

Management Discussion and Analysis

BUSINESS REVIEW

During the six months ended 31 December 2022 (the “period under review”), the Group recorded revenue amounting to HK\$3,712.1 million, representing an increase of HK\$361.1 million or 10.8%, as compared with HK\$3,351.0 million for the six months ended 31 December 2021 (the “same period last year”). Profit attributable to shareholders for the period under review was HK\$279.5 million, representing an increase of HK\$41.0 million or 17.2% as compared with HK\$238.5 million for the same period last year, mainly resulted from (i) the strong performance of the cleaning, insurance and E&M businesses and (ii) an increase in government grants, partly offset by the effects of (i) a lower gross profit contribution from the security guarding & event services businesses of the city essential services segment, mainly reflected its higher labour costs, and (ii) higher corporate finance costs. Details of the government grants recognised by the Group are set out in Notes 6 to the condensed consolidated interim financial statements.

Summary of government grants

	For the six months ended 31 December	
	2022 HK\$'M	2021 HK\$'M
Recognised as deduction of staff costs included in “Cost of services and sales”	23.2	21.7
Recognised as deduction of staff costs included in “General and administrative expenses”	4.5	0.6
Recognised as “Other income”	17.4	0.4
Total	45.1	22.7
Non-controlling interests	(0.1)	-
Net	45.0	22.7

Results excluding government grants

If excluding the effects of government grants in the Group’s results for both periods to better illustrate the Group’s financial results without such effects, the Group recorded an increase in adjusted net profit of 8.7% to HK\$234.5 million (i.e. after excluding government grants of HK\$45.0 million from profit attributable to shareholders of the Company of HK\$279.5 million) for the period under review as compared to its adjusted net profit of HK\$215.8 million for the same period last year (i.e. after excluding government grants of HK\$22.7 million from profit attributable to shareholders of the Company of HK\$238.5 million) the same period last year. Such analysis, which involves the exclusion of government grants mentioned above, may not be comparable to similar analysis presented by other companies.



Property & Facility Management Services

Number of staff
Over

5,600

Service contracts
Over

300



FSE Lifestyle’s unique market differentiation lies in the integration of services, strong pool of professional talents and partnership approach with our clients.

The Group’s property and facility management services business, comprising Urban, International Property Management and Kiu Lok (together, the “Property & Facility Management Group”), 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, with International Property Management providing property management services primarily for small to medium sized residential and commercial properties, including commercial buildings in the central business district.

We are pioneer in the introduction of modern international standards and innovative service models in property and facility management in Hong Kong.

Management Discussion and Analysis

Our Property & Facility Management Group has expertise in six core property and facility management areas: (i) residential property asset 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. Its property asset and facility services cover all kinds of property and facility assets including high end residential properties, government facilities, offices and quarters, academic campus and educational institutes, service apartments, Grade A intelligent buildings and commercial complexes, modern industrial premises, composite residential developments to regional car parks and various kinds of public and private facility assets.



Provides the most comprehensive and customised professional management services for its clients.

Our Property & Facility Management Group's unique market differentiation lies in their integration of services, strong pool of professional talents and partnership approach with our clients. In addition, innovation keeps our Property & Facility Management Group at the forefront of the industry. It is a pioneer in the introduction of modern international standards and innovative service models in property and facility management in Hong Kong.



Our property asset and facility services cover all kinds of property and facility assets.

During the period under review, our Property & Facility Management Group submitted tenders for 19 service contracts (with a contract sum not less than HK\$1 million for each service contract) with a total tender sum of HK\$332 million and, combining the submitted tenders from previous months, was awarded 12 service contracts (with a net contract sum not less than HK\$1 million for each service contract) with a total contract sum of HK\$143 million. Among these 12 service contracts, one of them was a major service contract (with net contract sum not less than HK\$20 million) for EcoPark.

As at 31 December 2022, the property & facility management services segment has a total gross value of contract sum of HK\$2,035 million with total outstanding contract sum of HK\$1,123 million.



City Essential Services

Number of staff
Over

13,900

Service contracts
Over

8,400



The business ecosystem of FSE Lifestyle creates cross-selling synergies and strengthens customer loyalty, enabled us to meet our goal of balancing growth in scale with cash flow.

Cleaning Services

The Group's cleaning services business, Waihong, covers four core areas: (i) specialist cleaning; (ii) disinfection; (iii) pest control and (iv) waste management. Waihong's services encompass a wide range of private and public facilities in every corner of Hong Kong, which includes office buildings, shopping malls, hotels, university campus, international schools, tourism facilities, government properties, public utilities, convention and exhibition centers, railway stations, airport terminal buildings, hospitals, industrial buildings and residential properties. Specialist cleaning mainly covers the services of general cleaning, initial cleaning, curtain wall cleaning, housekeeping, marble and granite floor maintenance. Disinfection services include space disinfection treatment, support for clinics, formaldehyde removal and antibacterial coating services. Pest control services provide

general insecticide treatment, fogging treatment, rodent control and termite elimination. Waste management offers recycling services, food waste collection, solid waste collection, clinical waste and construction waste disposal.

Waihong's enormous working teams comprise 7,500 skillful staff and a strong fleet management with over 60 municipal vehicles.

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Waihong's unique market differentiation lies in its integration of services, enormous working teams comprising 7,500 skillful staff, a strong fleet management with over 60 municipal vehicles and full support towards customers. High degree of service commitments keeps Waihong ranked among the top three players in the cleaning service industry in Hong Kong. It is a market leader and competent in providing all of its clients with the best quality services at all times.



High degree of service commitments keeps Waihong ranked among the top three players in the cleaning service industry in Hong Kong.

During the period under review, Waihong submitted tenders for 250 cleaning service contracts (with a contract sum not less than HK\$1 million for each service contract) with a total tender sum of HK\$5,340 million and, combining the submitted tenders from previous months, was awarded 71 new service contracts (with a net contract sum not less than HK\$1 million for each service contract) with a total contract sum of HK\$839 million. Among these 71 service contracts, 11 of them were major service contracts (with net contract sum not less than HK\$20 million for each service contract), which included shopping malls in four districts, two commercial complexes in Sheung Wan and Kai Tak, entertaining facilities and a shopping mall in Shatin, an airport ancillary building, a hospital in Sai Ying Pun and waste collection services in the Kowloon City District.

Technical Support & Maintenance Services

The Group's technical support & maintenance services business, comprising Far East Engineering Services and Turning Technical Services, provides services which covers three core areas: (i) system retrofit, including replacement of chiller units, upgrade of electrical supply systems, modification and enhancement of fire services and plumbing and drainage systems; (ii) operation and maintenance, including routine system maintenance and repairing works in heat, ventilation, and air conditioning ("HVAC") systems, testing and commissioning, periodic inspection in electrical and fire services installation works; and (iii) renovation works in E&M systems. All these different core services cover mostly in Hong Kong and Macau.



Our technical support & maintenance services cover system retrofit, operation and maintenance, and renovation works in E&M systems.

During the period under review, the Group submitted tenders for 221 maintenance service contracts (with a contract sum not less than HK\$1 million for each contract) with a total tender sum of HK\$1,881 million and, combining the submitted tenders from previous months, was awarded 61 projects (with a net contract sum not less than HK\$1 million for each project) with a total net contract sum of HK\$357 million. Among these 61 projects, four of them were major projects (with net contract sum not less than HK\$20 million for each project), which included chiller replacement for a convention plaza in Wan Chai, chiller and acoustic panel replacement for a shopping centre in Tin Shui Wai, a term contract for E&M maintenance in Cheung Sha Wan Wholesale Food Market and a system upgrading work for a hotel in Macau.

Management Discussion and Analysis

Security Guarding & Event Services

The Group's security guarding & event services business comprises General Security and Perfect Event.


General Security serves a broad range of clients of residential properties (including estates, service apartments and luxury detached houses), office towers, shopping malls and buildings, private clubs, construction sites, entertaining facilities, event and exhibition venues. General Security holds all three types of licences for operating a security company in Hong Kong which covers three core areas: (i) Type I Licence for provision of security guarding services; (ii) Type II Licence for providing armoured transportation services and (iii) Type III Licence for installation, maintenance and/or repairing of a security device and/or designing a security system incorporating a security device. In addition, General Security operates a 24-hours Central Alarm Monitoring Station, an additional Central Alarm Monitoring Station ("CAMS") license endorsement and is providing monitoring services to top jewelry stores and prestigious luxury detached housing.



General Security holds all three types of licences for operating a security company in Hong Kong.

Perfect Event has steadily gained a foothold in its two core businesses in (i) providing its customers service ambassadors to a variety of events such as exhibitions, concerts, pop music award ceremonies as well as high end private club

festive events and (ii) providing its customers technological support enhancements for events. Although Perfect Event is young, it has a very solid foundation from General Security in management and back-office support, vast operations experiences, as well as a list of potential clients who are already well familiar with the reputation and quality of General Security.




Perfect Event has a very solid foundation from General Security in management and back-office support.

During the period under review, General Security and Perfect Event submitted tenders for 46 security guarding and event services contracts (with a contract sum not less than HK\$1 million for each contract) with a total tender sum of HK\$576 million and, combining the submitted tenders from previous months, was awarded 24 service contracts (with a net contract sum not less than HK\$1 million for each service contract) with a total contract sum of HK\$285 million. Among these 24 service contracts, five of them were major service contracts (with net contract sum not less than HK\$20 million for each service contract) including three residential estates in Sai Kung, Shatin and North Point, Kai Tak Sports Park and a youth centre in Chai Wan.

Management Discussion and Analysis

Insurance Solutions

The Group's insurance solutions business, Nova, comprises Nova Insurance Consultants and International Reinsurance Management, both of which holds an Insurance Broker Company License granted by the Insurance Authority. Nova Insurance Consultants is also a registered Mandatory Provident Fund ("MPF") Intermediary under the Mandatory Provident Fund Schemes Authority.



Nova's retention ratio in securing renewed contracts has always been over 90% reflecting its competitiveness and high level of services.

Nova offers five core risk and insurance services: (i) insurance advisory and brokerage services; (ii) risk management services; (iii) global and regional insurance management services; (iv) reinsurance broking and (v) MPF intermediary services.

As one of the top five general insurance brokers, out of over 810 brokers in Hong Kong, Nova's unique market differentiation lies in its highly professional team of brokers and specialists, strong expertise in various classes of insurance, customised services, strong bargaining power in the insurance market and its serving network in both the Greater Bay Area and in the world through its affiliated company in China and global broker partners. Nova serves many clients who are leaders within their respective industries.

During the period under review, Nova has secured placement for a number of sizeable construction projects. Nova also managed to get some new accounts, including food and beverages companies, listed companies, schools and educational institutions and non-governmental organisations. Furthermore, it has handled more professional indemnity insurance and trade credit insurance business. The vast majority of Nova's business is from annual renewable insurance policies. Each year Nova has to submit renewal quotations for all these policies to its clients and will only be awarded the renewal contracts when its terms and conditions are competitive. Nova's retention ratio has always been over 90% reflecting its competitiveness and high level of services.



We are one of the top five general insurance brokers, out of over 810 brokers in Hong Kong.

During the period under review, Nova submitted tenders for 9 service contracts (with a contract sum not less than HK\$1 million for each service contract) with a total tender sum of HK\$15 million and all of them were awarded.

Environmental Solutions

The Group's environmental solutions business, comprising FSE Environmental Technologies Group, Hong Kong Island Landscape and Extensive Trading, provides Environment Solutions, Smart Solutions and Green Solutions to its clients in order to achieve environmental protection, energy conservation, sustainability, enhance environmental quality and operational efficiency and the long-term goals of carbon neutrality to fight against climate change.

Management Discussion and Analysis

This business has expertise in (i) Environment Solutions in comprehensive HVAC water treatment services, environmental assessment in air and water quality, deodorisation system and electro-chlorination system to assist its customers in achieving their environmental protection and energy conservation objectives, (ii) Smart Solutions to provide advanced information and communication infrastructure by providing Extra Low Voltage (“ELV”) building technology with smart facility systems (i.e. smart office and smart toilet) to enhance operational efficiency and (iii) Green Solutions in landscape management and maintenance services to a diversified business portfolio, including but not limited to property developers and managers, and trading of eco-friendly tiles, building controls equipment and other building materials to improve environmental quality and promote carbon neutrality.




The Group’s environmental solutions business provides Environment Solutions, Smart Solutions and Green Solutions to its clients.

Its HVAC water treatment service is well-known for the professionalism in the industry with over 40 years of history and it has a water treatment company which is under the list of approved specialist contractors for public works in fountain installation. As innovation is at the heart of this business, it has a patented application of using nanobubble ozonation to sterilize fresh water at cooling tower, swimming pool, public toilet, and water features.

Its laboratory is accredited by Hong Kong Laboratory Accreditation Scheme (“HOKLAS”) which is able to test a wide range of chemical and microbial parameters. For air quality related business, it is one of the eight accredited indoor air

quality certificate issuing bodies in Hong Kong. Its landscape business offers a wide range of one-stop green solutions to its clients. It provides landscape design and performs landscape projects and various tree works. It also supplies festival plants to its client.



Our laboratory is accredited by Hong Kong Laboratory Accreditation Scheme which is able to test a wide range of chemical and microbial parameters.

During the period under review, the Group submitted tenders for 18 environmental and landscape service contracts (with a contract sum not less than HK\$1 million for each contract) with a total tender sum of HK\$65 million and, combining the submitted tenders from previous months, was awarded 11 environmental and landscape service contracts (with a net contract sum not less than HK\$1 million for each contract) with a total contract sum of HK\$26 million and 4 ELV service contracts (with a net contract sum not less than HK\$1 million for each contract) with a total contract sum of HK\$53 million. In addition, the Group submitted 7 quotations for building material trading (with a quotation sum not less than HK\$1 million for each quotation) with a total quotation sum of HK\$16 million and, combining the submitted quotations from previous months, was accepted 3 orders (with a sum not less than HK\$1 million for each order) with a total sum of HK\$4 million.

As at 31 December 2022, the city essential services segment has a total gross value of contract sum of HK\$8,266 million with a total outstanding contract sum of HK\$4,945 million.



E&M Services

Number of staff
Over

1,300

Service contracts
Over

100



FSE Lifestyle is recognised as one of the industry pioneers in adoption of green building design. Our advanced technology keeps us at the forefront of the E&M industry with competitive edges over its competitors.

The Group's E&M services business, comprising Young's Engineering Group, Majestic Engineering Group and FSE Engineering Group, serving Hong Kong, Mainland China and Macau, has maintained its position as one of the leading E&M companies in Hong Kong, capable of providing quality professional management and a comprehensive range of E&M services to its clients, ranging from design, installation, testing to commissioning services. The Group's E&M projects encompassed a wide range of buildings and facilities, including government buildings and facilities, offices, shopping malls, hotels, integrated resorts, sports park, residential properties, hospital and airport facilities.

The Group's E&M services business is one of the industry pioneers in adoption of green building design, MiC, MiMEP, DfMA in its projects.

Management Discussion and Analysis

The Group's E&M services business' unique market differentiation lies in its integration of all E&M services, a strong pool of professional talents, a well-established network of suppliers and subcontractors, and a team-based partnership approach towards its clients. Innovation by using advanced technology keeps it at the forefront of the E&M industry. It is also recognised as one of the industry pioneers in adoption of green building design, Modular Integrated Construction ("MiC"), Multi-trade Integrated Mechanical, Electrical and Plumbing ("MiMEP"), Design for Manufacture and Assembly ("DfMA") in its projects. With such competitive edges over its competitors, the Group has strong confidence in securing and undertaking integrated E&M projects in Hong Kong, Mainland China and Macau.

We shall give first priority to large-scale projects including design and construction contracts from the government, public and private sectors.

Going forward, 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.

Focus on applying our core competencies to raise customer satisfaction and ensure sustainable growth of our business.

During the period under review, the Group's E&M services division submitted tenders for 84 E&M engineering projects (with a contract sum not less than HK\$1 million for each project) with a total tender sum of HK\$12,784 million and, combining the submitted tenders from previous months, was awarded 18 contracts (with a net contract sum not less than HK\$1 million for each project) with a total net contract sum of HK\$2,803 million. Among these contracts, nine of them were major projects (with net contract sum not less than HK\$100 million for each project), which included, in Hong Kong the District Court in Caroline Hill Road, expansion of the Legislative Council Complex, two residential developments near the Ho Man Tin Station and in Kai Tak, a public housing development in Wang Chiu Road and, in Mainland China three commercial complex developments in Hangzhou and Ningbo and a hotel complex in Shanghai Huangpu.

As at 31 December 2022, the E&M services segment has a total gross value of contract sum of HK\$11,093 million with a total outstanding contract sum of HK\$6,690 million.

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FINANCIAL REVIEW



Revenue

During the period under review, the Group's revenue increased by HK\$361.1 million or 10.8% to HK\$3,712.1 million from HK\$3,351.0 million for the same period last year, reflecting higher revenue from the city essential services segment, E&M services segment and property & facility management services segment amounting to HK\$258.0 million, HK\$89.7 million and HK\$13.4 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			
	2022 HK\$'M	% of total revenue	2021 HK\$'M	% of total revenue
Property & facility management services*	356.8	9.6%	343.4	10.2%
City essential services*	1,849.4	49.8%	1,591.4	47.5%
E&M services*	1,505.9	40.6%	1,416.2	42.3%
Total	3,712.1	100.0%	3,351.0	100.0%

* Segment revenue does not include inter-segment revenue.

	For the six months ended 31 December			
	2022 HK\$'M	% of total revenue	2021 HK\$'M	% of total revenue
Hong Kong	3,488.6	94.0%	2,922.8	87.2%
Mainland China	166.7	4.5%	270.5	8.1%
Macau	56.8	1.5%	157.7	4.7%
Total	3,712.1	100.0%	3,351.0	100.0%

- *Property & facility management services:* This segment, which principally provides services in Hong Kong, contributed 9.6% (2021: 10.2%) of the Group's total revenue.

Segment revenue grew by 3.9% or HK\$13.4 million to HK\$356.8 million from HK\$343.4 million. Such growth was mainly driven by additional works for government buildings, partly offset by decreased ad hoc works for staff quarters of a university. It should be noted that, under contract terms, about 20% of the property & facility

management services segment's revenue represents management fees only. Should such revenue be recognised on the same basis as the rest of this segment's revenue derived from its lump sum contracts (i.e. with all direct operational costs for performing the related services borne by it) which are primarily facility management contracts, the property & facility management services segment's revenue for the period under review would be increased from its reported amount of HK\$356.8 million (2021: HK\$343.4 million) to about HK\$1,900.0 million (2021: HK\$1,800.0 million).

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- *City essential services*: This segment contributed 49.8% (2021: 47.5%) of the Group's total revenue. Segment revenue of HK\$1,849.4 million (2021: HK\$1,591.4 million) are set out in the below table.

	For the six months ended			
	31 December			
	2022	2021	Change	% Change
	HK\$'M	HK\$'M	HK\$'M	
Cleaning services	826.8	674.9	151.9	22.5%
Technical support & maintenance services	461.5	421.9	39.6	9.4%
Security guarding & event services	331.6	325.9	5.7	1.7%
Insurance solutions	61.3	50.8	10.5	20.7%
Environmental solutions	168.2	117.9	50.3	42.7%
Total	1,849.4	1,591.4	258.0	16.2%

Such revenue reflected an increase in revenue contribution from Hong Kong amounting to HK\$274.6 million, partly offset by a decrease in revenue contributions from Macau and Mainland China of HK\$11.9 million and HK\$4.7 million respectively.

Segment revenue grew by 16.2% or HK\$258.0 million to HK\$1,849.4 million from HK\$1,591.4 million reflected (i) a number of new general cleaning service contracts, which encompassed a wide range of buildings and facilities, including clubhouses, international exhibition and event centre, airport ancillary building, shopping malls, hospital, government clinics and buildings, residential and commercial properties, and additional ad-hoc intensive cleaning and disinfection contracts; (ii) higher revenue from its environmental solutions business, especially in respect of its provision of ELV device installation services, largely contributed by the 11 SKIES project in Chak Lap Kok; (iii) higher revenue from its technical support and maintenance services in Hong Kong contributed by the refurbishment works for a hotel in Tsim Sha Tsui and a new repairing service contract for a residential property in Shatin and (iv) an increase in new service contracts for general insurance and insurance for construction projects awarded.

- *E&M services*: This segment contributed 40.6% (2021: 42.3%) of the Group's total revenue. Segment revenue increased by 6.3% or HK\$89.7 million to HK\$1,505.9 million from HK\$1,416.2 million and reflected an increase in revenue contribution from Hong Kong by HK\$290.4 million, partly offset by a decrease in revenue contributions from Mainland China and Macau by HK\$111.7 million and HK\$89.0 million respectively.

The revenue from Hong Kong increased to HK\$1,339.4 million compared to HK\$1,049.0 million for the same period last year and contributed 88.9% (2021: 74.1%) of this segment's revenue, mainly reflected the substantial progress of a number of E&M engineering installation projects this period including Immigration Headquarters in Tseung Kwan O and the public rental housing project in Tai Po, partly offset by a lower revenue contribution from the Inland Revenue Tower project in Kai Tak which had significant progress in the same period last year. It should be noted that, under contract terms, only the management fees and reimbursable costs were reflected in the revenue of the Kai Tak Sports Park project. The decreased revenue from Mainland China and Macau was mostly resulted from the lower revenue contribution from Qianhai Chow Tai Fook Finance Tower and Guangzhou New World Zengcheng Comprehensive Development project in Mainland China and Studio City Phase 2 in Macau, which were substantially completed in the same period last year.

Management Discussion and Analysis

Gross profit

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

	For the six months ended 31 December 2022		
	Gross profit HK\$'M	% of total gross profit	Gross profit margin %
Property & facility management services	116.5	21.8%	32.7%
City essential services	245.6	45.9%	13.3%
E&M services	172.9	32.3%	11.5%
Total	535.0	100.0%	14.4%

	For the six months ended 31 December 2021		
	Gross profit HK\$'M	% of total gross profit	Gross profit margin %
Property & facility management services	118.5	23.9%	34.5%
City essential services	221.3	44.6%	13.9%
E&M services	156.6	31.5%	11.1%
Total	496.4	100.0%	14.8%

During the period under review, the Group's property & facility management services segment, city essential services segment and E&M services segment contributed 21.8% (2021: 23.9%), 45.9% (2021: 44.6%) and 32.3% (2021: 31.5%) of its gross profit respectively. The Group's gross profit increased by HK\$38.6 million or 7.8% to HK\$535.0 million from HK\$496.4 million for the same period last year, with an overall gross profit margin decreased to 14.4% from 14.8%, mainly reflecting higher labour costs of the security guarding & event services business and a decrease in COVID-19 related government grants.

	For the six months ended 31 December			
	2022 HK\$'M	Gross profit margin %	2021 HK\$'M	Gross profit margin %
Gross profit as reported	535.0	14.4%	496.4	14.8%
Excluding government grants*	(23.2)	(0.6%)	(21.7)	(0.6%)
Gross profit excluding government grants	511.8	13.8%	474.7	14.2%

* For details of the related government grants, please refer to the "Summary of government grants" table in the "Management Discussion and Analysis" section on page 12.

If excluding the effects of these grants in the Group's gross profit for both periods (i.e. HK\$23.2 million for the period under review and HK\$21.7 million for the same period last year) to better illustrate the Group's performance without such effects, its adjusted gross profit margin decreased to 13.8% from 14.2% for the same period last year, mainly caused by a lower gross profit margin of the city essential services segment, principally driven by higher labour costs of the security guarding & event services business.

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The property & facility management services segment recorded a decrease in its gross profit of HK\$2.0 million to HK\$116.5 million from HK\$118.5 million, with its gross profit margin decreased to 32.7% from 34.5%, reflected a decrease in COVID-19 related government grants.

The city essential services segment recorded an increase in its gross profit of HK\$24.3 million to HK\$245.6 million from HK\$221.3 million, with its gross profit margin decreased to 13.3% from 13.9%, reflected (i) an increase in new general cleaning service contracts as well as epidemic-induced ad hoc intensive cleaning and disinfection works; (ii) an increase in new service contracts for general insurance and insurance for construction projects awarded and (iii) an increase in COVID-19 related government grants, partly offset by the effect of a lower gross profit contribution from its security guarding & event services.

The gross profit of the E&M services segment increased by HK\$16.3 million to HK\$172.9 million from HK\$156.6 million with its gross profit margin increased to 11.5% from 11.1%, principally reflected a higher gross profit margin contributed by its Immigration Headquarters project in Tseung Kwan O and an increase in COVID-19 related government grants.

General and administrative expenses

General and administrative expenses of the Group for the period under review increased by HK\$10.1 million or 4.7% to HK\$225.4 million from HK\$215.3 million for same period last year, reflected an increase in staff costs following an increase in the number of staff, partly mitigated by an increase in COVID-19 related government grants. If excluding the effects of government grants in the Group's general and administrative expenses for both periods (i.e. HK\$4.5 million for the period under review and HK\$0.6 million same period last year) to better compare their amounts without such effects, its adjusted general and administrative expenses increased 6.5% to HK\$229.9 million compared to HK\$215.9 million for the same period last year.

Other income, net

Other net income of HK\$19.2 million was recorded by the Group during the period under review compared to HK\$0.7 million recorded in same period last year.

The other net income recorded during the period under review mainly represented the recognition of COVID-19 related government grants in Hong Kong and Macau. The other net income recorded in the same period last year mainly represented gratia payments from the government for retirement of motor vehicles and the recognition of COVID-19 related government grants in Macau.

Finance income

The Group recorded finance income of HK\$3.4 million (2021: HK\$0.8 million). The increase mainly reflected higher average market interest rates and principal sum of the Group's bank deposits placed during the period under review.

Finance costs

The Group's finance costs of HK\$7.5 million (2021: HK\$2.4 million) for the period under review included interest expenses of (i) HK\$4.3 million (2021: HK\$1.0 million) for the Group's bank loan financing its acquisition of property & facility management services business in December 2019, (ii) HK\$2.3 million (2021: HK\$0.7 million) for other bank borrowings and (iii) HK\$0.9 million (2021: HK\$0.7 million) for lease liabilities. The increase in interest expenses mainly reflected higher average market borrowing rates.

Income tax expenses

The effective tax rate of the Group decreased by 1.2% to 14.0% (2021: 15.2%), mainly attributable to an increase in the non-taxable COVID-19 related government grants.

Management Discussion and Analysis

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		Change HK\$'M	% Change
	2022 HK\$'M	2021 HK\$'M		
Property & facility management services	68.9	61.3	7.6	12.4%
City essential services	121.5	103.9	17.6	16.9%
E&M services	96.6	76.5	20.1	26.3%
Unallocated corporate expenses and finance costs*	(7.5)	(3.2)	(4.3)	134.4%
Total	279.5	238.5	41.0	17.2%

* Unallocated corporate expenses and finance costs comprise the Company's corporate expenses of HK\$3.2 million (2021: HK\$2.2 million) and interest expenses of HK\$4.3 million (2021: HK\$1.0 million).

The Group's profit for the period under review increased by 17.2% or HK\$41.0 million to HK\$279.5 million compared to HK\$238.5 million for same period last year. The increase mainly resulted from (i) the strong performance of the cleaning, insurance and E&M businesses and (ii) an increase in government grants, partly offset by the effects of (i) a lower gross profit contribution from the security guarding & event services business of the city essential services segment, mainly reflected its higher labour costs, and (ii) higher corporate finance costs. Details of the government grants recognised by the Group are set out in Notes 6 to the condensed consolidated interim financial statements. The net profit margin of the Group increased to 7.5% for the period under review from 7.1% for the same period last year.

If excluding the effects of government grants in the Group's result for both periods, the Group recorded an increase in adjusted net profit of 8.7% to HK\$234.5 million (i.e. after excluding government grants of HK\$45.0 million from profit attributable to shareholders of the Company of HK\$279.5 million) for the period under review as compared to its adjusted net profit of HK\$215.8 million for the same period last year (i.e. after excluding government grants of HK\$22.7 million from profit attributable to shareholders of the Company of HK\$238.5 million) for same period last year.

Other comprehensive (loss)/income


The Group recorded other comprehensive loss for the period under review of HK\$1.6 million (2021: other comprehensive income of HK\$3.6 million), reflected an unfavourable exchange reserve movement of HK\$4.7 million (2021: favourable exchange movement of HK\$4.9 million) recorded during the period under review following a depreciation of the Renminbi ("RMB") for conversion of the Group's net investments in Mainland China, partly offset by the remeasurement gains on long service payment liabilities of HK\$3.0 million (2021: losses of HK\$1.2 million) and defined benefit retirement scheme of HK\$0.1 million (2021: losses of HK\$0.1 million).

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 2022, the Group had total cash and bank balances of HK\$712.6 million (30 June 2022: HK\$767.0 million), of which 94%, 3% and 3% (30 June 2022: 89%, 9% and 2%) were denominated in Hong Kong dollars, RMB and other currencies respectively, and total borrowings of HK\$392.6 million (30 June 2022: HK\$403.5 million), of which HK\$383.6 million (30 June 2022: HK\$403.5 million) were denominated in Hong Kong dollars and HK\$9.0 million (30 June 2022: Nil) were denominated in RMB. The Group's net cash balance decreased by HK\$43.5 million to HK\$320.0 million as at 31 December 2022 as compared to HK\$363.5 million as at 30 June 2022 mainly reflecting the net cash inflow from operating activities, partly offset by the distribution of the

Management Discussion and Analysis

Company's final dividend for its financial year ended 30 June 2022 of HK\$108.5 million and preferred distribution on the convertible preference shares of HK\$8.5 million, the Group's payments for principal portions of lease liabilities of HK\$24.6 million and net repayment of bank loan HK\$10.9 million. The Group's net gearing ratio was maintained at zero as at 31 December 2022 (30 June 2022: 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.




Strong performance of the cleaning, insurance and E&M businesses.

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 2022, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK\$2,705.4 million (30 June 2022: HK\$2,731.6 million). As at 31 December 2022, HK\$966.3 million (30 June 2022: HK\$945.6 million) 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 2022, the Group's total debts amounted to HK\$392.6 million (30 June 2022: HK\$403.5 million), of which HK\$9.0 million is renewed on a monthly basis, HK\$120.0 million matures in June 2023 and HK\$263.6 million matures in December 2024. The Group has managed its debt maturity profile to minimise its refinancing risks. HK\$383.6 million of these debts are denominated in Hong Kong Dollar and bears interest at floating rates and HK\$9.0 million of these debts are denominated in RMB and bears interest at a fixed rate.



Sufficient committed and unutilised banking facilities to meet current business operation and capital expenditure requirements.

Foreign currency exposure

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

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\$125.1 million as at 31 December 2022 (30 June 2022: HK\$136.6 million). The foreign currency translation arising from translation of these Mainland China operations' financial statements from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the Group's presentation currency) does not affect the Group's profit before and after tax and will be recognised in its other comprehensive income.

During the period under review, the fluctuation of RMB against Hong Kong dollars was 10% (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 2022, if the Hong Kong dollars had strengthened/weakened by another 10% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK\$12.5 million lower/higher.

Management Discussion and Analysis

Capital commitments

As at 31 December 2022, the Group had capital commitments of HK\$0.9 million (30 June 2022: HK\$1.9 million) in relation to purchase of plant and equipment.

Contingent liabilities


In carrying out the ordinary course of business, the Group is subject to the risk of being named as defendant in legal actions, claims and disputes in connection with its business activities. The nature of the legal proceedings initiated against the Group mainly includes claims for compensation by the Group's existing or former employees for work related injuries. The Group maintains insurance cover and, in the opinion of the Directors, based on current available evidence, any such existing claims and legal proceedings against the Group are not expected to have significant adverse financial impact to the Group as at 31 December 2022.

Other than the above, as at 31 December 2022, the Group did not have any material contingent liabilities (30 June 2022: Nil).

Convertible preference shares

On 16 December 2019, the Group acquired Legend Success Investments Limited ("Legend Success") (together with its subsidiaries, the "Legend Success Group"), which principally engaged in the provision of property and facility management services, at a total consideration of HK\$743.4 million upon which the initial sum of consideration of HK\$704.9 million was satisfied by the Company through (i) the payment of HK\$564.0 million in cash and (ii) a non-cash consideration of HK\$140.9 million through the issuance and allotment by the Company of 43,676,379 non-voting redeemable convertible preference shares of HK\$0.10 each at the issue price of HK\$3.2260 per share. A final cash payment of the consideration of HK\$38.5 million was made on 13 February 2020.

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



A healthy liquidity position by adopting a prudent financial management approach in implementing our treasury policies.

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 2022, the effect of their conversion is not included in the calculation of the diluted earnings per share for six months ended 31 December 2022 and 2021 pursuant to HKAS 33's requirements as described in Note 9 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 2022 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 2022 would be HK\$0.57 per share, calculated as the Group's profit attributable to shareholders of the Company of HK\$279.5 million divided by the weighted average number of the

Management Discussion and Analysis

Company's ordinary shares in issue of 493.7 million (after taking into account the weighted average number of incremental number of ordinary shares that would be issued from the conversion of the convertible preference shares on its Issue Date of 43.7 million). The convertible preference shares confer their holder(s) the right to receive preferred distributions from the Issue Date at a rate of 6.0% per annum on its Issue Price, payable annually in arrears. As (i) the Company may at its sole discretion redeem either in whole or in part the convertible preference shares for the time being outstanding (i.e. it has no obligation to settle them in cash unless it elects at its sole discretion to redeem) and (ii) the convertible preference shares are only convertible within a period of 10 years after the Issue Date but redeemable only after 10 years following the Issue Date, an analysis on the Company's share price at which it would be equally financially advantageous for the convertible preference share holder(s) to convert or redeem the convertible preference shares based on their implied rate of return at a range of dates in the future is not applicable. Based on the financial and liquidity position of the Group (with details set out in the paragraphs headed "Liquidity and financial resources" of this section), to the best knowledge of the Company, the Company expects that it will be able to meet its redemption obligations under the outstanding convertible preference shares issued by it.

EMPLOYEES AND REMUNERATION POLICY



As at 31 December 2022, the Group had a total of 20,873 employees (31 December 2021: 19,802) including 8,605 (31 December 2021: 7,984) casual workers and employees whose relevant costs are directly reimbursed by or charged to our customers or charged by sub-contractors. Staff costs for the period under review, including salaries and benefits, was HK\$1,516.6 million (2021: HK\$1,362.4 million). The increase mainly reflects an increase in the number of staff.

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

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

Attractive remuneration packages to our employees with the aim of promoting upward mobility within its organisation and fostering employee loyalty.

Management Discussion and Analysis

OUTLOOK



Property & Facility Management Services Segment

With over 50 years of experience, our Property & Facility Management Group is able to provide quality management services to maintain and improve the quality of properties and facilities for its clients and enhance their reputation and asset value. The expectations of corporate clients and property investors grow, so does the demand for enhanced services and one-stop solutions for professional property and facility management services.

Increasing demand for professional property management services in Hong Kong as the government's policy to increase the supply of residential units.

In the current economic climate, our Property & Facility Management Group believes that large corporations and multinational companies will continue to outsource their non-core property and facility management activities to external professional agencies, creating new business opportunities for the Group.

In addition to the strong synergies created between the various business units within the Group, our Property & Facility Management Group has developed a wide range of partnerships with professional service providers and contractors. It maximises its competitive advantages by creating economies of scale and strong bargaining power for its clients to achieve cost effectiveness and operational efficiency at all times. Most importantly, it is able to provide its clients with the most cost-effective services at the best price levels.

With the current social call and demand for safeguarding the rights of property owners, there is a growing demand for independent property and facility management companies that are not subsidiaries of property developers.

Our Property & Facility Management Group comprises one of the strongest professionally qualified teams to serve our diverse clientele. While its individual companies are licensed as property management companies under the Property Management Services Ordinance ("PMSO") (Cap. 626 of the Laws of Hong Kong), it also maintains a strong team of over 500 Tier 1 and Tier 2 property management practitioners, considered to be one of the largest service teams in the industry, to ensure the smooth operation of the managed property and facility assets and the fulfillment of statutory requirements. As a result, it has established a good strategic position to capitalise on the market openings and demand generated by the full enactment of PMSO and maintains good competitive advantages over its competitors in new tenders and business development activities in the coming years.

Management Discussion and Analysis

A strong representation in major and leading professional bodies and trade organisations to observe the latest market trends and development directions.

There is an increasing demand for professional property management services in Hong Kong as a result of the government's policy to increase the supply of residential units over the next 10 years. Market opportunities arising from the increased supply of both private and public housing have led to a promising demand for professional property management services in Hong Kong. Our Property & Facility Management Group, with over 6,000 staff, has embarked on new operating methodologies and combined its quality manpower strengths with modern innovative technologies and Internet of Things ("IoT") applications to enhance its overall service efficiency and effectiveness.

Our Property & Facility Management Group has ample experience in managing a wide range of property and facility assets in the territory. By virtue of its leadership position in the industry, the Group has maintained a strong representation in major and leading professional bodies and trade organisations in Hong Kong, which enables it to observe the latest market trends and development directions.

As most of FSE Lifestyle's business units have extensive experience, knowledge, expertise and portfolios in their respective industries, our Property & Facility Management Group is able to create strong synergies from its sister companies to offer differentiated and cost-effective management solutions to its clients to meet different needs and expectations.

Our Property & Facility Management Group has a strong technical and engineering team with extensive experience and expertise in various building repairs, maintenance, renovations and refurbishment projects. It has been participating in and coordinating different types of building renovation and improvement projects for large private housing estates, commercial premises and modern intelligent buildings to enhance their building facilities and ultimately increase their asset value. It currently maintains a strong engineering team with over 500 highly trained technical personnel to serve its clients.

Today, property owners and investors alike consider brand recognition as one of the key criteria in their choice of property and facility managers. With a strong brand, a wealth of experience, and accolades received in Hong Kong, our Property & Facility Management Group has created a robust position in the industry to gain the trust of its clients.

Growing demand for independent property and facility management companies that are not subsidiaries of property developers.

In addition to statutory requirements, our Property & Facility Management Group has been implementing stringent governance practices covering environmental protection and care, corporate social responsibility, and risk and crisis control. Moreover, within our Property & Facility Management Group, Urban has become a household name as "Hong Kong's Premier Community Manager" by organizing and participating in over 100 corporate social responsibility activities annually. More importantly, Urban's clear and comprehensive risk and crisis management system covers a wide range of crises, from the operational suspension of building services and systems failures to territory-wide pandemics.

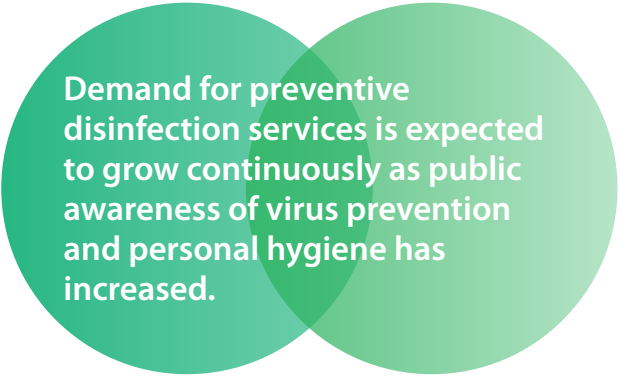
Management Discussion and Analysis

City Essential Services Segment

1. Cleaning Services

As the fifth wave of the COVID-19 outbreak has begun to stabilise in Hong Kong, most retail and catering businesses are resuming normal operations. While there has been a significant reduction in temporary disinfection services in the market, the demand for preventive disinfection services has been maintained as public awareness of virus prevention and personal hygiene has increased. The demand for these types of hygiene and disinfection services is expected to continue to grow.

A number of international events, including exhibitions, conferences, concerts and sporting events, are gradually resuming in Hong Kong in light of the recent relaxation of cross-border travel restrictions and further easing of remaining anti-epidemic requirements. Waihong has several significant contracts related to these event venues and these events will generate additional revenue for it.




Demand for preventive disinfection services is expected to grow continuously as public awareness of virus prevention and personal hygiene has increased.

In the next few years, a number of new residential and commercial projects will be launched in the Kai Tak and North districts. As these buildings are gradually completed, the demand for specialist cleaning and hygiene services for these properties and facilities will increase. Waihong will leverage its competitive advantages to explore more potential businesses from the private and public market segments.

Waihong insists on exploring technology and innovation to meet the growing needs of clients and improve the efficiency of daily operations as its marketing promotion strategies. Waihong's team has actively introduced artificial intelligence ("AI") systems, including smart toilets, an electronic face recognition attendance system and a real-time work monitoring system, to improve routine management and meet clients' needs.

The municipal solid waste charging scheme will be implemented in the third quarter of 2023. Waihong's waste management team will expand the scale of its fleet and business model in the coming months to respond to the anticipated market demand. Waihong will purchase vehicles with special capabilities to handle the disposal of municipal solid waste, medical waste, liquid waste, construction waste and food waste, and paper recycling services.

As always, Waihong's business development team is actively seeking different market opportunities to secure new service contracts for the company. Waihong's operations team will work hard to renew existing service contracts. According to market data, the government will launch more than HK\$5 billion worth of cleaning service contracts to the market each year. Waihong will invest more resources to strengthen its competitiveness in tendering for service contracts from government agencies. By leveraging Waihong's extensive experience, and systematic and customised branded services, Waihong has competitive advantages when catering to the market demand to sustain its business growth.



Waihong insists on exploring technology and innovation to meet the growing needs of clients and improve the efficiency of daily operations as its marketing promotion strategies.

Management Discussion and Analysis

2. Technical Support & Maintenance Services

Revenue stabilisation through further development of the public sector business is one of the strategic movements of the Group's technical support & maintenance services segment. This segment specialises in the provision of maintenance and repair services for building service systems, particularly HVAC systems. It aims to further develop and diversify its services to cover fire services and electrical systems in its government term contracts. This provides a good opportunity for the Group's technical support & maintenance services segment to generate business revenue and profit in the public sector.



The large-scale renovation works for existing commercial premises are expected to create new business opportunities in the coming years.

In the private sector, steady and stable income generated from maintenance and system retrofit works support the underlying operating business of the Group's technical support & maintenance services segment. Furthermore, the large-scale renovation works for existing commercial premises are expected to create new business opportunities in the coming years. According to the Hong Kong Tourism Board, there are more than 300 hotels and 50 major shopping malls in Hong Kong, a market that offers tremendous opportunities for further private sector business development in the next few years.

The Group's technical support & maintenance services segment advocates the implementation of innovative technologies to increase the efficiency and effectiveness of works. The well-developed mobile application for maintenance services has enabled a shift in operations and maintenance methods from a traditional paper-based record management system to an advanced digitalised management system. As a next step, our Group's technical support & maintenance services segment will continue to develop the production of Building Information Modeling ("BIM") in combination with the application of digitalised asset management for existing mechanical plants. This breakthrough can benefit demanding customers by enabling them to experience an innovative management system not only in new buildings, but also in existing ones.



Continue to develop the production of BIM in combination with the application of digitalised asset management for existing mechanical plants.

3. Security Guarding & Event Services

Demand for security services has continued to grow steadily over the past year and is expected to continue to grow. A major contributing factor is the government's plan to build 330,000 public housing units over the next ten years, with an additional 440,000 residential units from the private sector. In addition, several government projects are in the pipeline, including the construction of AsiaWorld-Expo Phase 2, the Hong Kong Airport third runway and the Lok Ma Chau development. Once these projects are operational, there will be a huge demand for security services.

Management Discussion and Analysis

With the opening of Hong Kong, the exhibition and convention industry is expected to recover. Perfect Event is proactively positioning itself in the event service industry. It is actively seizing the potential opportunities offered by the same opening. Meanwhile, the Perfect Event's multi-purpose app continues to attract new users looking to complement their existing services and workflows, and progress is being made to expand its capabilities, such as compatibility with IoT applications.

There will be a huge demand for security services as several government projects are in the pipeline.

4. Insurance Solutions

In December 2022, the Hong Kong Government released a roadmap for the development of Hong Kong's insurance industry. As the largest local insurance broker with a 34-year history and a strong team of professionals, Nova has the comparative advantage to benefit from this initiative.

As the needs of corporate insurance buyers are becoming more complex and they are extremely price conscious, they need a professional broker to help them get a better deal. The flexibility of Nova's services and its strong customer-focused approach help it to win more accounts from its competitors, even though they are typically foreign brokers with multinational backgrounds and larger operations.

A professional broker to help corporate insurance buyers get a better deal as their needs are becoming more complex and they are extremely price conscious.

Nova continues to do what it does best, such as insurance related to construction projects. There are numerous new commercial and residential developments and infrastructure projects in the pipeline that present additional business opportunities for Nova.


Due to mergers and acquisitions in the global brokerage space over the past few years, the number of sizable international insurance brokers has been reduced. Nova is perfectly positioned to fill this gap, as it has the experience and proven track record with a local flair. Through Nova's global network of brokers, it can serve the insurance needs of clients around the world.

In the coming year, Nova will further leverage its market niche and expertise to win more clients in the industries it is well experienced in, such as construction, property management, hospitality, jewelry, non-government organisations and employee benefits such as group medical and MPF schemes. Nova will also focus on specialty products with higher yields such as cyber insurance, professional indemnity insurance, directors & officers liability insurance and trade credit insurance.

Management Discussion and Analysis

5. Environmental Solutions

Increasing public awareness of the importance of a sustainable environment is driving demand for environmentally friendly services and products. The enactment of the Building Energy Efficiency Ordinance (Cap. 610 of the Laws of Hong Kong) in 2012 and the Hong Kong Government's pledge to achieve carbon neutrality by 2050 in the "Hong Kong Climate Action Plan 2050" published in 2021 continue to support the business development of the Group's environmental services.



Our seawater and freshwater treatment and odor removal products have driven steady growth in our environmental engineering business.

For our Group's environmental solutions business, its seawater and freshwater treatment and odor removal products, such as electrochlorination and biotech deodorisation systems, respectively, have driven steady growth in its environmental engineering business. Despite the fierce competition in HVAC water treatment services, its patented nanobubble ozonation and the use of real-time monitoring systems offers good opportunities to enlarge its market share.

Regarding the ELV business, with more property developers adopting IT infrastructure and advanced technologies in their projects to enhance building sustainability and energy control, good opportunities to generate business revenues and profit in the ELV business segment are emerging.

The Group's environmental solutions business will keep up with the market trends and facilitate the identification of new products. It will continue to work with vendors to customize systems according to specific customer needs and smart city blueprints, using advanced technologies and smart solutions such as AI and IoT, intelligent intellectual property/information technology-based systems and various 5G mobile applications to strengthen the building management and environmental monitoring system to enhance building sustainability and environmental quality, thereby increasing customer satisfaction.

The higher market demand for green elements in indoor and outdoor spaces, coupled with customers' needs to enhance the visual and ecological environment, have provided more opportunities for green solutions offered by the Group's landscape services business. The greening policies, urban planning initiatives and various support provided by the government will be highly beneficial to the development of the industry and our landscape services business.

With the technological advancement and focus on green concepts, our building materials trading business has new opportunities to promote new products with new features in these areas. Strategic collaboration with the Group's environment solutions team will help its building material trading business keep up with market trends and facilitate the identification of new products.



The greening policies, and urban planning initiatives will be highly beneficial to our landscape services business.

Management Discussion and Analysis

E&M Services Segment

Capital and Construction Expenditure – In Hong Kong, the government targets to maintain an annual works expenditure of over HK\$100 billion in the next few years as stated in its 2021 and 2022 Policy Address. According to the construction expenditure forecast provided by the Construction Industry Council in May 2022, expenditure in E&M construction works each year will amount to over HK\$28 billion for the public sector and over HK\$24 billion for the private sector over the next five years. With such increasing demand of professional construction services, the Group will focus on the public and private housing development, hospital development and infrastructure projects.



The development of the Greater Bay Area will certainly enhance the economic and social growth in 11 cities in China, bringing us new business opportunities.

Public Housing – In its 2021 Policy Address, the Hong Kong Government has identified about 350 hectares of land to build 330,000 public housing units and about 170 hectares of land to build 100,000 private housing units to meet the demand in the coming 10 years. In addition, the Government has proposed to develop the northern part of Hong Kong which encompasses Yuen Long District and North District into a metropolitan area (“Northern Metropolis”). This Northern Metropolis can provide a total land area of about 300 square kilometres, equivalent to the additional supply of over 500,000 housing units in the next 20 years.

The Hong Kong Government also plans to provide in the coming 10 to 15 years over 150,000 public and private housing units along the Northern Link and Siu Ho Wan MTR Depot topside development.

With the introduction of the new Light Public Housing (“LPH”) using the MiC approach, the overall public housing production will increase substantially by 50% to 158,000 units (including 30,000 LPH units) in the next five years (from 2023-2024 to 2027-2028) as compared to the previous five-year period (from 2022-2023 to 2026-2027). In addition, three sites are identified to build subsidised sales flats under a new pilot scheme on public-private partnership.

Private Housing – For private residential and commercial developments, the redevelopments are driven by the Urban Renewal Authority and the Hong Kong Housing Society, the developments at the Kai Tak Development Area, Yau Tong and Ap Lei Chau, together with the railway property developments. The Hong Kong Government will put forward the development of Tseung Kwan O Area 137 for residential and commercial development and other relevant purposes.

Hospital Development – To prepare for the challenges brought by the aging population, the Hong Kong Government earmarked HK\$200 billion in 2016 for a ten-year hospital development plan. On top of the HK\$200 billion invested in the first 10-year plan, the Hong Kong Government has committed to an extra HK\$300 billion capital works programme to support the second 10-year hospital development plan, which will include the development of a hospital network in the Northern Metropolis, and to improve the clinic facilities of the Department of Health.

Management Discussion and Analysis

Railway Development – The Hong Kong Government strives to implement new and extension of railway projects in a proactive manner. Current plans include a new line – Northern Link and five-line extensions and new stations – Tung Chung line extension, Oyster Bay station, Tuen Ma line extension, Hung Shui Kiu station, Hong Kong station track extension. Proposals being studied include four new lines and two-line extensions and new stations. The Hong Kong Government also worked with the Airport Authority Hong Kong to fully realise the “Airport City” vision and to create at Lantau an Aerotropolis connecting the Greater Bay Area and the world.

District Cooling System – Use of District Cooling Systems (“DCS”) is also one of the Hong Kong Government’s initiatives and commitment to low-carbon development. Apart from the additional DCS in the West Kowloon Cultural District, providing DCS in new development areas – Tung Chung East and Kwu Tung North have also been under tendering or construction process. Other new development areas including the Northern Metropolis will also incorporate DCS to further reduce energy consumption.



With the increasing demand of professional construction services, the Group will focus on the public and private housing development, hospital development and infrastructure projects.

Convention and Exhibition – To support Hong Kong as a premier venue for large-scale international convention and exhibition activities, the Government will take forward the AsiaWorld-Expo Phase 2 project and the Wan Chai North redevelopment project near the Hong Kong Convention and Exhibition Centre.

The Culture, Sports and Tourism Bureau will map out a 10-year development blueprint for 30 sports and recreation facilities, including Hong Kong’s second sports park to be developed in Whitehead, Ma On Shan, and large-scale sports and recreation facilities in the Northern Metropolis.

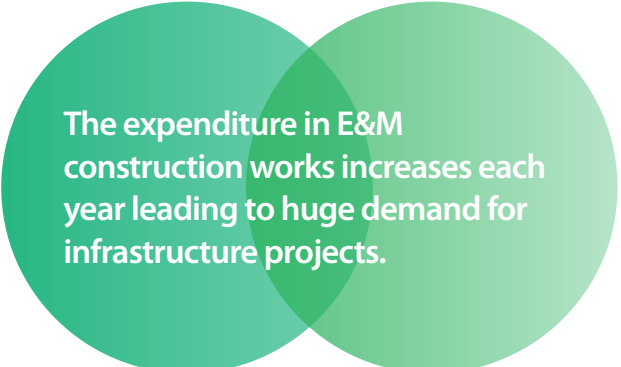
Technology Park and Manufacturing Centre–To encourage and enhance Innovation and Technology (I&T), the Hong Kong Government will collaborate with Shenzhen in the development of Shenzhen-Hong Kong I&T Co-operation Zone under the “one zone, two parks” model. In addition, the infrastructure works of the Hong Kong-Shenzhen Innovation and Technology Park (“HSITP”) in the Lok Ma Chau Loop has commenced in June 2018, with the objective of providing the first batch of land parcels for superstructure development in 2022. The Hong Kong Government will expedite the development of San Tin Technopole in the Northern Metropolis, and the expansion works of the Science Park and Cyberport will be completed in phases from 2025 onward.

The Government will construct the second Advanced Manufacturing Centre at the Tai Po InnoPark, to initiate Hong Kong’s re-industrialisation as stated in the 2022 Policy Address. This will bring up other facilities development surrounding the InnoPark.

Management Discussion and Analysis

Macau – In Macau, there is a constant demand for renovation and improvement works for hotels and casinos. In addition, the robust demand for public and private residential housing, the development of Galaxy Macau Phase 4 and Studio City Phase 2, the renovation work of existing casinos and hotel areas, and the renewal of gaming licences of its six major casino operators for the next 10 years in November 2022 are expected to create emerging business opportunities for the Group in the coming few years.

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



The expenditure in E&M construction works increases each year leading to huge demand for infrastructure projects.

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

In recent years, the Group has been providing project management services across Mainland China to an international exhibition centre development in Shenyang, 2 high-rise building complexes in Tianjin and Guangzhou, and 2 commercial buildings in Beijing. The Group firmly believes that due to its high market recognition and strong value-added E&M project management expertise, it will be a preferred partner of foreign and Hong Kong-based developers of high-end projects in Mainland China.

With our brand's long history and substantial experience, the Group has maintained its position as one of the leading E&M companies in Hong Kong, capable of providing a comprehensive range of E&M services, ranging from design, installation and testing and commissioning services, and continued to run its E&M operations in Mainland China and Macau.

On top of its full range of licences and qualifications and effectiveness in managing tendering risks, the Group's E&M services business has integrated operating and control procedures, a robust network of well-established customers and suppliers, and an experienced and well-trained workforce to support all of its operations. Equipped with such high service standards and modern management models, it enables the Group's E&M services business to continuously improve its operational efficiency and provide the most cost-effective service deliveries to its clients at the optimum price levels.



Hong Kong government targets to maintain an annual construction works expenditure of over HK\$100 billion in the next few years.

Management Discussion and Analysis

With the growing demand for sustainability and environmental, social, and governance from corporate clients and property investors, the Group's E&M services business is committed to creating a greener society. To help build a sustainable environment, it has been constantly optimising design and exploring innovative methods. At the project level, the Group incorporates the application of green building principles into building services equipment; and adopts green building design, MiC, MiMEP, DfMA to reduce energy usage, carbon footprint and construction waste.



With the growing demand for sustainability and ESG from corporate clients and property investors, the Group's E&M services business is committed to creating a greener society.

In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as BIM, Digital Works Supervision System ("DWSS"), modularisation and prefabrication, Robotic Total Solution ("RTS") and Sky Drilling Machine ("SDM"), 3D laser scanning and mobile Apps solutions etc.

In addition, the senior executives of the Group's E&M services business have actively participated and taken key positions in Construction Industry Council ("CIC") as well as in different professional institutions such as The Hong Kong Institution of Engineers ("HKIE") and trade/industry associations such as The Hong Kong Federation of Electrical and Mechanical Contractors Limited ("HKFEMC"). The strong presence in these professional

institutions and trade associations does not only promote the company branding, but also shows the Group's commitment in achieving professionalism within and get abreast of modern developments with the construction industry.

Technology and Operational Efficiency – With increasing construction volumes, rising construction costs and ageing skilled workforce in recent years, together with multiple incidents in individual large-scale projects, the construction industry in Hong Kong has been facing enormous pressure and challenges. The Group has been endeavoring to support the "Construction 2.0" initiative (Innovation, Professionalisation and Revitalisation) as launched by the Development Bureau in 2019 to capitalise on future development opportunities and scale new heights. The 2022 Policy Address highlights that the Development Bureau and the Transport and Logistics Bureau are reviewing the labour shortage situation and will draw up relevant solutions in the near future.

Impact of the COVID-19 outbreak and its remedial measures

Since the outbreak of COVID-19, its impact on the global economy has been far-reaching and we have taken various proactive measures and made contingency plans to manage the operational and financial risks it poses to the Group. These include flexible work and lunch hours, IT enhancements to sustain business operations, providing our front-line employees with personal protective equipment including masks, rapid antigen test (RAT) kits, disposable gloves and protective gowns, body temperature testing for anyone entering our work areas, and placing hand sanitizer stations in easily accessible parts of our work areas to promote use by our staff, contractors and visitors.

Management Discussion and Analysis

Our property and facility management, cleaning, security guarding and insurance solutions businesses faced relatively little disruption. The COVID-19 outbreak created additional work on existing property and facility management contracts, and more ad-hoc demand for intensive disinfection cleaning services and security services. In addition, COVID-19 resulted in increased premium rates for certain types of insurance due to poor claims experience caused by the pandemic, which had a positive impact on our insurance solutions business. Nevertheless, in order to manage the risks associated with the pandemic, our cleaning and property and facility management services operations have taken various precautionary measures, including the following:



Our property and facility management, cleaning, security guarding and insurance solutions businesses faced relatively little disruption by the pandemic.

- Established policies to assign some staff to other offices or to work from home in the event of any reported cases of COVID-19, and designated different office entrances and exits for different groups of staff to reduce their interaction at our cleaning services operation; and
- Implemented a clear sanitation management procedure for property owners and tenants, users of public and private facilities, and employees of the property and facility management services operation, including immediate sanitation action if a suspected case of COVID-19 is reported in the work area.

Under the current circumstances, our environmental services business remains stable as usual. However, our landscape business with hotels and serviced apartments has been affected by the freeze in tourism in Hong Kong. Our building materials and trading business has also been affected by the current weak retail market. Our landscape and building material trading businesses have applied stringent cost control measures to mitigate the adverse impact caused by the pandemic mentioned above.

The material impact of the fifth wave of COVID-19 on our E&M business came to an end in the second half of 2022. Cross-border activities and land ports have reopened, so logistics and material supplies are returning to normal. With the relaxation of anti-pandemic measures in Mainland China, both Hong Kong and Macau are opening for travel, including the resumption of cross-border rail, ferry and coach operations.

Nevertheless, COVID-19 is still affecting the world, so we will closely monitor its latest development and the effectiveness of the remedial measures we have adopted and make timely adjustments as needed.

CONCLUSION

Despite the challenges and operational difficulties we faced during this financial year, particularly as a result of the COVID-19 outbreak, the Group's operations remained stable during the period under review. Going forward, the Group will endeavor to maintain a strong financial position in order to remain ready for new investment opportunities as they arise. We are confident that the Group will continue to grow.