuring customer satisfaction and sustainable growth of its business. Moreover, NCL will keep on investing in advanced machinery to enhance its efficiency and service quality.

During the period under review, NCL submitted tenders for 10 service contracts (with a contract sum equal to or exceeding HK\$1 million for each service contract) with a total tender sum of HK\$109 million and was awarded new service contracts with a total value of HK\$253 million, including previously submitted tenders. The awarded new service contracts included 6 service contracts (with a contract sum equal to or exceeding HK\$1 million for each service contract) with a total contract sum of HK\$251 million. Among these 6 service contracts, 3 of them were major service contracts (with a contract sum equal to or exceeding HK\$5 million for each service contract) with a total contract sum of HK\$246 million, including an international theme park, a hotel and a global provider of catering and provisioning services for airlines.

As at 31 December 2019, this business segment has a total gross value of contract sum of HK\$3,074 million with a total outstanding contract sum of HK\$1,155 million for its cleaning service business.

PROPERTY AND FACILITY MANAGEMENT SERVICES SEGMENT

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

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

Management Discussion and Analysis

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

During the period under review, Urban and Kiu Lok submitted tenders for 10 service contracts (with a contract sum equal to or exceeding HK\$1 million for each service contract) with a total tender sum of HK\$1,822 million and was awarded new service contracts with a total value of HK\$187 million, which included 4 service contracts (with a net contract sum equal to or exceeding HK\$1 million for each service contract) with a total contract sum of HK\$184 million. Among these 4 service contracts, 1 of them was a major service contract (with net contract sum equal to or more than HK\$10 million) for the staff quarters of a university.

As at 31 December 2019, this business segment has a total gross value of contract sum of HK\$1,905 million with a total outstanding contract sum of HK\$1,041 million.

FINANCIAL REVIEW

Revenue

During the period under review, the Group's revenue dropped by HK\$112.3 million or 4.4% to HK\$2,420.3 million from HK\$2,532.6 million (restated) for the same period last year, attributable mostly to lower revenue from the E&M engineering segment amounting to HK\$192.0 million, partly mitigated by higher revenue from the facility services segment and property and facility management services segment amounting to HK\$56.2 million and HK\$22.2 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			
	2019 HK\$'M	% of Total revenue	2018 (restated) HK\$'M	% of Total revenue
E&M engineering*	1,484.1	61.3%	1,676.1	66.2%
Environmental management services*	36.5	1.5%	35.2	1.4%
Facility services*	622.1	25.7%	565.9	22.3%
Property and facility management services*	277.6	11.5%	255.4	10.1%
Total	2,420.3	100.0%	2,532.6	100.0%

* Segment revenue does not include inter-segment revenue.

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	For the six months ended			
	31 December			
	2019	2018	Change	% Change
	(restated)			
	HK\$'M	HK\$'M	HK\$'M	
Hong Kong	2,096.1	2,104.4	(8.3)	(0.4%)
Mainland China	207.1	371.3	(164.2)	(44.2%)
Macau	117.1	56.9	60.2	105.8%
Total	2,420.3	2,532.6	(112.3)	(4.4%)

- E&M (electrical and mechanical) engineering*: This segment continued to be the key revenue driver of the Group and contributed 61.3% of the Group's total revenue (Six months ended 31 December 2018: 66.2% (restated)). Segment revenue dropped by 11.5% or HK\$192.0 million to HK\$1,484.1 million from HK\$1,676.1 million, owing mainly to a reduced revenue contribution from Mainland China and Hong Kong by HK\$164.2 million and HK\$88.7 million, respectively, partly mitigated by an increase in revenue contribution from Macau of HK\$60.9 million. The decrease in revenue contribution from Mainland China and Hong Kong reflected 2 sizeable engineering installation projects which had significant progress in the same period last year, including Spring City 66 in Kunming and West Kowloon Government Offices, partly mitigated by the revenue contribution from a number of engineering installation projects, including Transport Department's Vehicle Examination Centre, Kai Tak Sports Park, Pak Tin Estate Phase 7 and 8 in Hong Kong, Ningbo New World Plaza and Four Seasons Service Apartments in Venetian Macau, which had substantial progress in the period under review. It should be noted that, under contract terms, only the management fees and reimbursable costs are reflected in the revenue of the Kai Tak Sports Park project.
- Environmental management services*: Revenue contribution of this business segment, which principally operates in Hong Kong currently, increased to HK\$36.5 million from HK\$35.2 million, representing a growth of 3.7% or HK\$1.3 million, as compared with the same period last year. Such increase was mainly attributable to an increase in revenue from its environmentally-related contracting and maintenance services, primarily biological deodorizing system installation services at a number of refuse collection stations of new public housing estates, shopping centres and markets.
- Facility services*: This segment, which presently provides services in Hong Kong, contributed 25.7% (Six months ended 31 December 2018: 22.3% (restated)) of the Group's total revenue. The revenue of HK\$622.1 million (Six months ended 31 December 2018: HK\$565.9 million (restated)) for the period under review composed of revenue from provision of cleaning and laundry services amounting to HK\$550.7 million (Six months ended 31 December 2018: HK\$478.8 million (restated)) and HK\$71.4 million (Six months ended 31 December 2018: HK\$87.1 million), respectively. Segment revenue recorded a growth of HK\$56.2 million or 9.9% to HK\$622.1 million for the period under review from HK\$565.9 million (restated), owing mainly to the revenue contribution from a number of new cleaning service contracts, encompassed a wide range of buildings and facilities, including a large-scale public transportation facility, shopping malls, a luxury hotel, a government department, residential and commercial properties, despite a partly offset of this increase by the lower revenue from the laundry business resulting from lower hotel room occupancy rates.
- Property and facility management services*: This segment contributed 11.5% of the Group's total revenue (Six months ended 31 December 2018: 10.1%). Revenue contribution of this business segment, which principally operates in Hong Kong currently, increased to HK\$277.6 million from HK\$255.4 million, representing a growth of 8.7% or HK\$22.2 million, as compared with the same period last year. Such increase was mainly attributable to higher revenue from its non-residential properties management contracts, including government buildings in Hong Kong and Kowloon and staff quarters of a university.

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			
	2019		2018 (restated)	
	Gross profit HK\$'M	Gross profit Margin %	Gross profit HK\$'M	Gross profit Margin %
E&M engineering	213.2	14.4	214.0	12.8
Environmental management services	9.8	26.8	9.6	27.3
Facility services	60.0	9.6	68.1	12.0
Property and facility management services	89.9	32.4	80.5	31.5
Total	372.9	15.4	372.2	14.7

During the period under review, the Group recorded gross profit of HK\$372.9 million, which was similar to HK\$372.2 million (restated) for the same period last year, with an overall gross profit margin remained relatively stable at 15.4% (Six months ended 31 December 2018: 14.7% (restated)). The mild increase in gross profit was driven by the property and facility management services segment recording an increase in the gross profit of HK\$9.4 million to HK\$89.9 million from HK\$80.5 million, with its gross profit margin increased to 32.4% from 31.5% mostly attributable to the extension of two non-residential properties management contracts with a government department and a university, offset by a decrease in the gross profit of the facility services segment of HK\$8.1 million to HK\$60.0 million from HK\$68.1 million with its gross profit margin decreased to 9.6% from 12.0%, mostly attributable to its laundry business impacted by lower hotel room occupancy rates and an escalation of labour costs due to labour shortage, despite a higher gross profit contribution from the cleaning business.

The gross profit of the E&M engineering segment remained stable with its gross profit margin increased to 14.4% from 12.8% mostly reflecting the cost savings from the West Kowloon Government Offices project. The gross profit of environmental management services segment slightly increased by HK\$0.2 million to HK\$9.8 million from HK\$9.6 million with stable gross profit margin at 26.8% (Six months ended 31 December 2018: 27.3%).

Other income/gains, net

Other income/net gains in the period under review amounted to HK\$1.9 million (Six months ended 31 December 2018: HK\$1.0 million (restated)), which mainly included rental income from an investment property and profit on disposal of motor vehicles.

Finance income

For the period under review, the Group recorded finance income of HK\$3.3 million (Six months ended 31 December 2018: HK\$2.6 million (restated)). The increase mainly reflected higher market interest rates and an increase in the average principal sum of the Group's bank deposits placed in Hong Kong.

Finance costs

The Group's finance costs of HK\$2.5 million (Six months ended 31 December 2018: HK\$0.2 million (restated)) for the period under review included finance costs on lease liabilities of HK\$1.4 million following the Group's adoption of HKFRS 16 "Leases" starting from 1 July 2019 and interest expenses of HK\$0.8 million for the Group's bank loan financing its acquisition of the property and facility management services business and HK\$0.3 million for the property and facility management services business' short-term bank borrowings which were fully repaid during the period under review.

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General and administrative expenses

General and administrative expenses of the Group for the period under review decreased by 4.4% to HK\$199.9 million compared to HK\$209.1 million for the same period last year. The decrease of HK\$9.2 million mostly resulted from a successful cost saving campaign, lower rental of the Fanling laundry plant, a write-back of bonus provision during the period under review and provision for impairment involving a third party trade receivable of the E&M engineering business in the same period last year, partly offset by one-off professional fees of HK\$11.6 million for the acquisition of the property and facility management services business.

Income tax expenses

The effective tax rate of the Group increased to 18.3% from 16.9% (restated), mainly reflecting professional fees for the acquisition of the property and facility management services business which were non-deductible for income tax purpose.

Profit for the period attributable to shareholders of the Company

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

	For the six months ended			
	31 December			
	2019	2018	Change	% Change
	HK\$'M	(restated) HK\$'M	HK\$'M	
E&M engineering	97.4	90.5	6.9	7.6%
Environmental management services	4.8	4.1	0.7	17.1%
Facility services	15.8	21.1	(5.3)	(25.1%)
Property and facility management services	40.6	25.4	15.2	59.8%
Unallocated corporate expenses and finance costs*	(14.6)	(2.2)	(12.4)	563.6%
Total	144.0	138.9	5.1	3.7%

* Unallocated corporate expenses and finance costs comprise the Company's corporate expenses of HK\$13.8 million (Six months ended 31 December 2018: HK\$2.2 million), mainly representing the one-off professional fees of HK\$11.6 million as mentioned above, and interest expenses of HK\$0.8 million (Six months ended 31 December 2018: Nil) for the Group's bank loan financing its acquisition of the property and facility management services business.

As a result of the foregoing, the Group's profit for the period under review increased by 3.7% or HK\$5.1 million to HK\$144.0 million, compared to HK\$138.9 million (restated) for the same period last year. The increase mainly reflected the stable gross profit contribution and the decrease in general and administrative expenses as mentioned above, partly offset by the higher income tax expenses. The net profit margin of the Group improved to 6.0% for the period under review from 5.5% (restated) for the same period last year.

Other comprehensive loss

The Group recorded other comprehensive loss of HK\$4.0 million (Six months ended 31 December 2018: HK\$7.2 million (restated)) for the period under review, reflecting an exchange reserve movement of HK\$3.4 million (Six months ended 31 December 2018: HK\$6.9 million) recorded during the period following a depreciation of the Renminbi ("RMB") for conversion of the Group's net investments in Mainland China, remeasurement losses on long service payment liabilities of HK\$1.6 million (Six months ended 31 December 2018: gains of HK\$1.0 million (restated)), offset by remeasurement gains on defined benefit retirement scheme of HK\$1.0 million (Six months ended 31 December 2018: losses of HK\$1.3 million (restated)).

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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 2019, the Group had total cash and bank balances of HK\$502.7 million (30 June 2019: HK\$562.2 million (restated)), of which 80%, 18% and 2% (30 June 2019: 80%, 16% and 4% (restated)) were denominated in Hong Kong dollars, RMB and other currencies, respectively. The Group's net debt as at 31 December 2019 was HK\$60.1 million, compared with a net cash balance of HK\$532.2 million (restated) as at 30 June 2019. The increase in net debt of HK\$592.3 million was mainly due to the initial cash consideration paid by the Group for its acquisition of the property and facility management services business of HK\$564.0 million and distribution of the Company's final dividend for the year ended 30 June 2019 of HK\$53.6 million, partly mitigated by net cash inflow from operating activities. The Group's net gearing ratio increased to 17.8% as at 31 December 2019 (30 June 2019: 0%). This ratio is calculated as net debt divided by total equity. Net debt is calculated as total bank borrowings less cash and cash equivalents.

Adopting a prudent financial management approach in implementing its treasury policies, the Group maintained a healthy liquidity position throughout the reporting period. As at 31 December 2019, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK\$2,380.9 million (30 June 2019: HK\$1,703.0 million (restated)), of which HK\$125.0 million (30 June 2019: HK\$137.0 million (restated)) was guaranteed by FSE Management Company Limited ("FMC", a direct wholly-owned subsidiary of FSE Holdings Limited). As at 31 December 2019, HK\$919.4 million (30 June 2019: HK\$353.9 million (restated)) of the Group's banking facilities had been utilised for bank borrowings, bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet current business operation and capital expenditure requirements.

Debt profile and maturity

As at 31 December 2019, the Group's total debt increased to HK\$562.8 million from HK\$30.0 million (restated) as at 30 June 2019. All the bank borrowing of HK\$562.8 million will mature in the second year after 31 December 2019. It is denominated in Hong Kong Dollar and bears interest at floating rates.

Foreign currency exposure

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

As part of the Group's business is carried out in Mainland China, some of its assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in Mainland China operations with net assets of HK\$174.8 million (30 June 2019: HK\$175.3 million) as at 31 December 2019. 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 4.5% (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 2019, if the Hong Kong dollars had strengthened/weakened by another 4.5% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK\$7.9 million lower/higher.

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Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 31 December 2019, the net proceeds of HK\$264.5 million received from the Company's Initial Public Offering ("IPO") or Global Offering (referred to the prospectus issued by the Company on 26 November 2015) and the revised use of unutilised proceeds of HK\$133.5 million as stated in the Company's announcement dated 26 June 2018 were applied in the manner as shown in the table below:

	Original use of proceeds from Global Offering HK\$'M	Utilised amount as at 26 June 2018 HK\$'M	Revised use of proceeds as announced pursuant to the Company's announcement dated 26 June 2018 HK\$'M	Aggregated utilised amount from 27 June 2018 to 31 December 2019 HK\$'M	Unutilised amount as at 31 December 2019 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	15.6	4.4
Operation of E&M engineering projects on hand and prospective projects	47.4	47.4	88.1	88.1	–
Staff-related additional expenses	20.0	20.0	–	–	–
Development and enhancement of design capability	19.3	18.3	16.0	16.0	–
Enhancement of quality testing laboratory	12.2	4.9	7.3	2.7	4.6
Upgrade of corporate information technology system and software	8.0	5.9	2.1	2.1	–
General working capital	25.0	25.0	–	–	–
Total	264.5	131.0	133.5	124.5	9.0

The Group has utilised HK\$255.5 million of the net proceeds from Global Offering, of which HK\$8.7 million was utilised during the period under review, and expects that the remaining balance of the IPO proceeds will be utilised within 4 years up to 2023. The Group held the unutilised net proceeds mainly in short-term deposits or time deposits with licensed banks and authorised financial institutions in Hong Kong.

Capital commitments

The Group had capital commitments of approximately HK\$12.8 million (30 June 2019: HK\$3.0 million (restated)) as at 31 December 2019 in relation to purchase of plant and equipment.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2019 and 30 June 2019.

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Major transaction

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

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

The convertible preference shares are (i) convertible into 43,676,379 ordinary shares of the Company at an initial price of HK\$3.2260 per share (subject to adjustments upon occurrence of certain prescribed events, including consolidation, subdivision or reclassification of shares in the capital of the Company, capitalisation of profits or reserves etc., in each case if not also made available to the holder(s) of the convertible preference shares), provided that any conversion shall not result in the Company failing to comply with any public float requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, within a period of 10 years after their date of issue of 16 December 2019 (the "Issue Date") and (ii) redeemable by the Company at its sole discretion at a redemption price equals to the Issue Price together with all outstanding preferred distributions accrued to the date fixed for redemption, at any time after 10 years following the Issue Date. The convertible preference shares are treated as contingently issuable potential ordinary shares under Hong Kong Accounting Standard ("HKAS") 33 "Earnings per Share" and, since the conditions for their conversion were not met as at 31 December 2019, the effect of their conversion is not included in the calculation of the diluted earnings per share for six months ended 31 December 2019 pursuant to HKAS 33's requirements as described in Note 10 to the condensed consolidated interim financial statements. Assuming that all of the outstanding convertible preference shares were converted as at the end of the period under review of 31 December 2019 and assuming their conditions for conversion were met, the Company's earnings per share after taking into account of the dilutive impact of such conversion for the six months ended 31 December 2019 would be HK\$0.32 per share, calculated as the Group's profit attributable to shareholders of the Company of HK\$144.0 million divided by the weighted average number of the Company's ordinary shares in issue of 453.8 million (after taking into account the weighted average number of incremental number of ordinary shares that would be issued from the conversion of the convertible preference shares on its Issue Date of 3.8 million). The convertible preference shares confer their holder(s) the right to receive preferred distributions from the Issue Date at a rate of 6.0% per annum on the Issue Price, payable annually in arrears. As (i) the Company may at its sole discretion redeem either in whole or in part the convertible preference shares for the time being outstanding (i.e. it has no obligation to settle them in cash unless it elects at its sole discretion to redeem) and (ii) the convertible preference shares are only convertible within a period of 10 years after the Issue Date but redeemable only after 10 years following the Issue Date, an analysis on the Company's share price at which it would be equally financially advantageous for the convertible preference share holder(s) to convert or redeem the convertible preference shares based on their implied rate of return at a range of dates in the future is not applicable. Based on the financial and liquidity position of the Group (with details set out in the paragraphs headed "Liquidity and financial resources" of this section), to the best knowledge of the Company, the Company expects that it will be able to meet its redemption obligations under the outstanding convertible preference shares issued by it.

Management Discussion and Analysis

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had a total of 13,326 employees (31 December 2018: 12,662 (restated)), including 5,078 (31 December 2018: 4,830 (restated)) casual workers and employees whose relevant costs are directly reimbursed by or charged to our customers or sub-contractors. Staff costs for the period under review, including salaries and benefits, was HK\$834.3 million (Six months ended 31 December 2018: HK\$777.9 million (restated)). The increase mainly reflects an increase in the average headcount of the Group's permanent employees, mainly at its cleaning services division, and inflationary increase.

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

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

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

OUTLOOK

E&M Engineering Segment

1. Installation Services

In Hong Kong, according to the construction expenditure forecast provided by the Construction Industry Council, expenditure in E&M construction works will amount to over HK\$26.5 billion for the public sector and over HK\$25.5 billion for the private sector over the next few years.

The long-term housing strategy of the Hong Kong Government, as stated in its 2018 Policy Address, aims at continuing its ongoing efforts in increasing the land and housing supply and increasing the public-private housing ratio to 7:3. According to government projections, 450,000 residential flats will be provided in the next decade including 220,000 public housing units, 95,000 subsidised-sale units, and 135,000 private housing units. 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 for the coming 10 years up to 2029.

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

Management Discussion and Analysis

To prepare for the challenges brought by the 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 United Christian 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. In addition, the Hong Kong Government has decided to finance HK\$5 billion for the construction of a Chinese medicine hospital at Pak Shing Kok in Tseung Kwan O which is expected to be operated in 2024.

To promote sport in the community and maintain Hong Kong as a centre for major international sporting events, the Hong Kong Government 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, has commenced in early 2019 and to be completed in 2023.

In addition, the Government has invited the MTRC to plan for three new railway lines including the Tung Chung Line Extension, the Tuen Mun South Extension, the Northern Link. The Government also requested the Airport Authority Hong Kong to create at Lantau an Aerotropolis connecting the Greater Bay Area and the world. These include the construction of a three-runway system, the expansion of the existing Terminal 2, the development of a high value-added logistics centre at the South Cargo Precinct, the SKYCITY development projects and the AsiaWorld Expo at the Hong Kong International Airport.

To encourage and enhance innovation and technology, the infrastructure works of the Hong Kong-Shenzhen Innovation and Technology Park at the Lok Ma Chau Loop has commenced in June 2018, with the objective of providing the first batch of land parcels for superstructure development not later than 2021.

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

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

In addition, the filibustering in the Legislative Council has delayed the award of new public works contracts, which adds to the rising construction cost. The Group has thus strived to maintain a relatively stable workforce and retain loyal staff members so as to preserve its competitiveness.

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

Management Discussion and Analysis

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, Inland Revenue Tower at Kai Tak, Immigration Headquarter at Tseung Kwan O Area 67 and Kai Tak Sports Park.

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

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

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.

Management Discussion and Analysis

Environmental Management Services Segment

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

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 management services segments.

The Group has also been approved as an Accredited Indoor Air Quality ("IAQ") Certificate Issuing Body ("CIB"). The inspection works of IAQ further strengthen the Group's environmental consultancy services.

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

Facility Services Segment

1. Cleaning Services

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, Waihong's prime marketing strategy will be to focus on these newly-completed properties. Waihong is capable of providing professional and quality services to this kind of new projects to satisfy the market demand. In the prior stages, Waihong aims at providing initial cleaning services to buildings for construction companies and fine cleaning services to flats for developers. Also, the key business opportunities would be come from property management companies for providing general cleaning services to those new facilities afterward.

Further, the enhanced protection for non-skilled workers employed by government service contractors has been launched since April 2019. The new measures can enhance labour benefits and service quality. It also creates business opportunities and competitiveness to the Group as tenderers who are able to offer higher wage rate with innovated technical proposals may be granted higher scores in tender evaluation. This change indicates low-priced strategy with substandard service will disappear gradually. Waihong expects to increase its success rate for coming tenders of government organisation or public institution under the new mechanism of tender evaluation.

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

Management Discussion and Analysis

Foreseeing a downturn of Hong Kong economy by recent social unrests, Waihong has been requested to tighten control of expenditure in every aspect to tackle with the tough time in the coming year. As the unemployment rate is getting higher, Waihong will seize this opportunity to reallocate labour resources to ease the rising operation costs and seek for new business from relatively stable clients such as public institutions. Waihong is confident to overcome difficulties by its various support measures to enhance communication with clients for facing the unexpected challenges.

2. Laundry

In the coming years, NCL will continue to improve its service standard and efficiency by upgrading our machinery. NCL's strength and competitiveness enable it to deploy superior services to its customers, despite the impact caused by the social instability and outbreak of Coronavirus in Hong Kong which affect its business. NCL also keeps exploring advanced energy saving ideas with major utility companies in order to achieve Green Laundry and offers bundle services that cover laundry and other services (e.g. cleaning) as well to large scale corporate clients. Such comprehensive service package demonstrates a team of multi-skilled professionals and convenience for clients.

Labour shortage is still the major challenge in the laundry industry. NCL will enhance its provision of training programs and succession plans to keep its competitiveness in the labour market.

Property and Facility Management Services Segment

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

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

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

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

Management Discussion and Analysis

Following the enactment of the Property Management Services Ordinance (Cap. 626 of the Laws of Hong Kong), apart from the licensing of property management companies, there are also statutory requirements on the number of qualified and licensed property management professionals and practitioners being employed by property management companies as a proportion to their management portfolios. Urban and Kiu Lok have been well prepared for the statutory requirements by employing a strong team of over 200 qualified management and technical staff, which is believed to be one of the largest service teams in the industry. With such a strong team of professionals, it has maintained good competitive advantages over its rival companies in new tendering and business development activities in future. Moreover, it has a strong technical and engineering team to fulfill the market demands on the day-to-day repairs and maintenance services of its clients as well as the building renovation and rejuvenation projects to enhance the asset values of the properties and facilities.

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

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

Impact of the outbreak of the Coronavirus epidemic and its remedial measures

Since the outbreak of the Coronavirus epidemic in late 2019, its resulting impact to the global business environment is far-reaching and we have taken various proactive measures to contain the operational and financial risks which it brings to the Group.

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

- delays in our projects' statutory submissions and inspections, including those from Buildings Department, Water Supplies Department and Fire Services Department;
- disruptions to supply and distribution channels have caused delays in supply of construction materials and pre-fabricated parts particularly from Mainland China;
- shortage of labour force as workers from Mainland China have to be quarantined for 14 days mandatorily. This labour shortage is especially severe in Macau as the majority of workers there comes from the Mainland; and
- temporary work suspension at project sites and buildings.

Management Discussion and Analysis

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

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

Our laundry services business has also been affected by the dismal visitor numbers and low hotel room occupancy rates as majority of its clientele covers hotels, service apartments, theme park and airlines. To cope with this, NCL focuses on streamlining and improving operations efficiency and adopting effective cost management measures.

Our cleaning and property and facility management services businesses have faced relatively less disruptions. The coronavirus outbreak has created more ad-hoc intensive disinfection cleaning projects.

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

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

Conclusion

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