豐盛服務集團有限公司
FSE SERVICES GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 331

Annual Report
2018-2019

About FSE Services Group Limited

FSE Services Group Limited (Hong Kong Stock Code: 331) is one of the leading diversified service providers in Hong Kong, which has 4 major competences: electrical and mechanical ("E&M") engineering, environmental management, cleaning and waste management as well as professional laundry services. FSE Services' competences are being delivered through 4 major groups of companies which have all been the market leaders in the respective industries. They include FSE Engineering Group, FSE Environmental Technologies Group, Waihong Services Group ("Waihong") and New China Laundry Group ("NCL"). With their professionalism and expertise, together with the extensive synergies generated among the companies under FSE Services, the Group is able to build up a strong network and offer a full range of professional services to renowned clients and main contractors who are often engaged in property developments, public infrastructures, education and transportation facilities as well as entertainment and travel industries in Hong Kong, Macau and the Mainland China.

Our Vision

Better Life, Better Home, Better Quality to You Everyday

Our Mission

We offer superior service, we create an integrated, convenient and safe living environment.

We are devoted to serve:
Our Customers — We provide customized service and maintain long term partnership.
Our Staff — We promote work-life balance and create a strong sense of belonging.
Our Community — We maintain sustainable development and contribute to community.

Our Core Values

Quality
Teamwork
Integrity
Caring
Passion
Innovation

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Financial Highlights

	2019 HK$M	2018 HK$M	% Change
Revenue	**4,930.5**	4,926.5	0.1%
Gross profit	**599.8**	591.0	1.5%
Profit attributable to equity holders of the Company	**247.5**	236.8	4.5%
Basic earnings per share	**HK$0.55**	HK$0.53	3.8%

The Board recommended the declaration of a final dividend of HK11.9 cents (2018: HK13.3 cents) per share for the year ended 30 June 2019[i].

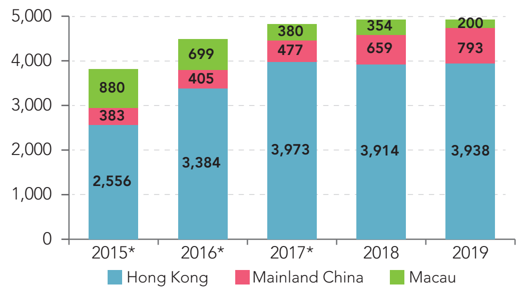
Note (i) Together with the interim dividend of HK10.1 cents (2018: HK7.8 cents) per share paid in March 2019, total distribution of dividends made by the Company for the year ended 30 June 2019 will be HK22.0 cents (2018: HK21.1 cents) per share, representing a dividend payout ratio of 40.0% (2018: 40.1%).

Financial Highlights

FSE SERVICES GROUP — CONSOLIDATED

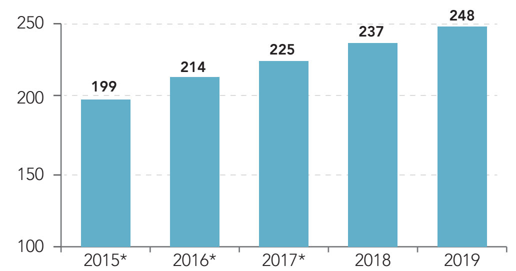
Revenue by Region

For the year ended 30 June
HK$'million



Profit Attributable to Equity Holders of the Company

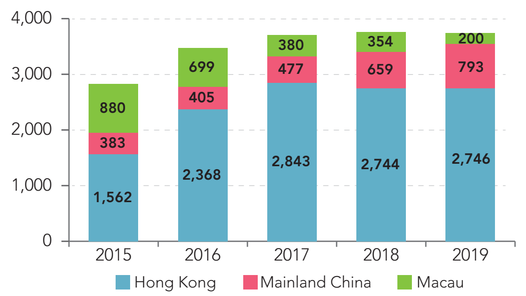
For the year ended 30 June
HK$'million



E&M ENGINEERING AND ENVIRONMENTAL MANAGEMENT SERVICES SEGMENTS

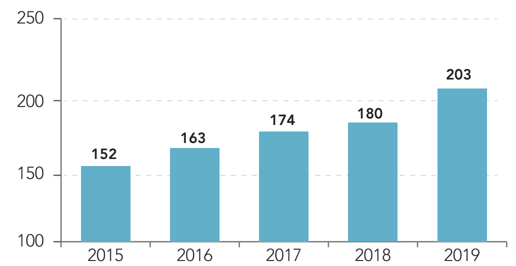
Revenue by Region

For the year ended 30 June
HK$'million



Profit for the Year

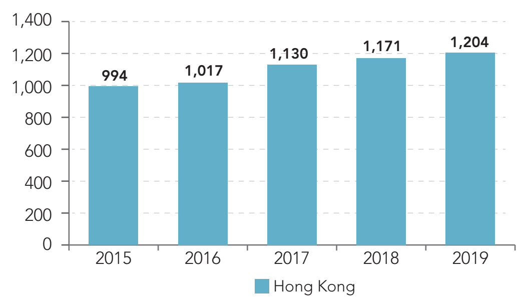
For the year ended 30 June
HK$'million



FACILITY SERVICES SEGMENT

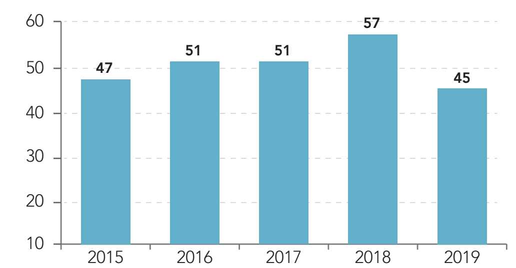
Revenue by Region

For the year ended 30 June
HK$ million



Profit for the Year

For the year ended 30 June
HK$ million



* Restated for the Group's application of merger accounting for business combinations under common control

Major Events and Accolades

JULY 2018

- FSE Services Group Limited (the "Company") received the "IFAPC Outstanding Listed Company Award 2018" from The Hong Kong Institute of Financial Analysts and Professional Commentators Limited (IFAPC) for the third consecutive year, affirming the Company's dedication in maintaining high level of transparency and delivering sustainable business performance throughout the year.

- Majestic Engineering Company Limited ("Majestic Engineering") was awarded the Certificate of Honour of "Proposed Development at 33 – 49 Des Voeux Road West, Hong Kong" by Bordon Construction Co Ltd in appreciation of its best performance in the first assessment of Occupational Safety Management.

OCTOBER 2018

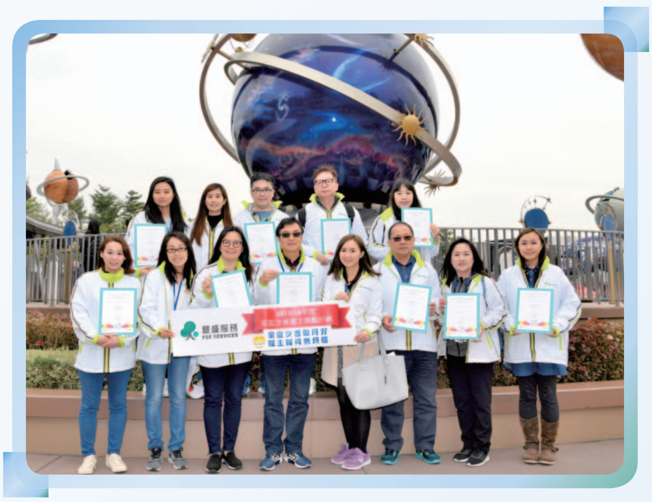
- The Company, together with its subsidiaries, were honoured as "Good MPF Employer" by the Mandatory Provident Fund Schemes Authority and received the "e-Contribution Award" and "Support for MPF Management Award" at the 2017–18 Award Presentation Ceremony, in recognition of their efforts in building solid foundation for employees' retirement protection and enhancing the retirement benefits by providing assistance in investment management.

Major Events and Accolades

OCTOBER 2018

- The Company and Waihong were awarded the "Partner Employer Award" by The Hong Kong General Chamber of Small and Medium Business.

DECEMBER 2018



- The Company, together with its subsidiaries, have been awarded certificates for recognition as a "Meritorious Family-Friendly Employer and "Family-Friendly Employer", respectively, organised by the Home Affairs Bureau and Family Council.

- The Company, together with its subsidiaries, received awards under the "Volunteer" and "Enterprise" categories at "The 9th Hong Kong Outstanding Corporate Citizenship Awards Presentation Ceremony", for its outstanding achievements in implementing and promoting corporate social responsibility.

Major Events and Accolades

DECEMBER 2018

- Three Macao subsidiaries of the Group, Young's Engineering (Macao), Majestic Engineering (Macao) & Far East Technical Service (Macao) received the "Caridade Social 2017–18 Award" organised by The Youth Committee of Macao Chamber of Commerce and Associacao de Jovens Empresarios Chinese de Macau in recognition of their outstanding achievements in implementing and promoting community services for elderly.

- The Company received the Gold Award for Volunteer Service (Organization) from the Social Welfare Department in appreciation of its contribution of over 1,000 hours of volunteer service to the community in 2018.

JANUARY 2019

- The official website of the Company received gold award in the Web Accessibility Recognition Scheme 18/19 co-organized by Hong Kong Internet Registration Corporation Limited and the Office of the Government Chief Information Officer.

- The Company received the "Appreciation Certificate of the Commendation" from Tung Wah Group Hospitals in recognition of its sustainable community contribution.

Major Events and Accolades

MARCH 2019

- Majestic Engineering received the "Certificate of Good Performance of Safety Teams Award" of the Construction Industry Safety Award Scheme 2018/2019 which was organised by Labour Department and 15 organisations to recognise its outstanding performance in safety works at the Fanling Area 49 project.

- NCL was awarded as an EcoChallenger in the BOCHK Corporate Environmental Leadership Awards Programme organised by the Federation of Hong Kong Industries (FHKI) and Bank of China (Hong Kong) to recognise its effort in fostering green initiatives.

- The Company received the "Caring Company Logo", FSE Engineering Group, Waihong and NCL received the "10 years Plus Caring Company" from the Hong Kong Council of Social Service in appreciation of their continuous endeavour and devotions in creating harmonious society.

Chairman's Statement

To Our Shareholders:

On behalf of the board of directors (the "Board") of FSE Services Group Limited (the "Company", together with our subsidiaries, the "Group"), I am pleased to present the annual report of the Company for the year ended 30 June 2019 ("FY2019" or the "Year").

MARKET REVIEW

This financial year has been a very challenging year. The medium-term outlook remains weak with overarching challenges and uncertainties looming over the global political and economic environment that require close attention, like the Brexit deadlock, China's economic growth prospects, the normalisation of US interest rates and most recently the further escalation in trade tensions between the US and Mainland China. The market sentiment and the general operating environment for businesses in the city has become increasingly cautious and enterprises should be well-prepared for any potential impact from the industry especially the rippling effect of the recent political turmoil. In view of the recent social instability in Hong Kong, our laundry services business is impacted by the plummeted tourist arrivals and low room occupancy rates. As in previous years, the Group has also encountered a multitude of challenges, mainly keen competition in the marketplace and dwindling numbers of skilled workers that affect the profit margin. Talent development is also an essential element and a prerequisite for the sustainable growth of the Group. Therefore, we must invest continuously in nurturing talent; provide diversified and tailor-made learning, and training and development opportunities offering good career prospects for our young people. Amidst the rising external headwinds on the Hong Kong economy, the Group should remain vigilant and prepare itself to drive the development of each of its business segments to the fullest extent possible. For the year under review, coupled with the satisfactory performance achieved by the maintenance services business driven by the increased demand in term contracts, renovation and systems upgrading works in the commercial and institution sectors, the Group's profit attributable to equity holders reached HK$247.5 million, testimony to its resilience and capability to continuously grow its businesses. The Board has proposed a final dividend of HK11.9 cents per share for the Year. Including the interim dividend of HK10.1 cents per share for the six months ended 31 December 2018, the total dividend payout for the Year is HK22.0 cents per share, equivalent to a payout ratio of 40.0%.

E&M ENGINEERING

Hong Kong

Overall building and construction activity is expected to further expand albeit at a slower pace in 2019 on the back of strategic infrastructure and private construction investment despite the prevailing local economic and political uncertainty that may lead to delay of the approval of public works. Given the government's sustained effort, the total E&M construction works expenditure for the fiscal year 2019/20 is expected to exceed HK$25.0 billion for the public sector and more than HK$27.0 billion for the private sector. Recently, the Hong Kong Government has proactively taken forward the eight land supply options tendered by the "Task Force on Land Supply" in order to build a land reserve to help resolve the challenge of a land supply shortage for the long-term development of Hong Kong. In view of the above, the Group's E&M engineering business currently enjoys being one of the top two dominant players in the Hong Kong market and it is adequately prepared to take on different sizeable infrastructure and building projects in the marketplace. Notable among these are two of our major submitted tenders, Relocation of Wan Chai Immigration Headquarters and the mega development SKYCITY at Hong Kong International Airport, which are currently under negotiation. Preparations are also underway for the tenders for the additional District Cooling System at the Kai Tak Development, the second 10-year plan of in-situ hospital re-development, re-provisioning of the existing government facilities in Kwun Tong and Kowloon Bay, Lok Ma Chau Loop development and the New Town Extension projects at Kwu Tung North, Fanling North and Hung Shui Kiu. Towards that end, in order to accommodate the Construction 2.0 initiative of the Government which advocates innovation, professionalisation and revitalisation, the Group strives to maintain a stable and professional E&M team complemented by advanced technological capabilities in areas including Building Information Modelling (BIM) and Modular Integrated Construction (MiC) technology. Through these capabilities, the Group can enhance engineering designs and both work quality and productivity to meet the requirements of these potential projects. We are committed to contributing to the transformation of the industry and strongly believe that new technologies will facilitate operational efficiency and foster new innovative products and services that reap financial benefits for the Group.

Chairman's Statement

Mainland China

The year 2019 is a year to remain cautious and highly alert to signals on where China's economy is headed. In the context of the recent escalating trade tensions causing jitters in the economic environment, the Chinese government continues to introduce moderate growth-supportive measures to alleviate the pressure from the precarious economic situation and further liberalize the economy and implement fiscal stimulus as needed. Coupled with the continuous human-centered urbanization at the national level to upgrade coastal cities and a neutral and prudent monetary policy, this strategic multifaceted transitional rebalancing should unleash a stable demand for housing and related commercial developments, presenting fresh opportunities to the construction and E&M engineering industry. Thanks to the geographical proximity as well as strong cultural and historical ties, the Greater Bay Area development represents another strategically significant initiative with potentially abundant land resources and undoubtedly injects a new growth impetus into the Group. As one of the few Hong Kong-based E&M general engineering contractors with Class I Qualification in Mainland China, the Group has an advantage in forging ties with selected partners to expand its footprint in this crucial market and lay a solid foundation for future development. As in previous years, the Group will work hard at extending its presence in Mainland China, adhering to a disciplined approach in its business development.

Macau

The economy in Macau has dragged at the beginning of 2019 due to sluggish growth in gaming spending and reduced level of investment. However, we are optimistic about its long-term growth and development and anticipate another wave of financial investments will be made by gaming concessionaires and sub-concessionaires before licence renewal in 2022 to further position Macau as a world-class tourism center. As stated in its Five-Year Development Plan (2016–2020), the Macau SAR Government wishes to attain a balance between the gaming and non-gaming sectors, developing a new urban zone, promoting development of integrated tourism and strengthening non-gaming leisure and entertainment provisions. This strategic direction is aimed at facilitating greater diversity in Macau's economy and should boost E&M engineering business opportunities in the short-to-medium term. Together with the ongoing Greater Bay Area integration initiatives, Macau could look forward to significantly improved accessibility as well as enhanced market growth under this new paradigm.

ENVIRONMENTAL MANAGEMENT SERVICES

Regarding our environmental management services business, growing public awareness of environmental issues is boosting demand for associated environmental engineering services and projects. The Group continues to capitalise on this trend and provide customers with total solutions that are energy efficient as well as environmentally friendly.

FACILITY SERVICES

Waihong and NCL are both principally engaged in the provision of facility services including cleaning and laundry services. Waihong is one of the top three players whilst NCL is one of the largest players in the Hong Kong environmental hygiene services market and laundry services market respectively. Despite the slowdown of Hong Kong's economy, the demand for Waihong's specialist cleaning services in Hong Kong is healthy and stable. In view of the progressive transformation of the Hong Kong economy towards higher value-added activities, high-end residential and commercial buildings will be the key growth driver in a number of new completions during the coming years. The greater number of commercial and residential buildings and hotels in Hong Kong, along with mega facilities and properties to be gradually launched at the West Kowloon Culture District, the Kai Tak development area, the Kwun Tong business area and New Town extensions, and the increasing need for outsourcing environmental services will raise the demand for environmental services from property management companies and property owners. From a public hygiene perspective, due to past outbreaks of disease, the Hong Kong Government will place considerable emphasis on environmental and hygiene control and allocate funds for reinforcing related policies including waste management and recycling. By capitalizing on its extensive experience, quality and customized services and distinctive brand, Waihong will have competitive advantages to win new tenders or attain a high renewal rate for its existing contracts related to the above-mentioned business opportunities. Strategically, the company also plans to expand current service capacity including government contracts and broaden the spectrum of premiere clients in order to increase market penetration and expand its market share. In view of the industry risk profile, the environmental hygiene services is labour-intensive and Waihong is nevertheless facing the challenges of labour shortages that could result in higher costs. Furthermore, there has been a decrease in the number of insurance companies that insure against environmental risks in recent months that has led to soaring insurance premiums. To meet these challenges, Waihong must maintain a stable experienced management team in supervising the labour force, implementing an effective cost control management and controlling the overall quality of services and workplace safety. Last but not least, in view of the challenges for our laundry services business, NCL will intensify its focus on key accounts, efficient and effective cost management, ensuring customer satisfaction and sustainable growth of its business. Besides, NCL will continue to invest and upgrade our advanced and innovative laundry equipment to enhance our operational efficiency and provide value-added services to our clients.

CONCLUSION

With our solid and healthy financial position, the Group will continue to dedicate efforts and seek business opportunities to further expand our business and maximize our shareholders' value.

On behalf of the Board, I would like to express my most sincere gratitude to all shareholders, customers and business partners for their unwavering support to the Group. I wish to also thank the management team and all fellow staff members for their steadfast dedication. As always, we remain fully committed to assuring the Group's long-term development and fair returns to shareholders.

Dr. Cheng Kar Shun, Henry
Chairman

Hong Kong, 26 September 2019

Board of Directors and Senior Management

BOARD OF DIRECTORS

Dr. Cheng Kar Shun, Henry *GBM, GBS*

Chairman and Non-executive Director

Dr. Cheng, aged 72, was appointed the Chairman and Non-executive Director of the Company in August 2015. Dr. Cheng assumes an advisory role in respect of the overall strategic planning of the Group. Dr. Cheng has substantial corporate management experiences in a wide range of industries and has been assuming management roles in various listed public companies in Hong Kong, including the Chairman and an executive director of New World Development Company Limited, NWS Holdings Limited and Chow Tai Fook Jewellery Group Limited, the Chairman and a non-executive director of New World Department Store China Limited, the Vice-Chairman and a non-executive director of i-CABLE Communications Limited and a non-executive director of SJM Holdings Limited. He was an independent non-executive director of Hang Seng Bank Limited until his retirement on 10 May 2018, the Chairman and a non-executive director of Newton Resources Ltd until his resignation on 9 April 2018, an independent non-executive director of HKR International Limited until his resignation on 31 March 2018 and the Chairman and an executive director of International Entertainment Corporation until his resignation on 10 June 2017, all of the foregoing companies are listed public companies in Hong Kong. Dr. Cheng is the Chairman of the Advisory Council for The Better Hong Kong Foundation. Dr. Cheng was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the Hong Kong Government in 2001 and 2017 respectively. Dr. Cheng is the brother-in-law of Mr. Doo Wai Hoi, William, who is one of the controlling shareholders of the Company. He is also the uncle of Mr. Doo William Junior Guilherme and the cousin of Mr. Poon Lock Kee, Rocky's spouse.

Mr. Lam Wai Hon, Patrick

Vice-Chairman and Executive Director

Mr. Lam, aged 57, was appointed an Executive Director of the Company and a member of the Remuneration Committee of the Board in April 2016, and became the Vice-Chairman of the Company in January 2017. He is on the boards of various companies within the Group, and is responsible for the overall strategic planning of the Group. Mr. Lam is currently an executive director and the Chief Executive Officer of FSE Holdings Limited, a controlling shareholder of the Company. He is also a non-executive director of NWS Holdings Limited, a listed public company in Hong Kong. Mr. Lam was a non-executive director of Road King Infrastructure Limited, a listed public company in Hong Kong, up to his retirement on 18 May 2017. Mr. Lam is a fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales, and a member of the Chartered Professional Accountants of Ontario, Canada. He is a member of the Asia Advisory Board of the Ivey Business School, Western University, Canada.

Board of Directors and Senior Management

Mr. Poon Lock Kee, Rocky

Chief Executive Officer and Executive Director

Mr. Poon, aged 63, joined the Group in February 1989 and is the Chief Executive Officer and Executive Director of the Company, and a member of each of the Nomination Committee and the Remuneration Committee of the Board. He also sits on the boards of various companies within the Group. He is primarily responsible for overseeing daily operational management and business performance of the Group and leading our E&M engineering business units in Hong Kong, Macau and the PRC. Mr. Poon is a member of the American Society of Mechanical Engineers, a Chartered Engineer of the Engineering Council in the United Kingdom, and a fellow of both the Chartered Institution of Building Services Engineers in the United Kingdom and the Hong Kong Institute of Engineers. He is also the President of the Macau Air-Conditioning & Refrigeration Chamber of Commerce, Past President of the Hong Kong E&M Contractors' Association Limited, appointed Council Member of Construction Industry Council (2018) and the 9th Council — Vice President (2017–2020) of Macau Construction Association. Mr. Poon is the Chairman of the Hong Kong Federation of Electrical & Mechanical Contractors Limited, a committee member of the Committee of the Chinese People's Political Consultative Conference in Shaoguan City and the Hubei Province of the PRC, a Deputy Chairman of the Shaoguan Overseas Friendship Association (Hong Kong & Macau Region) (韶關海外聯誼會理事會副會長(港澳)), a member of the Trust Committee of the Henry Fok Foundation (澳門霍英東基金會信託委員會委員), and a director of Macau Urban Renewal Limited. Mr. Poon is the cousin-in-law of Dr. Cheng Kar Shun, Henry and Mr. Doo William Junior Guilherme's mother.

Mr. Doo William Junior Guilherme *JP*

Executive Director

Mr. Doo Junior, aged 45, joined the Group in June 2014 and is an Executive Director of the Company and a member of the Nomination Committee of the Board. He also sits on the boards of various companies within the Group, and is primarily responsible for the overall strategic planning, overseeing business development and major management decisions for the Group. Mr. Doo Junior is also an executive director and Deputy Chief Executive Officer of FSE Holdings Limited, a controlling shareholder of the Company. Mr. Doo Junior is a solicitor admitted in Hong Kong and is currently a non-practising solicitor in England and Wales. Mr. Doo Junior is a Standing Committee Member of the Thirteenth Chinese People's Political Consultative Conference in Beijing of the PRC and has been a committee member of the Disciplinary Panel of The Hong Kong Institute of Certified Public Accountants and an adjudicator of The Immigration Tribunal. He was appointed a Justice of Peace by the Chief Executive of Hong Kong in July 2018. Prior to joining the Group, Mr. Doo Junior had legal practice experience in one of the largest global law firms specialising in finance and corporate transactions. Mr. Doo Junior is also a non-executive director of NWS Holdings Limited, a listed public company in Hong Kong and an independent non-executive director of The Bank of East Asia (China) Limited, a subsidiary of The Bank of East Asia, Limited. Mr. Doo Junior is the nephew of Dr. Cheng Kar Shun, Henry and his mother is the cousin of Mr. Poon Lock Kee, Rocky's spouse.

Mr. Lee Kwok Bong

Executive Director

Mr. Lee, aged 48, joined the Group in July 2010 and is an Executive Director of the Company. He is also on the boards of various companies within the Group. Mr. Lee is primarily responsible for the overall financial management of the Group. He has been the Chief Financial Officer of FSE Holdings Limited, a controlling shareholder of the Company, since August 2010.

Mr. Lee holds a Bachelor's degree in Business Administration in Accounting, a Master of Science degree in Finance and a Bachelor's degree in Chinese Legal System. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a member and a Chartered Global Management Accountant of the American Institute of Certified Public Accountants. Mr. Lee has over 20 years of experience in auditing, financial management, accounting and corporate governance in Hong Kong and the PRC.

Board of Directors and Senior Management

Mr. Soon Kweong Wah

Executive Director

Mr. Soon, aged 60, joined the Group in May 1983 and is an Executive Director and Chairman of the Risk Management Committee of the Board. Mr. Soon also sits on the boards of various companies within the Group, and is primarily responsible for the overall operational management and business performance control of the Group's E&M engineering installation business in Hong Kong, as well as directing the research and analysis on the business opportunities and assessing potential markets and projects for this business unit.

Mr. Soon holds a Bachelor's degree in engineering and a Master's degree in engineering from the University of Hong Kong. He also holds a Master's degree in finance from The City University of Hong Kong and an Executive Master of Business Administration degree in management from the Richard Ivey School of Business (Asia) (now known as Ivey Business School), the University of Western Ontario (also known as Western University) in Canada. Mr. Soon has over 30 years of experience in the building services sector and installation of construction industries, and has handled various renowned engineering and construction projects of the Group in Hong Kong, Macau and the PRC.

Mr. Soon is an active member of various academic institutions and external associations. He is now a Council Member of the Hong Kong E&M Contractors' Association Limited. He is a chartered engineer of the Engineering Council in the United Kingdom, a registered professional engineer in building services and electrical engineering of the Hong Kong Engineers Registration Board, and a fellow member of the Hong Kong Institution of Engineers, where he also served as the appointed member of its Building Services Discipline Advisory Panel from 2011 to 2017. Mr. Soon was the Chairman of the Chartered Institution of Building Services Engineers (Hong Kong Branch) from 2007 to 2008 and is now a fellow member of the institution.

Mr. Wong Shu Hung (alias, Vong Hong)

Executive Director

Mr. Wong, aged 68, joined the Group in October 1986 and was appointed as an Executive Director of the Company in December 2017. He is on the boards of certain subsidiaries of the Group. Mr. Wong is mainly responsible for the operation and management of the Group's E&M engineering projects, and supervision of contracts managers, project managers and engineers. Mr. Wong obtained a Bachelor's degree in Mechanical Engineering from National Cheng Kung University, Taiwan and a Master of Science Degree in Heat Transfer Engineering from the Imperial College of Science and Technology, U.K. He has over 40 years' experience in the E&M engineering business in Hong Kong.

Mr. Wong Kwok Kin, Andrew

Non-executive Director

Mr. Wong, aged 73, joined the Group in January 1998, and was appointed the Vice-Chairman and Executive Director of the Company in August 2015. He was then re-designated as Non-executive Director of the Company in January 2017. He is also an executive director and the Vice Chairman of FSE Holdings Limited, a controlling shareholder of the Company. Mr. Wong has over 30 years of substantial corporate management experiences in the hospitality and the service industries, and has obtained extensive achievements in financial control, human resources administration and business development. He was an executive director of several subsidiaries and affiliates of the New World group of companies, which are principally engaged in the businesses of duty-free liquor and tobacco concessions, E&M engineering, environmental facility services, property management and the provision of communication, cleaning and laundry and security services.

Board of Directors and Senior Management

Mr. Kwong Che Keung, Gordon

Independent Non-executive Director

Mr. Kwong, aged 70, was appointed an Independent Non-executive Director of the Company and the Chairman of the Audit Committee of the Board in November 2015. Mr. Kwong is also an independent non-executive director of a number of listed public companies in Hong Kong, including Agile Group Holdings Limited, China Power International Development Limited, Chow Tai Fook Jewellery Group Limited, Global Digital Creations Holdings Limited, Henderson Investment Limited, Henderson Land Development Company Limited, NWS Holdings Limited and OP Financial Limited. He is also an independent non-executive director of Piraeus Port Authority S.A., a listed public company in Athens, Greece. He was an independent non-executive director of CITIC Telecom International Holdings Limited (up to his retirement on 1 June 2017) and COSCO SHIPPING Holdings Co., Ltd. (up to his retirement on 25 May 2017), both being listed public companies in Hong Kong. Mr. Kwong graduated with a Bachelor of Social Science degree from the University of Hong Kong in 1972 and was qualified as a Chartered Accountant in the Institute of Chartered Accountants in England and Wales. He was a partner of Price Waterhouse (now known as PricewaterhouseCoopers) from 1984 to 1998 and an independent member of the Council of the Stock Exchange from 1992 to 1997, during which he had acted as the convener of both the Compliance Committee and the Listing Committee of the Stock Exchange. Mr. Kwong is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Mr. Hui Chiu Chung, Stephen *JP*

Independent Non-executive Director

Mr. Hui, aged 72, was appointed an Independent Non-executive Director of the Company, and the Chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Board in November 2015. Mr. Hui has 48 years of experience in the securities and investment industry. He had for years been serving as a member and Second Vice-chairman of Council of the Stock Exchange, a member of the Advisory Committee of the Hong Kong Securities and Futures Commission, a director of the Hong Kong Securities Clearing Company Limited, a member of the Listing Committee and GEM Listing Committee of the Stock Exchange, an appointed member of the Securities and Futures Appeal Tribunal, a member of Standing Committee on Company Law Reform, a member of the Committee on Real Estate Investment Trusts of the Hong Kong Securities and Futures Commission, an appointed member of the Hong Kong Institute of Certified Public Accountants Investigation Panel A and also a government appointed independent non-executive director of Hong Kong Exchanges and Cleaning Limited. He was also an appointed member of Zhuhai Municipal Committee of the Chinese People's Political Consultative Conference from 2006 to 2016. Mr. Hui is a member of Hengqin New Area Development Advisory Committee, and Hong Kong and Macao Legal Issues Expert Group of The Administrative Committee of Hengqin New Area, Zhuhai. Mr. Hui is also an independent non-executive director of a number of listed public companies in Hong Kong, including Agile Group Holdings Limited, China South City Holdings Limited, Gemdale Properties and Investment Corporation Limited, Lifestyle International Holdings Limited, SINOPEC Engineering (Group) Co., Ltd and Zhuhai Holdings Investment Group Limited. He is also a non-executive director of Luk Fook Holdings (International) Limited, also a listed public company in Hong Kong. Mr. Hui is a fellow of The Hong Kong Institute of Directors and a senior fellow of the Hong Kong Securities and Investment Institute.

Board of Directors and Senior Management

Mr. Lee Kwan Hung, Eddie

Independent Non-executive Director

Mr. Lee, aged 54, was appointed an Independent Non-executive Director of the Company, and the Chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Board in November 2015. Mr. Lee is also an independent non-executive director of a number of listed public companies in Hong Kong, including China BlueChemical Ltd., China Goldjoy Group Limited, Embry Holdings Limited, Landsea Green Group Co., Ltd., NetDragon Websoft Holdings Limited, Newton Resources Ltd, Red Star Macalline Group Corporation Ltd., Ten Pao Group Holdings Limited and Tenfu (Cayman) Holdings Company Limited. He was an independent non-executive director of Asia Cassava Resources Holdings Limited (up to his resignation on 13 May 2018) and Futong Technology Development Holdings Limited (up to his resignation on 18 November 2017), both being listed public companies in Hong Kong. He obtained a Bachelor of Laws (Honours) degree from the University of Hong Kong in 1988 and was admitted as a solicitor in Hong Kong in 1991 and in the United Kingdom in 1997. He was a partner of Woo, Kwan, Lee & Lo and is currently a consultant of Howse Williams. Mr. Lee was successively a manager and a senior manager of the Listing Division of the Stock Exchange from December 1992 to April 1994.

Dr. Tong Yuk Lun, Paul

Independent Non-executive Director

Dr. Tong, aged 78, was appointed an Independent Non-executive Director of the Company and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board in April 2016. Dr. Tong holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering from the University of Hong Kong, and a Doctor of Philosophy degree from the Victoria University of Manchester. Dr. Tong is a member of the Institute of Civil Engineers, London and the Hong Kong Institution of Engineers, and has solid and extensive experience in the construction industry. Dr. Tong is a director of BTS Group Holdings Public Co. Ltd., a company listed on the Stock Exchange of Thailand.

Dr. Cheng Chun Fai

Alternate Director to Mr. Wong Shu Hung

Dr. Cheng, aged 61, was appointed as an alternate to Mr. Wong Shu Hung, an executive director of the Company, on 30 September 2019. He has been a director of New China Laundry Group, which became a member of the Group in April 2018, since February 2011. He is also a director of operations and corporate development in FSE Holdings Limited, a controlling shareholder of the Company. Dr. Cheng obtained a Master of Business Administration from the University of South Australia in 2008, a Master of Laws in Chinese Business Law from the Open University of Hong Kong in 2010 and a Doctor of Philosophy in Business Administration from the Bulacan State University in 2012. He has over 20 years' experience in operational management in different industries. He is also a chairman of The Council of Hong Kong Professional Associations and a member of the executive committee and vice chairperson of the committee on social enterprise and employment of The Hong Kong Society for Rehabilitation.

Board of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Chan Ju Wai

Chief Financial Officer and Company Secretary

Mr. Chan, aged 51, is the Chief Financial Officer and Company Secretary of the Company. Mr. Chan is also a director of two subsidiaries of the Company established in the Mainland China. Mr. Chan is principally responsible for overseeing the Group's financial management, treasury, legal and corporate governance functions.

Mr. Chan holds a Master's degree with distinction in accountancy from the Lingnan University in Hong Kong and a Master's degree with credit in Business Administration from the University of Sunderland in the United Kingdom. Mr. Chan is currently a member of the Institute of Public Accountants in Australia, the Institute of Certified Management Accountants in Australia and the Institute of Financial Accountants in the United Kingdom. He was also inducted as a member of the Lingnan University Chapter of Beta Gamma Sigma, the international honor society for collegiate schools of business.

Mr. Chan has more than 20 years' professional experience in auditing, finance and accounting in an international accounting firm, multi-national and listed companies. Mr. Chan joined the Group in May 2001 and has been a financial controller in the E&M engineering business for over 15 years.

Mr. Tsang Tin Ngai

General Manager — Internal Audit

Mr. Tsang, aged 50, joined the Group in August 2015 and is the General Manager of the Internal Audit Department of the Company. He is responsible for internal audit and overall risk assurance of the Group.

Mr. Tsang holds a Bachelor's degree of Arts (Hons) with major in Accountancy from the City University of Hong Kong. Mr. Tsang is a fellow member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. He is also a member of the Institute of Internal Auditors and a Certified Internal Auditor. Mr. Tsang has over 25 years' experiences in auditing and corporate governance in Hong Kong and the PRC.

Mr. Chan Tat Chi

General Manager — Tender and Subletting
FSE Engineering Group

Mr. Chan, aged 61, is the General Manager of the Tender and Subletting Department and a director of a subsidiary of the Company. He has been actively involved in the tendering, procurement and subletting. He joined the Group in June 1983 and has over 35 years' experience in the E&M engineering business in Hong Kong.

Mr. Chan holds the Associateship in Electrical Engineering from The Hong Kong Polytechnic University and has been admitted as Member of the Hong Kong Institution of Engineers. He is also registered with the Electrical and Mechanical Services Department of Hong Kong as a registered electrical worker, and is a chartered engineer of The Engineering Council in the United Kingdom and a member of the Chartered Institute of Building Services Engineers in the United Kingdom.

Board of Directors and Senior Management

Mr. Cheung Chi Wai

General Manager — E&M Maintenance
FSE Engineering Group

Mr. Cheung, aged 55, joined the Group in 1989 and is the Director & General Manager of the E&M maintenance section and also a director of certain subsidiaries of the Company. He is mainly responsible for the overall management and business performance control of the E&M maintenance business in both Hong Kong and Macau, as well as operating the research and analysis on the business opportunities and assessing potential markets and projects for the business units. Mr. Cheung has over 35 years' experience in the E&M engineering business in Hong Kong.

Mr. Cheung holds a Bachelor's degree in Building Services Engineering and a Master's degree in Fire and Safety Engineering from The Hong Kong Polytechnic University. He is currently a member of The Hong Kong Institution of Engineers, a member of Chartered Institution of Building Services Engineers, a fellow member of Society of Operations Engineers, a chartered environmentalist of Society of the Environment, a member of Institution of Fire Engineers, a registered energy assessor of Electrical and Mechanical Services Department and a registered professional engineer in the Engineers Registration Board of Hong Kong. Besides, Mr. Cheung is a registered ventilation contractor and a registered licence plumber in Hong Kong.

Ms. Cheung Lut Yi, Connie

General Manager — Human Resources
FSE Engineering Group

Ms. Cheung, aged 56, joined the Group in April 1991 and is the General Manager of the Human Resources Department. Ms. Cheung is mainly responsible for the human resources management and administration affairs in Hong Kong, Macau and PRC regions.

Ms. Cheung holds a Diploma in Business Management from The Hong Kong Polytechnic University and a Bachelor's degree in Business Administration from the Royal Melbourne Institute of Technology University in Australia. She has over 30 years' experience in human resources management and administration. Ms. Cheung is a professional member of the Hong Kong Institute of Human Resources Management.

Mr. Lee Wa Yip

General Manager — E&M Engineering (Mainland China)
FSE Engineering Group

Mr. Lee, aged 53, first joined the Group in December 1992 and had worked for the Group for over 15 years during the period from 1992 to 2009. Mr. Lee rejoined the Group in June 2012 and is the General Manager of our E&M Engineering operations in Mainland China. He is responsible for the overall project administration and business marketing for Mainland China projects. He has over 30 years experience in quantity surveying and E&M project administration in Mainland China.

Mr. Lee holds a Bachelor's degree of Science in Quantity Surveying from the University of Hong Kong and a Postgraduate Certificate in Construction Project Management from the City University of Hong Kong. Mr. Lee is a member of the Hong Kong Institute of Surveyors and the Royal Institution of Chartered Surveyors. He is also a registered professional surveyor in the Surveyors Registration Board of Hong Kong.

Board of Directors and Senior Management

Mr. Lee Wai Bong, Stephen

General Manager — Building Material
FSE Engineering Group

Mr. Lee, aged 54, joined the Group in April 2019 and is the Director and General Manager of the building material and retail business section, taking charge of the trading of building material businesses.

Mr. Lee holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong and a Master of Business Administration degree from the University of Toronto, Canada. Mr. Lee has extensive experience in financial planning, project management and merger and acquisition activities. Prior to joining the Group, he had worked in several major multinational corporations and listed public companies in Hong Kong.

Ms. Leung Kit Ping, Teresa

General Manager — Finance
FSE Engineering Group

Ms. Leung, aged 63, joined the Group in August 1995 and is the General Manager of the Finance Department. She has over 35 years' experience in accounting and financial management, treasury and working capital management of E&M engineering businesses. Prior to joining the Group, she had worked in an international accounting firm.

Mr. Ko Ngai Chun

General Manager
FSE Environmental Technologies Group

Mr. Ko, aged 34, joined the Group in July 2016 and is the General Manager of the FSE Environmental Technologies Group. He is responsible for the overall management and business development of the environmental business in both Hong Kong and Macau.

Mr. Ko holds a Bachelor's degree in Science in Accounting and Finance from the University of Warwick in the United Kingdom. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he had worked in an international accounting firm and financial institution.

Mr. Yuen Wai Sang, Wilson

General Manager
New China Laundry Group

Mr. Yuen, aged 55, is the General Manager and a director of NCL. Mr. Yuen joined NCL in 2005 which has become a member of the Group since April 2018. Mr. Yuen has over 25 years of professional experience in customer service, business management, marketing and research and development.

Mr. Yuen holds a Bachelor's degree in Computer Science and a Master's degree in Computer Science from the University of North Texas in the U.S. Prior to joining NCL, he had worked for a U.S. listed technology corporation in the U.S. and the Mainland China.

Board of Directors and Senior Management

Ms. Lee Kin Ming

Assistant General Manager — Finance & Administration
New China Laundry Group

Ms. Lee, aged 52, is the Assistant General Manager — Finance & Administration of NCL and a director of a subsidiary of the Company. Ms. Lee has over 25 years of professional experiences in accounting, finance, human resources and administration areas. She is responsible for the overall operations of NCL specifically in the areas of accounting & finance, human resources & administration, sales & marketing and procurement.

Ms. Lee holds a Master's degree in Business Administration from the University of Birmingham in the United Kingdom. She is member of The Hong Kong Institute of Certified Public Accountants and member of The Association of Chartered Certified Accountants. Ms. Lee joined NCL in 2007 which has become a member of the Group since April 2018. Prior to joining NCL, she had worked for multinational CPA firm in auditing area and joint ventures and foreign investment companies in PRC in accounting & finance and human resources & administration areas for 14 years.

Mr. Chung Wai Man

General Manager
Waihong Services Group

Mr. Chung, aged 61, is the General Manager and a director of Waihong Services Group. Mr. Chung joined Waihong in 1978 which has become a member of the Group since April 2018 and he has accumulated over 40 years' experience in the cleaning and environmental industry. He is responsible for the stipulation of business directions, management control and operation systems enhancement as well as new market development activities of the sanitation, cleaning and environmental services businesses.

Mr. Chung holds a Bachelor of Business Administration in Corporate Administration. He was the Executive Committee and the Chairperson of Tendering Principles Sub-Committee of the Environmental Contractors Management Association (2013–2017). He was also the Chief Secretary of Environmental Services Contractors Alliance (Hong Kong) in 2013–2017.

Ms. Sze Kut

Assistant General Manager — Finance & Procurement
Waihong Services Group

Ms. Sze, aged 46, is the Assistant General Manager of Waihong Services Group and a director of a subsidiary of the Company in the Mainland China. Ms. Sze is primarily responsible for the finance, procurement and administrative functions.

Ms. Sze holds a Bachelor's degree in Accounting from the University of Maryland at College Park and a Master's degree in Finance from the University of Michigan-Dearborn with distinction. Ms. Sze joined Waihong in 2010 which has become a member of the Group since April 2018. Prior to joining Waihong, Ms. Sze has worked for one of the international audit firms. She has also worked in the Merger and Acquisition division of a listed company, and as financial controller at a subsidiary of another listed company.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and enhance the corporate value of the Group. The Company has applied the principles of the corporate governance code (the "Corporate Governance Code") contained in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to its corporate governance structure and practices in the manner as described in this report. Throughout the Year, the Company had complied with all the code provisions set out in the Corporate Governance Code, with the exception of code provision E.1.2.

Code provision E.1.2 requires the chairman of the board to attend annual general meeting. Dr. Cheng Kar Shun, Henry, the Chairman of the board of directors of the Company (the "Board"), was unable to attend the annual general meeting of the Company (the "2018 AGM") held on 29 November 2018 due to other important engagement. Mr. Lam Wai Hon, Patrick, the Vice-Chairman of the Board, who took the chair of the 2018 AGM, together with members of the Board who attended the 2018 AGM, were of sufficient caliber for answering questions at the 2018 AGM.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own Securities Dealing Code, with terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, as the code for dealing in securities of the Company by its directors (the "Directors"). All Directors confirmed, following specific enquiry by the Company, that they had complied with the required standard set out in the Securities Dealing Code adopted by the Company throughout the Year.

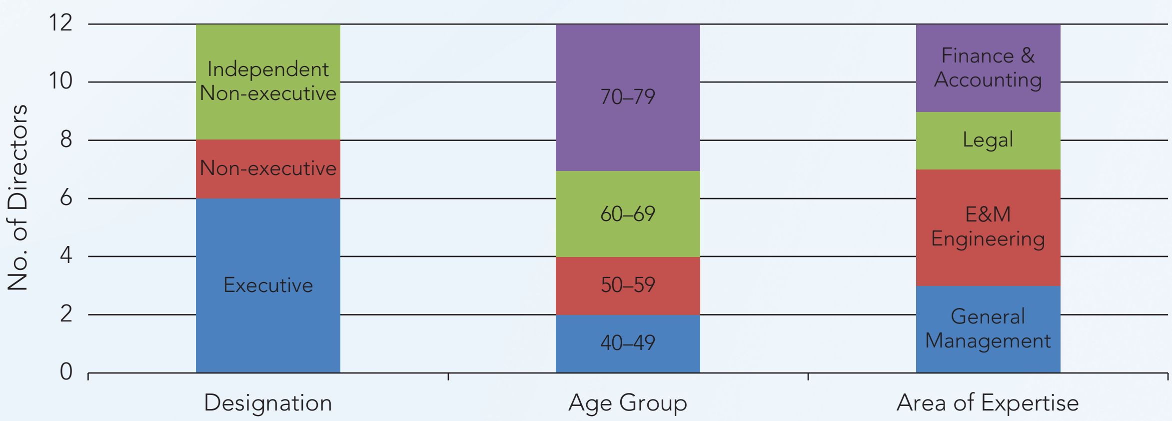
BOARD OF DIRECTORS

Board diversity policy

The Board has adopted a Board diversity policy which recognises and embraces the benefits of a Board that possess a balance of skills, knowledge, professional experience, expertise and diversity of perspectives appropriate to the requirement of the businesses of the Group. In ensuring diversity of the Board, gender, age, cultural and educational background will also be taken into account. All Board appointments are based on meritocracy and considered with due regard for the benefits of diversity on the Board.

Composition and responsibilities

The Board currently comprises 12 Directors, including 2 Non-executive Directors, 6 Executive Directors and 4 Independent Non-executive Directors. An analysis of the current Board composition is set out in the following chart:



The names, biographical details and relationship amongst them, if any, are set out on pages 11 to 15 in the section "Board of Directors and Senior Management".

While the Board is collectively responsible for the management and operations of the Company, the Chairman of the Board provides leadership to the Board in carrying out its duties. The Executive Directors, constituting the senior management of the Company, are delegated with responsibilities in the day-to-day management of the Company and make operational and business decisions.

Nomination policy

A nomination policy (the "Nomination Policy") for documenting the current procedures and practices for the nomination of Directors was approved by the Board in December 2018, which is applicable to both new appointments and re-appointments.

In accordance with the Nomination Policy, the procedures and process in respect of the nomination of Directors are summarised below:

1. The Nomination Committee shall invite nomination of candidates from the members of the Board, if any, for its consideration. The Committee may also put forward candidates who are not proposed by members of the Board.

2. For filling a casual vacancy or appointing an additional member to the Board, the Nomination Committee shall make recommendations for the Board's consideration and approval.

3. For proposing candidates to stand for election or re-election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation to shareholders of the Company.

4. Shareholders of the Company may also propose candidate for election as a Director at a general meeting in accordance with the procedures posted on the Company's website.

The following factors would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate:

- reputation for integrity;

- qualifications, skills and experience that are relevant to the business of the Group;

- commitment in respect of available time to carry out duties as a director;

- independence in character and judgement to act in the best interest of all shareholders of the Company;

- contribution to the Company's Board diversity policy; and

- any other perspectives that meet the current and anticipated needs of the Board.

In case of nominating the candidate for appointment/re-appointment as an Independent Non-executive Director, in addition to the above selection criteria, the independence of the candidate would be assessed with reference to the independence criteria as set out in the Listing Rules.

Corporate Governance Report

Corporate governance functions

The Board is collectively responsible for performing the corporate governance duties which have been formalised into written terms of reference approved by the Board, including but not limited to developing, reviewing and monitoring the Group's policies, systems and practices in relation to its corporate governance and compliance with legal and regulatory requirements. During the Year, the Board established the Nomination Policy for the nomination of Directors, and revised the terms of reference of the Audit Committee and the Nomination Committee. The Board has also reviewed the disclosures in this Corporate Governance Report.

Independence of Independent Non-executive Directors

The Company has assessed the independence of all Independent Non-executive Directors and considers all of them to be independent having regard to (i) their annual confirmation on independence as required under the Listing Rules; (ii) the absence of involvement in the daily management of the Company; and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgement.

Directors' continuous professional development

Directors are encouraged to participate in continuous professional development. A record of participation in various professional development programs provided by each Director is kept by the Legal and Company Secretarial Department. Based on the details so provided, a summary of training received by the Directors for the Year is set out as follows:

	Giving talks or attending seminars/ conferences/ forums	Reading journals and updates on relevant rules and regulations and the Company's industry
Non-executive Directors		
Dr. Cheng Kar Shun, Henry *(Chairman)*	✓	✓
Mr. Wong Kwok Kin, Andrew	✓	✓
Executive Directors		
Mr. Lam Wai Hon, Patrick *(Vice-Chairman)*	✓	✓
Mr. Poon Lock Kee, Rocky *(Chief Executive Officer)*	✓	✓
Mr. Doo William Junior Guilherme	✓	✓
Mr. Lee Kwok Bong	✓	✓
Mr. Soon Kweong Wah	✓	✓
Mr. Wong Shu Hung	✓	✓
Independent Non-executive Directors		
Mr. Kwong Che Keung, Gordon	✓	✓
Mr. Hui Chiu Chung, Stephen	✓	✓
Mr. Lee Kwan Hung, Eddie	✓	✓
Dr. Tong Yuk Lun, Paul	–	✓

Corporate Governance Report

ROLES OF CHAIRMAN, VICE-CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. Cheng Kar Shun, Henry, the Non-executive Chairman, leads the Board and ensures that the Board works effectively. Mr. Lam Wai Hon, Patrick, the Executive Vice-Chairman and Mr. Poon Lock Kee, Rocky, the Chief Executive Officer jointly manage the Company's day-to-day businesses and implement major strategies and policies of the Company. The positions of the Chairman, the Vice-Chairman and the Chief Executive Officer are held by separate individuals so as to maintain an effective segregation of duties.

NON-EXECUTIVE DIRECTORS

Non-executive Directors (including Independent Non-executive Directors) serve the relevant function of bringing independent views and judgement for the Board's deliberation and decisions. They have the same duties of care and skill and fiduciary duties as the Executive Directors. Each Non-executive Director has signed a letter of appointment with the Company for a fixed term of one year, subject to retirement by rotation in accordance with the Company's articles of association.

BOARD COMMITTEES

The Board is supported by various Board committees, including the Executive Committee, the Audit Committee, the Risk Management Committee, the Remuneration Committee and the Nomination Committee. Each Board committee is provided with sufficient resources to discharge its duties in accordance with its terms of reference adopted by the Board. Other Board committees are established by the Board as and when necessary to take charge of specific tasks.

Executive Committee

The Board has delegated to the Executive Committee comprising all Executive Directors with authority and responsibility in handling the day-to-day businesses of the Company, while reserving the authority for the Board to approve, amongst other matters, the Company's long-term objectives, changes in capital structure, interim and annual financial statements, dividend policy, and significant operational matters. The Executive Committee meets regularly as and when necessary.

Audit Committee

The Audit Committee was established in November 2015. It currently comprises all the four Independent Non-executive Directors, namely, Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung, Eddie and Dr. Tong Yuk Lun, Paul, and is chaired by Mr. Kwong Che Keung, Gordon.

The Audit Committee is responsible for the review of the Company's financial information, financial reporting system, risk management and internal control systems. The Committee also oversees the Company's relationship with the external auditors and makes recommendations to the Board on the appointment and reappointment of external auditor.

During the Year, the Audit Committee held two meetings and reviewed, amongst other matters, the Company's audit plans, internal control procedure, financial reporting system, continuing connected transactions, risk management policy and the adequacy of resources, qualifications and experience of staff in the Group's accounting, financial reporting and internal audit functions. The Committee also reviewed the interim results for the six months ended 31 December 2018 and the annual results for the Year and submitted recommendations to the Board for its approval, and discussed the Reports to the Audit Committee prepared by external auditor relating to accounting issues and major findings in the course of review and audit.

Corporate Governance Report

Risk Management Committee

The Risk Management Committee was established in February 2016 under the supervision of the Audit Committee. The Risk Management Committee comprises senior management from different departments and is chaired by Mr. Soon Kweong Wah, an Executive Director. The Risk Management Committee reports to the Audit Committee which supports the Board by monitoring and guiding the activities of the risk management and internal control systems.

During the Year, the Risk Management Committee held four meetings to regularly review, assess and monitor all major risks identified in different departments.

Remuneration Committee

The Remuneration Committee was established in November 2015. It currently comprises three Independent Non-executive Directors and two Executive Directors, namely, Mr. Hui Chiu Chung, Stephen (as Chairman), Mr. Lee Kwan Hung, Eddie, Dr. Tong Yuk Lun, Paul, Mr. Lam Wai Hon, Patrick and Mr. Poon Lock Kee, Rocky.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management, and on the establishment of a formal and transparent procedure for developing such policy. Prior to making its recommendations, the Committee consults the Chairman and/or the Chief Executive Officer of the Board. Whilst the Board retains its power to determine the remuneration of Non-executive Directors, the responsibility for reviewing and determining the remuneration packages of individual Executive Directors and senior management of the Group is delegated to the Remuneration Committee.

During the Year, the Remuneration Committee held one meeting and reviewed the Company's remuneration policy and structure, including that for the Directors and senior management of the Company. The Committee also reviewed and approved the yearly salary adjustments effective 1 January 2019 and the bonus payment for FY2018.

Nomination Committee

The Nomination Committee was established in November 2015. It currently comprises three Independent Non-executive Directors and two Executive Directors, namely, Mr. Lee Kwan Hung, Eddie (as Chairman), Mr. Hui Chiu Chung, Stephen, Dr. Tong Yuk Lun, Paul, Mr. Poon Lock Kee, Rocky and Mr. Doo William Junior Guilherme.

The Nomination Committee is responsible for reviewing the structure, size, composition and diversity of the Board regularly and makes recommendations on any proposed changes to the Board to complement the Company's corporate strategy. Its duties include but are not limited to identifying individuals suitably qualified to become members of the Board, maintaining a level of diversity of the Board based on its diversity policy to ensure it possesses a balance of skills, knowledge, professional experience, expertise, objectivity and perspectives appropriate to the requirement of the business of the Group, monitoring the succession planning of Directors and assessing the independence of Independent Non-executive Directors.

During the Year, the Nomination Committee held one meeting and reviewed the structure, size, composition of the Board with due consideration to the appropriate balance of skill and experience required by the Company. It also assessed and confirmed the independence of all the four Independent Non-executive Directors having regard to the criteria as set out in Rule 3.13 of the Listing Rules, and recommended to the Board the nomination of Mr. Lee Kwok Bong, Mr. Wong Kwok Kin, Andrew, Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen and Mr. Wong Shu Hung for reappointment as Directors by the shareholders at the 2018 AGM.

Attendance of meetings

The attendance records of the Directors at Board meetings, committee meetings and general meeting of the Company during the Year are as follows:

	Number of meetings attended/eligible to attend						
	Board Meeting	Executive Committee Meeting	Audit Committee Meeting	Risk Management Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	2018 AGM
Non-executive Directors							
Dr. Cheng Kar Shun, Henry	2/4	–	–	–	–	–	0/1
Mr. Wong Kwok Kin, Andrew	4/4	–	–	–	–	–	1/1
Executive Directors							
Mr. Lam Wai Hon, Patrick	4/4	4/4	–	–	1/1	–	1/1
Mr. Poon Lock Kee, Rocky	4/4	4/4	–	–	1/1	1/1	1/1
Mr. Doo William Junior Guilherme	4/4	4/4	–	–	–	1/1	1/1
Mr. Lee Kwok Bong	4/4	4/4	–	–	–	–	1/1
Mr. Soon Kweong Wah	4/4	4/4	–	4/4	–	–	1/1
Mr. Wong Shu Hung	4/4	4/4	–	–	–	–	1/1
Independent Non-executive Directors							
Mr. Kwong Che Keung, Gordon	4/4	–	2/2	–	–	–	1/1
Mr. Hui Chiu Chung, Stephen	4/4	–	2/2	–	1/1	1/1	1/1
Mr. Lee Kwan Hung, Eddie	4/4	–	2/2	–	1/1	1/1	1/1
Dr. Tong Yuk Lun, Paul	4/4	–	1/2	–	1/1	1/1	1/1

AUDITOR'S REMUNERATION

During the Year, the total fees paid/payable in respect of audit and non-audit services provided by the Group's external auditor is set out below:

	Fees paid/payable for the year ended 30 June	
Type of services	**2019 HK$'000**	2018 HK$'000
Audit services	**4,308**	4,307
Non-audit services*	**388**	1,887
Total	**4,696**	6,194

* Non-audit services include tax advisory and other related services.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment in respect of annual and interim reports of the Company and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledge their responsibility for the preparation of financial statements of each financial period.

The following statement, which should be read in conjunction with the independent auditor's report, is made with a view to distinguishing for shareholders how the responsibilities of the Directors differ from those of the external auditor in relation to the financial statements.

Annual report and financial statements

The Directors are responsible for the preparation of financial statements, which give a true and fair view of the state of affairs of the Group at the end of the financial year and of the profit or loss for the financial year. The Directors have prepared the financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

Accounting policies

The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, which have been consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

Accounting records

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Hong Kong Companies Ordinance and the Listing Rules.

Safeguarding assets

The Board is responsible for safeguarding the assets of the Company and for taking reasonable steps for preventing and detecting fraud and other irregularities.

Going concern

After making appropriate enquiries and examining major areas which could give rise to significant financial exposures, the Board is satisfied that no material or significant exposures exist, other than as reflected in this annual report. The Board therefore has a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

The reporting responsibilities of PricewaterhouseCoopers, the Company's external auditor, are stated in the Independent Auditor's Report on pages 62 to 65 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the maintenance of sound risk management and internal control systems within the Group and reviewing their effectiveness.

The Board has entrusted the Audit Committee with the responsibility to review the risk management and internal control systems of the Group, which include financial, operational and compliance controls. Procedures have been set up for, inter alia, safeguarding assets against unauthorised use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications. Management throughout the Group maintains and monitors the risk management and internal control systems on an ongoing basis.

The Board conducts review of the Group's risk management and internal control systems semi-annually. During the Year, the review covered the aspects of financial, operational and compliance controls, and assessed the effectiveness of such systems by considering the work performed by the Audit Committee, executive management, external and internal auditors. The Board was satisfied that the Group's risk management and internal control systems are effective and adequate for their purposes.

A whistleblowing policy has also been adopted by the Board and is implemented in the Company's website and the intranet, which allows the Group's staff members and related third parties to raise concerns, in confidence, about misconducts, malpractices or irregularities in any matters related to the Group.

Internal audit

The internal audit function, which is fully independent of the daily operations of the Group, is carried out by the Company's Internal Audit Department, the senior executive in charge of which reports directly to the Audit Committee and is provided with unrestricted access to all information on the Group's assets, records and personnel in the course of audit. All Directors are informed of the findings of internal audit assignments. During the Year, the Internal Audit Department carried out an analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group through, among others, examination of risk-related documentation, conducting interviews with employees as well as internal control self-assessment questionnaires. It has also conducted special audit on individual operation units.

The senior executive in charge of the Internal Audit Department attended all Audit Committee meetings to explain the internal audit findings and respond to queries from members of the Audit Committee.

Risk management

A formal risk management policy has been put in place to ensure the regular identification, evaluation and management of the risks faced by the Group. Chaired by an Executive Director, the Risk Management Committee takes the lead in the effective implementation of the risk management policy by all divisions and business units of the Group. Risk assessment and evaluation are an integral part of the annual planning process. Each division/business unit of the Group is to set its strategic objectives, identify specific risks and assess the effectiveness of its risk management actions and internal control measures to help ensure that the risks it faces are addressed by the controls that have been or will be implemented.

Corporate Governance Report

The Group emphasises the building of company culture around risk awareness. Workshops are organised for management staff to ensure proper appreciation, implementation and evaluation of risk management and corporate governance requirements. Risk registers are regularly updated and continuous follow-up actions are taken by management and reported to the Board at least annually.

The Group's risk management framework seeks to ensure that there is an effective process in place to manage risk across the Group. Risk management is integral to all aspects of the Group's activities and is the responsibility of all staff members.

The Group's risk appetite is communicated to all level of staff through "Risk Management Manual". Department heads and project leaders have a particular responsibility to evaluate their risk environment faced by their daily operations. They need to update the risk register and report to the Risk Management Committee for the risks identified. Action plans to control the risks to an acceptable level will be developed and results will be monitored and reported to the Risk Management Committee regularly.

The Group's risk appetite will be reviewed annually or whenever there is a significant change to the Group's operating environment.

Through the above process, the Board has maintained an effective risk management system which enables the Group to respond to significant risks in attaining its strategic objectives.

Corporate Governance Report

Risk factors

The Group's business, financial condition and results of operations are subject to a number of risks. The risk factors set out below are those that could affect the Group's business, financial condition and results of operations materially different from expectations or historical results. Any of the following risks, as well as other risks and uncertainties that are not yet identified or risks that are currently considered as immaterial, may materially and adversely affect the Group in the future.

Global economy and government policy

The construction market in Hong Kong, Macau and Mainland China are largely influenced by the local government policies and regulations, as well as global and regional economic trend. The property markets in Hong Kong and Mainland China have witnessed volatility in recent years. The filibustering in the Legislative Council in Hong Kong has delayed the award of new public works contracts and consequently disrupted the regular progress of public works expenditure in the previous years and the years to come. New developments in casino-related projects in Macau are significantly slow down. China's economic growth prospect is likely to be dragged down with further escalation in trade tensions between the US and Mainland China. Any significant drop in the level of economic growth in these regions could adversely affect the Group's financial results of operations. The Group closely monitors any changes in the relevant government policies and legislations, and adopts advanced technology to increase its operational efficiency.

Labour shortage

Due to aging workforce and less young people joining the construction market, Hong Kong construction industry is facing severe labour shortage which is expected to continue for years. This may affect the Group's ability to sustain a stable workforce to complete the projects in time. As a result, labour costs have been increasing in the past few years; and may keep in the rising trend though in a slower pace compared with the past few years. Similarly, the Group's facility services business is also impacted by labour shortage with a consequential increase in labour costs. Labour shortage therefore affects the Group's business and results of operations. The Group maintains good relationship and frequent communication with its labour subcontractors to ensure the availability of sufficient qualified and skilled labourers needed for the delivery of quality services of the projects.

Currency fluctuations

The results of the Group are presented in Hong Kong dollars. As part of the Group's business was carried out in Mainland China, part of the Group's assets and liabilities are denominated in Renminbi ("RMB"). Therefore, the Group is exposed to RMB fluctuations on translation of net assets of subsidiaries in Mainland China and may have an impact on the Group's financial performance. The Group closely monitors currency movements and adopts various measures to limit the exposure of currency risk.

Material price fluctuations

The Group's major business is in the E&M engineering segment of the construction market. The Group procures a vast amount of building materials for its works. These building materials are subject to high volatility of price in raw materials, particularly steel and copper. The Group's business and results may be affected by the price fluctuation in the building materials. When the contract is awarded, the Group procures materials in time to reduce the risk in material price fluctuation.

Safety and personal injuries

Site construction and facility services providing activities involve different kinds of safety risks such as working at height, operation of machinery, electrical system and appliances, lifting of heavy objects, etc. Failure of implementing safety measures may result in personal injuries or even fatality. As a result, the Group may face litigation claims and suspension of tendering from public works for certain periods, resulting in a large impact on the Group's business opportunity. The Group always puts safety as its first priority by enhancing safety supervision and improving safety facilities to mitigate the safety risks.

Delays and latent defects

The Group's business involves working in uncertain site conditions, such as ground conditions, confined spaces and adverse weather. The Group is also responsible for material and labour quality. Any delay due to site conditions, late material delivery or poor installation quality may incur additional costs to the Group including any damages recoverable from other parties. In addition, the Group remains liable for latent defects for years and bear the associated costs despite the projects had been completed and occupied. The Group's business and operation results may be adversely affected. The Group always closely monitors the construction programme and keeps proper records in order to mitigate any potential liabilities due to project delay.

Contract renewals and tenders

The Group's maintenance and facility services businesses are subject to the risks associated with tendering process. The business contracts of the Group's maintenance and facility services businesses are normally awarded through a competitive tendering process on a project by project basis. There is no assurance that the Group's maintenance and facility services businesses will be successful in securing or renewing its business contracts during the tendering process. If the Group's maintenance and facility services businesses fail to secure engagement for new projects on favourable terms or at all, their businesses and results of operation could be materially affected. To increase tender competitiveness, the Group strives for operational efficiency and cost effectiveness in all aspects and continues to seek opportunities in growing its business.

Environmental concerns

The Group is required to comply with increasingly stringent environmental protection laws, regulations and requirements in Hong Kong, Macau and Mainland China. If the Group fails to comply with the applicable laws, the Group may be required to pay fines or take remedial actions, which may cause negative impacts on the costs and operations of the projects. Furthermore, any updates on impending laws may induce additional costs to the Group for compliance; failing which may lead to suspension or ceasing of our relevant licences to operate the Group's business, thus in turn adversely affect the Group's operation and financial results. To address these risks, the Group adopts green features products and keeps track of the latest environmental requirements.

Cyber security

With the increased application of Information Technology (IT) in the Group's businesses, the threats to IT systems including cyber-attacks are imminent and present a real challenge to the Group's business operations. As such, our Group has implemented a set of comprehensive security and business continuity policies and procedures to address those threats and mitigate the potential loss of the Group's assets and operations, reduce the impact on our business and resume our business operations as soon as practical. In addition, advanced monitor and detection mechanisms, including multi-layered firewalls, intrusion prevention, and offensive behavior detection technologies are established to promptly identify and minimise those threats. An annual security test is also carried out by trusted security agency to mitigate the risk of cyber attacks.

Social and political unrest

Social and political unrest occurred recently in Hong Kong may have a negative impact on the Group's financial condition and results of operations. The Group closely monitors the current situation and will formulate the necessary policy and procedures to deal with them.

COMPANY SECRETARY

The Chief Financial Officer of the Group acts as the company secretary of the Company. He has confirmed that he had taken no less than 15 hours of relevant professional training.

SHAREHOLDER AND INVESTOR RELATIONS

The Board established a shareholders' communication policy setting out the principles with the objectives of ensuring that shareholders of the Company and the investing public are provided with ready, equal and timely access to balanced and understandable information of the Group.

Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars published in accordance with the Listing Rules. Such published documents and latest corporate news are available on the Company's website.

The Company maintains an ongoing active dialogue with institutional shareholders. The Executive Directors and senior management of the Group are closely involved in promoting investor relations. Meetings and briefings with financial analysts and investors are conducted by the Executive Directors and senior management of the Group.

A Manual on Disclosure on Inside Information is in place giving guidance on the managing, protection and proper disclosure of information that has not already been made public. The Directors adhere strictly to the statutory requirement for their responsibilities of keeping information confidential.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

The following procedures for shareholders of the Company to convene a general meeting (the "EGM") other than an annual general meeting of the Company are subject to the Company's articles of association, the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and applicable legislation and regulation:

(1) One or more shareholders (the "Requisitionist(s)") holding, at the date of deposit of the requisition (the "Requisition"), not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings of the Company, shall have the right, by written notice, to require an EGM to be called by the Directors for the transaction of any business specified in such Requisition.

(2) The Requisition must state the general nature of the business to be dealt with at the EGM and may include the text of a resolution that may properly be moved and is intended to be moved at the EGM.

(3) The Requisition may consist of several documents in like form which may be sent to the Board or the company secretary of the Company in hard copy form or in electronic form (and must be authenticated by the Requisitionist(s)) at the Company's head office in Hong Kong or through email at info@fseservices.com.hk.

(4) The Directors must call the EGM within 21 days after the date of the deposit of the Requisition and the EGM must be held within two months after the date of the deposit of the Requisition.

(5) If the Directors are required under paragraph (1) above to call an EGM and fail to do so pursuant to paragraph (4), the Requisitionist(s) may themselves call the EGM. Any reasonable expenses incurred by the Requisitionist(s) by reason of the failure of the Directors duly to call the EGM must be reimbursed by the Company.

Procedures for raising enquiries

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to Tricor Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or through email at is-enquiries@hk.tricorglobal.com.

Shareholders may at any time raise any enquiry in respect of the Company at the Company's head office in Hong Kong or through email at info@fseservices.com.hk.

Procedures for putting forward proposals at shareholders' meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal (the "Proposal") with his/her/its detailed contact information at the Company's head office in Hong Kong.

The request will be verified with the Company's branch share registrar and transfer office in Hong Kong and upon their confirmation that the request is proper and in order, the Board will determine in its discretion whether to include the Proposal in the agenda for the Company's general meeting.

AMENDMENT TO THE COMPANY'S CONSTITUTIONAL DOCUMENTS

During the Year and up to the date of this annual report, the Company has not made any changes to its constitutional documents. An up-to-date version of the memorandum and articles of association of the Company is available on both the websites of the Company and the Stock Exchange.

Management Discussion and Analysis

BUSINESS REVIEW

In FY2019, the Group recorded revenue amounting to HK$4,930.5 million, which was similar to HK$4,926.5 million in FY2018. Profit attributable to equity holders for the Year was HK$247.5 million, representing an increase of HK$10.7 million or 4.5% as compared with HK$236.8 million in FY2018, mainly reflecting an increase in the Group's gross profit contribution mostly from its E&M engineering segment and overall savings in general and administrative expenses, partly offset by a decline in the Group's finance income with a lower bank balance after acquiring the cleaning and laundry services businesses in April 2018. The expanded business scale after the completion of the acquisition of the facility services business provides a broader and more diversified revenue stream and enhanced profit source to the Group.

E&M ENGINEERING SEGMENT

The Group has 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 has a strong 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 is confident 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 its 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) and Design for Manufacture and Assembly (DfMA) to reduce energy usage, carbon emission and construction waste. In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as Building Information Modelling (BIM), modularisation and prefabrication, laser scanning and mobile solutions.

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

As at 30 June 2019, the Group's E&M engineering projects encompassed a wide range of buildings and facilities, including offices, shopping malls, convention and exhibition centres, hotels, integrated resorts, residential properties, universities, hospitals, airport and public transportation facilities buildings, which have a total gross value of contract sum of HK$7,646 million with a total outstanding contract sum of HK$5,453 million. During FY2019, the Group submitted tenders for 733 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$31,641 million.

During FY2019, this business segment was awarded new contracts with a total value of HK$3,069 million, which included 149 contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$2,850 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 Inland Revenue Tower, Kai Tak Sports Park and District Cooling System (Phase III) in the Kai Tak Development Area, Lot No. 5 Ningbo New World Plaza and a service apartment's main works at Cotai, Macau.

Management Discussion and Analysis

ENVIRONMENTAL MANAGEMENT SERVICES SEGMENT

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

As at 30 June 2019, this business segment has a total gross value of contract sum of HK$108 million with a total outstanding contract sum of HK$55 million. During FY2019, the Group submitted tenders for 24 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$96 million.

During FY2019, this business segment was awarded new contracts with a total value of HK$72 million, which include 7 projects (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$21 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.

During FY2019, Waihong submitted tenders for 450 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$4,300 million.

During FY2019, Waihong was awarded new service contracts with a total value of HK$861 million, which included 99 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$692 million. Among these 99 service contracts, 9 of them were major service contracts (with net contract sum equal to or more than HK$20 million for each service contract), which included 3 residential estates in Quarry Bay, Taikoo Shing and Shatin, 2 contracts awarded by the Hong Kong Government in the New Territories East and Hong Kong Island, a contract for the airport terminal building in Chek Lap Kok, commercial facilities in Kowloon, a premier mixed-use commercial complex in Sheung Wan and a golf and tennis training facility in Sai Kung.

FY2019 was a challenging year for Waihong to sustain business growth under the fierce competition and complex economic environment. Waihong succeeded in gaining a number of new contracts and recovering its lost revenue of last year. Focusing on newly completed properties as its prime marketing strategy, Waihong has won 11 related service contracts during FY2019. It comprises 7 residential properties, 2 office towers and 2 hotel facilities.

Operation costs have been inevitably raised over the year caused by serious labour shortage. Furthermore, with effect from 1 May 2019, the increase of statutory minimum wage by 8.7% has further stressed on workforce market. In addition, Waihong has also encountered the fierce competition during the year which resulted in a decline of its gross profit. To tackle these difficulties, its management will keep on implementing strict cost control measures for mitigating the effect of rising labour costs and insurance premium. Moreover, Waihong aims at investing in more innovative technologies such as robotic equipment and real time inspection system which can enhance its operation efficiency and relief workforce demands.

Management Discussion and Analysis

Laundry

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

During FY2019, NCL has started to provide laundry services at an airport VIP Lounge. In addition, NCL has been awarded the dry cleaning services with a world-class racing club starting July 2018. NCL will continue to maintain its existing client segments and explore new ones that requires high quality of laundry services. For NCL's existing clients, the expansion of an airline client also helped increase its revenue during the year.

During FY2019, NCL continued to upgrade its machinery by replacing a Continuous Batch Washer, it helps to enhance NCL's efficiency and service quality. From a business perspective, NCL was awarded new service contracts with a total value of HK$113 million, which included 6 service contracts (with a contract sum equal to or exceeding HK$5 million for each service contract) with a total contract sum of HK$90 million, including 6 hotels and service apartment complexes.

As at 30 June 2019, the facility service business segment has a total gross value of contract sum of HK$3,144 million with a total outstanding contract sum of HK$1,165 million for the cleaning service business.

FINANCIAL REVIEW

Revenue

In FY2019, the Group recorded revenue of HK$4,930.5 million, which was similar to HK$4,926.5 million in FY2018 and reflected higher revenue from the facility services segment and environmental management services segment amounting to HK$23.1 million and HK$9.3 million respectively, partly offset by lower revenue derived from the E&M engineering segment amounting to HK$28.4 million.

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

	For the year ended 30 June			
	2019 HK$'M	**% of total revenue**	2018 HK$'M	% of total revenue
E&M engineering*	**3,665.8**	**74.4%**	3,694.2	75.0%
Environmental management services*	**71.1**	**1.4%**	61.8	1.3%
Facility services*	**1,193.6**	**24.2%**	1,170.5	23.7%
Total	**4,930.5**	**100.0%**	4,926.5	100.0%

* Segment revenue does not include inter-segment sales.

Management Discussion and Analysis

	For the year ended 30 June			
	2019 HK$'M	2018 HK$'M	Change HK$'M	% Change
Hong Kong	**3,938.2**	3,913.8	24.4	0.6%
Mainland China	**792.6**	658.8	133.8	20.3%
Macau	**199.7**	353.9	(154.2)	(43.6%)
Total	**4,930.5**	4,926.5	4.0	0.1%

- *E&M (electrical and mechanical) engineering:* This segment continued to be the key turnover driver of the Group and contributed 74.4% of the Group's total revenue (2018: 75.0%). Segment revenue dropped slightly by 0.8% or HK$28.4 million to HK$3,665.8 million from HK$3,694.2 million, owing mainly to a reduced revenue contribution from Hong Kong and Macau by HK$7.9 million and HK$154.6 million, respectively, partly mitigated by an increase in revenue contribution from Mainland China of HK$134.1 million. The decrease in revenue contribution from Hong Kong and Macau reflects a number of E&M projects which had significant progress last year, including Ocean Pride, Ocean Supreme, Victoria Dockside and Morpheus Hotel, partly mitigated by the revenue contribution from 3 sizeable engineering installation projects of West Kowloon Government Office, Hong Kong Airlines Aviation Training Centre and Spring City 66 in Kunming which had substantial progress in the Year.

- *Environmental management services:* Revenue contribution of this business segment, which principally operates in Hong Kong currently, increased to HK$71.1 million from HK$61.8 million, representing a growth of 15.0% or HK$9.3 million, as compared with last year. Such increase was mainly attributable to the increase in revenue from its environmentally-related contracting and maintenance services, primarily water treatment services in the Castle Peak Power Station and bio-technology services at a number of refuse collection stations of public housing estates.

- *Facility services:* This segment, which presently provides services in Hong Kong, contributed 24.2% (2018: 23.7%) of the Group's total revenue. The revenue of HK$1,193.6 million (2018: HK$1,170.5 million) for the Year composed of revenue from provision of cleaning and laundry services amounting to HK$1,023.2 million (2018: HK$1,003.9 million) and HK$170.4 million (2018: HK$166.6 million), respectively. Segment revenue recorded a growth of HK$23.1 million or 2.0% to HK$1,193.6 million in FY2019 from HK$1,170.5 million in FY2018, owing mainly to the revenue contribution from a number of new cleaning service contracts, encompassed a wide range of buildings and facilities, including a heritage centre, a large-scale public transportation facility, shopping malls, a luxury hotel, academic institutions, a government department, residential and commercial properties, despite a partly offset of this increase by the expiry of a service contract with a transportation company in January 2018.

Management Discussion and Analysis

Gross profit

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

	For the year ended 30 June			
	2019		2018	
	Gross profit HK$'M	Gross profit margin %	Gross profit HK$'M	Gross profit margin %
E&M engineering	**442.9**	**12.1**	421.9	11.4
Environmental management services	**19.2**	**27.0**	17.8	28.8
Facility services	**137.7**	**11.5**	151.3	12.9
Total	**599.8**	**12.2**	591.0	12.0

The Group's overall gross profit increased by HK$8.8 million or 1.5% to HK$599.8 million in FY2019 from HK$591.0 million in FY2018, whereas its overall gross profit margin remained relatively stable at 12.2% (2018: 12.0%). The increase in gross profit was driven by the E&M engineering business recording an increase in gross profit margin during the Year to 12.1% from 11.4%, partly offset by a decrease in the gross profit of the facility services segment by HK$13.6 million to HK$137.7 million from HK$151.3 million with its gross profit margin decreased to 11.5% from 12.9% mainly resulted from an escalation of labour costs due to labour shortage. The gross profit margin of the environmental management services segment remained relatively stable at 27.0% (2018: 28.8%) with gross profit rose by 7.9% to HK$19.2 million from HK$17.8 million in FY2018, mainly attributable to the contribution from biological deodorizing system maintenance services.

Other income/gains, net

Other income/net gains in FY2019, which amounted to HK$3.9 million (2018: HK$3.3 million), mainly included rental income from an investment property and release of exchange reserve upon dissolution of subsidiaries.

Finance income

The Group recorded finance income of HK$5.2 million (2018: HK$18.2 million). The decrease was mainly due to lower interest income with a lower bank balance after acquiring the cleaning and laundry services businesses in April 2018.

General and administrative expenses

The general and administrative expenses of the Group for the Year decreased by 3.7% to HK$311.4 million compared to HK$323.2 million in FY2018. The decrease of HK$11.8 million was mostly resulted from a successful cost saving campaign during the Year and the relatively higher non-recurring expenses in prior year, partly offset by the higher market rental of the Fanling laundry plant from April 2018. The non-recurring expenses included the professional fees for the acquisition of cleaning and laundry services businesses and also the removal and renovation costs.

Income tax expenses

The effective tax rate of the Group declined to 16.8% from 17.9% as a result of a higher profit contribution from Mainland China in last year which has a relatively higher applicable corporate tax rate.

Management Discussion and Analysis

Profit for the year attributable to equity holders of the Company

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

	For the year ended 30 June			
	2019 HK$'M	2018 HK$'M	Change HK$'M	% Change
E&M engineering	**193.7**	173.3	20.4	11.8%
Environmental management services	**9.1**	6.3	2.8	44.4%
Facility services	**44.7**	57.2	(12.5)	(21.9%)
Total	**247.5**	236.8	10.7	4.5%

As a result of the foregoing, the Group's profit for the Year increased by 4.5% or HK$10.7 million to HK$247.5 million, compared to HK$236.8 million in FY2018. The increase mainly reflected higher gross profit contribution mostly from the E&M engineering segment and the decrease in general and administrative expenses as mentioned above, partly offset by the lower finance income. The net profit margin of the Group remained stable at 5.0% (2018: 4.8%) for the Year.

Other comprehensive loss

The Group recorded other comprehensive loss of HK$7.5 million in FY2019, reflective of a decrease in exchange reserve following a depreciation of the Renminbi ("RMB") for conversion of the Group's net investments in Mainland China and the release of exchange reserve upon dissolution of subsidiaries, partly mitigated by remeasurement gains on its long service payment liabilities.

Liquidity and financial resources

The Group's finance and treasury functions are centrally managed and controlled at its headquarters in Hong Kong. As at 30 June 2019, the Group had total cash and bank balances of HK$447.0 million, of which 75%, 20% and 5% (30 June 2018: 48%, 28% and 24%) were denominated in Hong Kong dollars, RMB and other currencies, respectively. As compared to HK$407.6 million as at 30 June 2018, the Group's cash and bank balances increased by HK$39.4 million to HK$447.0 million, which was primarily due to net cash inflow from operating activities, partly offset by the distribution of FY2018's final dividend of HK$59.9 million and FY2019's interim dividend of HK$45.4 million.

The Group maintained a healthy liquidity position throughout the Year with no bank and other borrowings outstanding as at 30 June 2019 (30 June 2018: Nil). Its net gearing ratio was maintained at zero as at 30 June 2019 (30 June 2018: Zero). This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents. As at 30 June 2019, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$1,566.0 million (30 June 2018: HK$1,537.5 million excluding unutilised banking facilities shared with FSE Management Company Limited ("FMC", a direct wholly-owned subsidiary of FSE Holdings Limited) and its subsidiaries, which are guaranteed by FMC). The Group has no banking facilities guaranteed by FMC as at 30 June 2019 (30 June 2018: HK$242.1 million were guaranteed by FMC). As at 30 June 2019, HK$246.1 million (30 June 2018: HK$263.5 million) had been utilised for bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet 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 arises.

As part of the Group's business is carried out in Mainland China, part 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$175.3 million (30 June 2018: HK$179.0 million) as at 30 June 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 Year, the fluctuation of RMB against Hong Kong dollars was 5.5% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the Year).

As at 30 June 2019, if the Hong Kong dollars had strengthened/weakened by another 5.5% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$9.6 million lower/higher.

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 30 June 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 unutilized proceeds of HK$133.5 million as stated in the Company's announcement dated 26 June 2018 were applied in the manner as shown in the table below:

	Original use of proceeds from Global Offering HK$'M	**Utilised amount as at 26 June 2018** HK$'M	**Revised use of proceeds as announced pursuant to the Company's announcement dated 26 June 2018** HK$'M	**Aggregate utilised amount from 27 June 2018 to 30 June 2019** HK$'M	**Unutilised amount as at 30 June 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	13.0	7.0
Operation of E&M engineering projects on hand and prospective projects	47.4	47.4	88.1	88.1	–
Staff-related additional expenses	20.0	20.0	–	–	–
Development and enhancement of design capability	19.3	18.3	16.0	10.8	5.2
Enhancement of quality testing laboratory	12.2	4.9	7.3	1.8	5.5
Upgrade of corporate information technology system and software	8.0	5.9	2.1	2.1	–
General working capital	25.0	25.0	–	–	–
Total	264.5	131.0	133.5	115.8	17.7

Management Discussion and Analysis

The Group has utilised HK$246.8 million of the net proceeds from Global Offering, of which HK$115.2 million was utilised during FY2019 and expects that the remaining balance of the IPO proceeds would be utilised within 5 years up to 2023. The Group held the unutilised net proceeds mainly in short-term deposits or time deposits with licensed banks and authorised financial institutions in Hong Kong.

Capital commitments

The Group had capital commitments of approximately HK$1.8 million (30 June 2018: HK$1.3 million) as at 30 June 2019 in relation to purchase of equipment.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2019 and 30 June 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

A stand-alone ESG report which references Appendix 27, Environmental, Social and Governance Reporting Guide, to the Listing Rules will be published on the websites of the Company and Hong Kong Exchanges and Clearing Limited in November 2019.

Discussion on environmental policies and performance

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

We are committed to reducing energy consumption and greenhouse gas ("GHG") emissions throughout all business operations. The Group signed the "Energy Saving Charter" launched by the Hong Kong Government's Environmental Protection Department ("EPD"), demonstrating strong dedication to reducing its carbon footprint. We continue to nurture environmental stewardship among our employees and foster behavioural change including paper use reduction, energy conservation and materials recycling.

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

To instil an environmentally friendly culture within the Group, we continue to organise green activities and support external initiatives relating to environmental protection. During the Year, we participated in a beach cleaning activity organised by the Food, Environmental Hygiene Department and arranged a visit to the Jockey Club Museum of Climate Change which enabled our employees to gain an understanding of the climate changes in Hong Kong. Dedicated to exploring new technologies for a greener future, we have collaborated with Nano and Advanced Materials Institute Limited ("NAMI") in two research and development projects on water treatment and solid waste treatment.

Account of key relationships with employees, customers and suppliers

Employees

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

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

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

Customers

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

Suppliers and subcontractors

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

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

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group had a total of 8,186 employees (2018: 7,402), including 1,414 casual workers (2018: 972). Staff costs for the Year, including salaries and benefits, was HK$1,363.3 million (2018: HK$1,397.3 million). The decrease mainly reflects a lower average headcount of permanent employees at the Group's cleaning services division.

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

The Company 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.

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$25 billion for the public sector and over HK$27 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.

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

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

Management Discussion and Analysis

In addition, the Government has invited the Airport Authority Hong Kong to create in the Lantau Island 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.

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

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

Since the establishment of the new ELV division, the Group has been awarded several ELV projects including three residential projects on Sai Yuen Lane, Sheung Heung Road 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 in Chek Lap Kok and Inland Revenue Tower in Kai Tak.

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

The positioning of Macau as a world exemplary tourism and leisure center addresses that region's need for adequate economic diversification and sustainable development. The Macau Special Administrative Region Government is expected to keep track of the pace of development of the gaming industry, and at the same time actively foster growth of integrated tourism in the city by reinforcing its non-gaming facilities.

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, such as 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 for foreign and Hong Kong-based developers for high-end projects in Mainland China.

2. **Maintenance Services**

Currently, there are 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 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. Large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the maintenance section.

Environmental Management Services Segment

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

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

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.

During the year, the Group has 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.

Management Discussion and Analysis

Facility Services Segment

1. Cleaning Services

New Business Opportunity

The improvement measures of government outsourcing service contracts take effect from April 2019, for which tenderers are able to offer higher wage rate to non-skilled workers and excellent technical proposals, with higher scores in tender evaluation to be granted. This change indicates that low-priced strategy will be reduced. This has created both business opportunities and competitiveness for the Group and Waihong expects to increase its successful ratio for coming government tenders. In this aspect, there are two government service contracts newly awarded during the Year. Waihong will focus on extending its business to the private or public medical sectors.

Business Development

For moving forward and strengthening Waihong's market position and profit margin, it is necessary to secure its existing contracts and explore new market in different segments. In this year, the Group has succeeded in securing a number of new service contracts in the high-end market, including premier office buildings from well-known developers and superior hotel facilities. Our management believes that these contracts can support Waihong's business growth and optimise its brand name. Currently, Waihong has 9 housekeeping service contracts on hand and will further expand its hospitality services to potential clients.

Innovative technologies and tools are the latest trends in the cleaning industry. Aiming to provide full range of solution to domestic and corporate clients, Waihong intends to cooperate with biotech expertise for designing proposals on eliminating indoor air pollution in the market. Waihong will continue to seek for diversified services to satisfy market needs.

2. Laundry

In view of the recent social instability in Hong Kong, there are knock-on effects felt across the industries especially 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, our business is impacted by the plummeted tourist arrivals and low 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.

Conclusion

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

Report of the Directors

The Directors have pleasure to submit their report together with the audited financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries of the Company are set out in Note 32 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group as required under Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) comprising analysis of the Group's performance during the Year, particulars of important events affecting the Group that have occurred since the end of the Year, as well as indication of likely future development in the business of the Group are set out in the sections headed "Chairman's Statement" on pages 8 to 10 and "Management Discussion and Analysis" on pages 33 to 45. Description of the principal risks and uncertainties facing the Group are set out in the "Corporate Governance Report" under the paragraphs headed "Risk Management and Internal Control" on pages 27 to 30. Discussions on the environmental policies and performance, compliance by the Group with the relevant laws and regulations that have a significant impact on the Group and the account of the key relationships of the Group with its stakeholders are contained in the "Management Discussion and Analysis" on pages 40 and 41 of this annual report.

RESULTS AND APPROPRIATION

The results of the Group for the Year and the state of affairs of the Company and of the Group as at 30 June 2019 are set out in the consolidated financial statements on pages 66 to 137.

The Directors have resolved to recommend a final dividend of HK11.9 cents (2018: HK13.3 cents) per share for the Year to the shareholders whose names appear on the register of members of the Company on 16 December 2019. The proposed final dividend, if approved at the forthcoming annual general meeting of the Company, will be paid on or about 23 December 2019. Together with the interim dividend of HK10.1 cents (2018: HK7.8 cents) per share paid in March 2019, total distribution of dividends by the Company for the Year will thus be HK22.0 cents (2018: HK21.1 cents) per share, representing a dividend payout ratio of 40.0% (2018: 40.1%).

The dividend policy of the Company is to deliver regular returns to shareholders through distributing funds surplus to the operating needs of the Group as determined by the Directors with a target payout ratio of not less than 30 per cent of the profit attributable to shareholders of the year, after taking into account of the following factors:

- general business conditions and strategies;
- projected operating cash flows;
- projected capital expenditures and strategic investment opportunities; and
- statutory and regulatory restrictions and provisions in the Company's articles of association.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in Notes 25 and 31 to the consolidated financial statements respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

At 30 June 2019, the Company's reserves available for distribution amounted to HK$421.7 million (30 June 2018: HK$531.3 million).

DONATIONS

During the Year, the Group made charitable and other donations amounting to HK$2,298,000 (2018: HK$3,314,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in Note 24 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 138 and 139.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the five largest customers of the Group accounted for 54.4% of the Group's turnover and the percentage of turnover attributable to the Group's largest customer amounted to 22.3%. The percentage of purchases attributable to the Group's five largest suppliers accounted for 6.9% of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier amounted to 2.0%.

During the Year, the NWS Group (as defined in the paragraph headed "Connected Transactions" below) was the Group's largest customer while the NWD Group (as defined in the paragraphs headed "Connected Transactions" below) was one of the five largest customers of the Group. Both the NWS Group and the NWD Group are the family businesses of Dr. Cheng Kar Shun, Henry, the Chairman and Non-executive Director of the Company. Save as disclosed above, none of the Directors, their associates and any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued shares) has an interest in the share capital of any of those customers or suppliers disclosed in the above paragraph.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

Report of the Directors

DIRECTORS

The Directors who held office during the Year and up to the date of this report are:

Non-executive Directors

Dr. Cheng Kar Shun, Henry *(Chairman)*
Mr. Wong Kwok Kin, Andrew

Executive Directors

Mr. Lam Wai Hon, Patrick *(Vice-Chairman)*
Mr. Poon Lock Kee, Rocky *(Chief Executive Officer)*
Mr. Doo William Junior Guilherme
Mr. Lee Kwok Bong
Mr. Soon Kweong Wah
Mr. Wong Shu Hung

Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Hui Chiu Chung, Stephen
Mr. Lee Kwan Hung, Eddie
Dr. Tong Yuk Lun, Paul

In accordance with article 105 of the Company's articles of association, Mr. Lam Wai Hon, Patrick, Mr. Doo William Junior Guilherme, Mr. Soon Kweong Wah and Dr. Tong Yuk Lun, Paul shall retire as Directors by rotation at the forthcoming annual general meeting and, all being eligible, offer themselves for re-election as Directors.

The Company has received an annual confirmation from each of the Independent Non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all the Independent Non-executive Directors independent.

The Directors' biographical details are set out on pages 11 to 15.

DIRECTORS' SERVICE CONTRACTS

No Director has a service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Details of the connected transactions and material related party transactions are set out on pages 53 to 60 and Note 30 to the consolidated financial statements respectively.

Save for the above and contracts amongst group companies, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year, no Director had been recorded as having interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or chief executives of the Company or their respective spouses or children under 18 years of age or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of associations and subject to the applicable laws, the Directors shall be indemnified out of the Company's assets from and against all actions, costs, charges, losses, damages and expenses which they may incur in the execution of their duties, except for those incurred through their own fraud or dishonesty. The above indemnity provision was in force during the course of the Year and remained in force as of the date of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules were as follows:

Long position in ordinary shares of associated corporation — FSE Holdings Limited

Name	Capacity/nature of interest	Number of shares	Percentage of Shareholding[6]
Dr. Cheng Kar Shun, Henry	Beneficial interest	90,000,000[1]	18%
Mr. Lam Wai Hon, Patrick	Interest of controlled corporation	10,000,000[2]	2%
Mr. Doo William Junior Guilherme	Interest of controlled corporations	45,000,000[3]	9%
Mr. Lee Kwok Bong	Interest of controlled corporation	5,000,000[4]	1%
Mr. Wong Kwok Kin, Andrew	Interest of controlled corporation	35,000,000[5]	7%

Notes:

1. The shares are held by Chow Tai Fook Nominee Limited ("CTF Nominee") for Dr. Cheng Kar Shun, Henry.

2. The shares are held by Equal Merit Holdings Limited ("Equal Merit"), the entire issued share capital of which is solely and beneficially owned by Mr. Lam Wai Hon, Patrick.

3. The shares are held by Master Empire Group Limited ("Master Empire") as to 25,000,000 shares and Supreme Win Enterprises Limited ("Supreme Win Enterprises") as to 20,000,000 shares, the entire issued share capital of each of which is solely and beneficially owned by Mr. Doo William Junior Guilherme.

4. The shares are held by Lagoon Treasure Limited ("Lagoon Treasure"), the entire issued share capital of which is solely and beneficially owned by Mr. Lee Kwok Bong.

5. The shares are held by Frontier Star Limited ("Frontier Star"), the entire issued share capital of which is solely and beneficially owned by Mr. Wong Kwok Kin, Andrew.

6. The percentage of shareholding is calculated on the basis of 500,000,000 shares in issue as at 30 June 2019.

Save as disclosed above, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2019.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2019, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in ordinary shares of the Company (the "Shares")

Name	Capacity/nature of interest	Number of shares	Percentage of Shareholding[4]
FSE Holdings Limited	Beneficial interest	337,500,000[1]	75%
Sino Spring Global Limited ("Sino Spring")	Interest of controlled corporation	337,500,000[1&2]	75%
Mr. Doo Wai Hoi, William ("Mr. Doo")	Interest of controlled corporation	337,500,000[1&2]	75%
Mrs. Doo Cheng Sau Ha, Amy ("Mrs. Doo")	Interest of spouse	337,500,000[1,2&3]	75%

Notes:

1. FSE Holdings Limited is beneficially owned as to 63% by Sino Spring, 18% by Dr. Cheng Kar Shun, Henry (through CTF Nominee), 7% by Frontier Star, 5% by Master Empire, 4% by Supreme Win Enterprises, 2% by Equal Merit and 1% by Lagoon Treasure. By virtue of Part XV of the SFO, Sino Spring is deemed to be interested in all Shares held by FSE Holdings Limited.

2. Sino Spring is an investment holding company wholly owned by Mr. Doo. By virtue of Part XV of the SFO, Mr. Doo is deemed to be interested in all Shares in which Sino Spring is interested.

3. Mrs. Doo is the spouse of Mr. Doo and is therefore taken to be interested in all Shares in which Mr. Doo is interested by virtue of Part XV of the SFO.

4. The percentage of shareholding is calculated on the basis of 450,000,000 Shares in issue as at 30 June 2019.

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest or short position in the shares or underlying shares of the Company as at 30 June 2019.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 20 November 2015. Summary of the Scheme disclosed in accordance with the Listing Rules is as follows:

(i) Purposes of the Scheme

The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group.

(ii) Who may join

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company or any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds an equity interest;

(b) any non-executive directors (including independent non-executive directors) of the Company or any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity;

(h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group;

and, for the purposes of the Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

(iii) Maximum number of Shares available for issue

The total number of Shares available for issue under the Scheme is 45,000,000 Shares, representing 10.00% of the Company's issued share capital at the date of this report.

SHARE OPTION SCHEME *(Continued)*

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Scheme and any other share option scheme of the Company (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the shareholders in general meeting of the Company with such grantee and his close associates abstaining from voting.

(v) Time of acceptance

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

(vi) Minimum period for which an option must be held before it can be exercised

There is no minimum period required under the Scheme for the holding of an option before it can be exercised unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee.

(vii) Consideration for the option

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

(viii) Subscription price for the Shares

The subscription price for the Shares under the Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

(ix) Period of the Scheme

The Scheme will remain in force for a period of 10 years commencing from 20 November 2015 being the date of its adoption.

No options had been granted under the Scheme since its adoption.

CONNECTED TRANSACTIONS

Connected persons of the Company

Dr. Cheng Kar Shun, Henry, the Chairman and Non-executive Director of the Company, is our connected person. The NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group (as respectively defined below), our long standing customers, are the family businesses of Dr. Cheng Kar Shun, Henry. To echo the policy of the Stock Exchange to enhance minority shareholders' protection, we have treated members of each of these groups of companies as our connected persons.

In the above paragraph and as appeared in this section:

"NWD Group"	means New World Development Company Limited ("NWD"), the issued shares of which are listed on the Stock Exchange (stock code: 17), together with its subsidiaries from time to time but excluding the NWDS Group and the NWS Group;
"NWS Group"	means NWS Holdings Limited ("NWS"), the issued shares of which are listed on the Stock Exchange (stock code: 659), together with its subsidiaries from time to time but excluding the NWD Group and the NWDS Group;
"NWDS Group"	means New World Department Store China Limited ("NWDS"), the issued shares of which are listed on the Stock Exchange (stock code: 825), together with its subsidiaries from time to time but excluding the NWD Group and the NWS Group;
"CTFE Group"	means Chow Tai Fook Enterprises Limited ("CTFE") and its subsidiaries from time to time;
"CTFJ Group"	means Chow Tai Fook Jewellery Group Limited ("CTFJ"), the issued shares of which are listed on the Stock Exchange (stock code: 1929), together with its subsidiaries from time to time. For the purpose of paragraph (1)(d) below, the CTFJ Group means CTFJ, together with its subsidiaries and associates from time to time but excluding the NWD Group, the NWDS Group and the NWS Group.

Mr. Doo is one of the controlling shareholders of the Company holding 63% of the total issued share capital of FSE Holdings Limited, also a controlling shareholder of the Company, which in turn holds 75% of the total issued share capital of the Company. Both Mr. Doo and FSE Holdings Limited are therefore connected persons of the Company.

The Doo's Associates Group are companies, other than members of the Group, in which Mr. Doo, his "immediate family members" and "family members" (as defined in the Listing Rules), individually or together, are entitled to exercise or control the exercise of 30% or more of the voting power at their respective general meetings or to control the composition of a majority of their respective boards of directors and the subsidiaries of such companies. Members of the Doo's Associates Group are therefore our connected persons under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions ("CCTs")

The Company has entered into the following transactions during the Year and up to the date of this report with one or more the above connected persons which constituted CCTs of the Company.

(1) The 2017 master services agreements

On 10 April 2017, five master services agreements were entered into by the Company with details as follows:

(a) a master services agreement entered into between NWD and the Company (the "2017 NWD Master Services Agreement") which serves to continue to provide them with a master framework of agreement upon and to which the individual agreement for each CCT between the NWD Group and the Group (the "NWD CCT") is to be entered into and subject.

The NWD CCTs under the 2017 NWD Master Services Agreement include various transactions between the NWD Group and the Group in relation to:

- the provision of, by the Group to the NWD Group, E&M engineering and environmental services, and such other types of services as the NWD Group and the Group may agree upon from time to time in writing; and

- the provision of, by the NWD Group to the Group, rental services and such other types of services as the NWD Group and the Group may agree upon from time to time in writing.

(b) a master services agreement entered into between NWS and the Company (the "2017 NWS Master Services Agreement") which serves to continue to provide them with a master framework of agreement upon and to which the individual agreement for each CCT between the NWS Group and the Group (the "NWS CCT") is to be entered into and subject.

The NWS CCTs under the 2017 NWS Master Services Agreement include various transactions between the NWS Group and the Group in relation to:

- the provision of, by the Group to the NWS Group, E&M engineering and environmental services, and such other types of services as the NWS Group and the Group may agree upon from time to time in writing; and

- the provision of, by the NWS Group to the Group, contracting services and such other types of services as the NWS Group and the Group may agree upon from time to time in writing.

(c) a master services agreement entered into between NWDS and the Company (the "2017 NWDS Master Services Agreement") which serves to continue to provide them with a master framework of agreement upon and to which the individual agreement for each CCT between the NWDS Group and the Group (the "NWDS CCT") is to be entered into and subject.

The NWDS CCTs under the 2017 NWDS Master Services Agreement include various transactions between the NWDS Group and the Group in relation to:

- the provision of, by the Group to the NWDS Group, E&M engineering and environmental services, and such other types of services as the NWDS Group and the Group may agree upon from time to time in writing; and

- the provision of, by the NWDS Group to the Group, rental services and such other types of services as the NWDS Group and the Group may agree upon from time to time in writing.

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions ("CCTs") *(Continued)*

(1) The 2017 master services agreements *(Continued)*

(d) a master services agreement entered into between CTFJ and the Company (the "2017 CTFJ Master Services Agreement") which serves to continue to provide them with a master framework of agreement upon and to which the individual agreement for each CCT between the CTFJ Group and the Group (the "CTFJ CCT") is to be entered into and subject.

The CTFJ CCTs under the 2017 CTFJ Master Services Agreement include various transactions between the CTFJ Group and the Group in relation to:

- the provision of, by the Group to the CTFJ Group, E&M engineering and environmental services, and such other types of services as the CTFJ Group and the Group may agree upon from time to time in writing.

(e) a master services agreement entered into between FSE Management Company Limited ("FMC"), a direct wholly-owned subsidiary of FSE Holdings Limited, and the Company (the "2017 Doo's Associates Master Services Agreement") which serves to continue to provide them with a master framework of agreement upon and to which the individual agreement for each CCT between the Doo's Associates Group and the Group (the "Doo's Associates CCT") is to be entered into and subject.

The Doo's Associates CCTs under the 2017 Doo's Associates Master Services Agreement include various transactions between the Doo's Associates Group and the Group in relation to:

- the provision of, by the Group to the Doo's Associates Group, E&M engineering and environmental services, and such other types of services as the Doo's Associates Group and the Group may agree upon from time to time in writing; and

- the provision of, by the Doo's Associates Group to the Group, rental services and sundry services, and such other types of services as the Doo's Associates Group and the Group may agree upon from time to time in writing.

(the 2017 NWD Master Services Agreement, the 2017 NWS Master Services Agreement, the 2017 NWDS Master Services Agreement, the 2017 CTFJ Master Services Agreement and the 2017 Doo's Associates Master Services Agreement, collectively, the "2017 Master Services Agreements").

The 2017 Master Services Agreements and the transactions contemplated thereunder were approved by the independent shareholders at the extraordinary general meeting of the Company held on 25 May 2017. Each of the 2017 Master Services Agreements has an initial term of three years commenced from 1 July 2017 and ending on 30 June 2020. Subject to re-compliance with the applicable Listing Rules at the relevant time, each of these agreements shall be automatically renewed at the end of each of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of such initial term or any subsequently renewed term.

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions ("CCTs") *(Continued)*

(1) The 2017 master services agreements *(Continued)*

During the Year, the transaction amounts under the 2017 Master Services Agreements are summarized as follows:

The 2017 NWD Master Services Agreement

Categories	Approximate total transaction amounts HK$'000	Annual cap HK$'000
Paid/payable to the Group	577,701	693,393
Paid/payable by the Group	42	1,750

The 2017 NWS Master Services Agreement

Categories	Approximate total transaction amounts HK$'000	Annual cap HK$'000
Paid/payable to the Group	1,072,404	2,217,261
Paid/payable by the Group	–	20,000

The 2017 NWDS Master Services Agreement

Categories	Approximate total transaction amounts HK$'000	Annual cap HK$'000
Paid/payable to the Group	–	88,077
Paid/payable by the Group	132	368

The 2017 CTFJ Master Services Agreement

Category	Approximate total transaction amount HK$'000	Annual cap HK$'000
Paid/payable to the Group	64,704	302,561

The 2017 Doo's Associates Master Services Agreement

Categories	Approximate total transaction amounts HK$'000	Annual cap HK$'000
Paid/payable to the Group	72,702	165,527
Paid/payable by the Group	6,294	8,044

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions ("CCTs") *(Continued)*

(2) The 2018 master facility services agreements

On 11 April 2018, six master facility services agreements were entered into by the Company in relation to the provision and/or receipt of services as defined here below:

"Services" mean Rental and Related Services, IT Support Services and the Cleaning and Laundry Services;

"Rental and Related Services" mean leasing of properties, including without limitation, spare spaces, office spaces and car parking spaces, licences for the use of wall signages, lighting boxes and the use of common areas, management services and related services;

"IT Support Services" mean the maintenance and support of computer software-related matters, such as solving software and hardware conflicts and usability problems and supplying updates and patches for bugs, security holes in the programme and other services as required by in-house IT staff as and when necessary; and

"Cleaning and Laundry Services" mean (A) cleaning services including general cleaning, waste management and disposal, external wall and window cleaning, pest control and clinical waste management rendered at commercial buildings, residential buildings, public transportations and other public institutions and facilities; and (B) laundry services including laundry, dry cleaning and linen management services to corporate customers and the operation of dry cleaning and laundry retail valet outlets.

Details of the six master facility services agreements are as follows:

(a) a master facility services agreement entered into between NWD and the Company (the "2018 NWD Master Facility Services Agreement") which serves to provide them with a master framework of agreement upon and to which the individual agreement for each NWD CCT in relation to the following services is to be entered into and subject.

- the provision of, by the Group to the NWD Group, Cleaning and Laundry Services and such other types of services as the NWD Group and the Group may agree upon from time to time in writing.

(b) a master facility services agreement entered into between NWS and the Company (the "2018 NWS Master Facility Services Agreement") which serves to provide them with a master framework of agreement upon and to which the individual agreement for each NWS CCT in relation to the following services is to be entered into and subject.

- the provision of, by the Group to the NWS Group, Cleaning and Laundry Services and such other types of services as the NWS Group and the Group may agree upon from time to time in writing; and
- the provision of, by the NWS Group to the Group, IT Support Services and such other types of services as the NWS Group and the Group may agree upon from time to time in writing.

(c) a master facility services agreement entered into between NWDS and the Company (the "2018 NWDS Master Facility Services Agreement") which serves to provide them with a master framework of agreement upon and to which the individual agreement for each NWDS CCT in relation to the following services is to be entered into and subject.

- the provision of, by the Group to the NWDS Group, Cleaning and Laundry Services and such other types of services as the NWDS Group and the Group may agree upon from time to time in writing.

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions ("CCTs") *(Continued)*

(2) The 2018 master facility services agreements *(Continued)*

(d) a master facility services agreement entered into between CTFE and the Company (the "2018 CTFE Master Facility Services Agreement") which serves to provide them with a master framework of agreement upon and to which the individual agreement for each CTFE CCT in relation to the following services is to be entered into and subject.

- the provision of, by the Group to the CTFE Group, Cleaning and Laundry Services and such other types of services as the CTFE Group and the Group may agree upon from time to time in writing.

(e) a master facility services agreement entered into between CTFJ and the Company (the "2018 CTFJ Master Facility Services Agreement") which serves to provide them with a master framework of agreement upon and to which the individual agreement for each CTFJ CCT in relation to the following services is to be entered into and subject.

- the provision of, by the Group to the CTFJ Group, Cleaning and Laundry Services and such other types of services as the CTFJ Group and the Group may agree upon from time to time in writing.

(f) a master facility services agreement entered into between FMC and the Company (the "2018 Doo's Associates Master Facility Services Agreement") which serves to provide them with a master framework of agreement upon and to which the individual agreement for each Doo's Associates CCT in relation to the following services is to be entered into and subject.

- the provision of, by the Group to the Doo's Associates Group, Cleaning and Laundry Services and such other types of services as the Doo's Associates Group and the Group may agree upon from time to time in writing; and

- the provision of, by the Doo's Associates Group to the Group, Rental and Related Services and such other types of services as the Doo's Associates Group and the Group may agree upon from time to time in writing.

(the 2018 NWD Master Facility Services Agreement, the 2018 NWS Master Facility Services Agreement, the 2018 NWDS Master Facility Services Agreement, the 2018 CTFE Master Facility Services Agreement, the 2018 CTFJ Master Facility Services Agreement and the 2018 Doo's Associates Master Facility Services Agreement, collectively, the "2018 Master Facility Services Agreements").

The 2018 Master Facility Services Agreements and the transactions contemplated thereunder were approved by the independent shareholders at the extraordinary general meeting of the Company held on 10 April 2018. Each of the 2018 Master Facility Services Agreements has an initial term commenced on 11 April 2018 and ending on 30 June 2020. Subject to re-compliance with the applicable Listing Rules at the relevant time, each of these agreements shall be automatically renewed at the end of each of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of such initial term or any subsequently renewed term.

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions ("CCTs") *(Continued)*

(2) The 2018 master facility services agreements *(Continued)*

During the Year, the transaction amounts under the 2018 Master Facility Services Agreements are summarised as follows:

The 2018 NWD Master Facility Services Agreement

Category	Approximate total transaction amount HK$'000	Annual cap HK$'000
Paid/payable to the Group	79,916	98,384

The 2018 NWS Master Facility Services Agreement

Categories	Approximate total transaction amounts HK$'000	Annual cap HK$'000
Paid/payable to the Group	18,081	21,385
Paid/payable by the Group	120	122

The 2018 NWDS Master Facility Services Agreement

Category	Approximate total transaction amount HK$'000	Annual cap HK$'000
Paid/payable to the Group	–	2,286

The 2018 CTFE Master Facility Services Agreement

Category	Approximate total transaction amount HK$'000	Annual cap HK$'000
Paid/payable to the Group	400	20,006

The 2018 CTFJ Master Facility Services Agreement

Category	Approximate total transaction amount HK$'000	Annual cap HK$'000
Paid/payable to the Group	248	260

The 2018 Doo's Associates Master Facility Services Agreement

Categories	Approximate total transaction amounts HK$'000	Annual cap HK$'000
Paid/payable to the Group	169,300	184,889
Paid/payable by the Group	13,223	18,199

CONNECTED TRANSACTIONS *(Continued)*

Annual review of CCTs

All the CCTs mentioned above have been reviewed by the Independent Non-executive Directors who have confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms;

(c) according to the relevant agreement governing the respective transactions on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(d) within the caps as set out in the relevant circulars.

The Company's auditor was engaged to report on the Group's CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the CCTs disclosed by the Company in this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, a summary of significant related party transactions made during the Year is disclosed in Note 30 to the consolidated financial statements. To the extent that the Group's related party transactions constituted connected transactions or continuing connected transactions as defined in the Listing Rules, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the Year.

NON-COMPETE UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

FSE Holdings Limited, Sino Spring and Mr. Doo, each a controlling shareholder of the Company (collectively, the "Controlling Shareholders"), have entered into a deed of non-compete undertaking (the "Deed"), under which they have given non-compete undertakings (the "Non-compete Undertakings") in favour of the Company (for itself and as trustee for and on behalf of each of our subsidiaries), pursuant to which they have, among other matters, irrevocably undertaken not to engage in any business (other than those of the Group) which, directly or indirectly, compete or may compete with the businesses of the Group.

The Controlling Shareholders have provided to the Company a written confirmation confirming that, since the date of listing of the Company's shares on the Stock Exchange (that is, 10 December 2015), they have complied with the undertakings contained in the Deed and there is no matter in relation to their compliance with or enforcement of the Deed that needs to be brought to the attention of the Stock Exchange, the Company and/or the shareholders of the Company. Our Independent Non-executive Directors have also confirmed to the Company that, having made such reasonable enquiries with the Controlling Shareholders and reviewed the written confirmation from the Controlling Shareholders and/or such documents as they considered appropriate, nothing has come to their attention that causes them to believe that the terms of the Deed had not been complied with by the Controlling Shareholders during the Year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors at the date of this report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITOR

The consolidated financial statements for the Year have been audited by PricewaterhouseCoopers, who will retire at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-appointment.

On behalf of the Board

Dr. Cheng Kar Shun, Henry
Chairman

Hong Kong, 26 September 2019

Independent Auditor's Report

羅兵咸永道

To the Shareholders of FSE Services Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of FSE Services Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 137, which comprise:

- the consolidated statement of financial position as at 30 June 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A key audit matter identified in our audit is summarised as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition of the contracting work Refer to Note 5.1 in the critical accounting estimates and judgements in the consolidated financial statements. The Group recognises its contracting revenue according to the percentage of completion of individual contracting work. The Group has recognised HK$3,507 million contracting revenue in relation to contracting work for the year ended 30 June 2019. Because of the nature of the activity undertaken in contracts, the date at which the contract activity entered into and the date when the activity is completed usually fall into different financial periods. Management is required to exercise significant judgement in their review and revision of the estimates of the completeness and accuracy of the total contract revenue, total contract costs and actual costs incurred for each contract as the contract progresses, based on past experience and market circumstances, especially in relation to change in estimates of revenue and costs arising from variation orders, litigation and claims with the customers and sub-contractors. The eventual realisation of these estimates are inherently uncertain, subject to the outcome of negotiations with the customers and sub-contractors. Any revision of the total contract revenue, total contract costs and actual costs incurred, which determined the percentage of completion, would affect the contracting revenue recognition and may result in material adjustments to margin, which can be positive or negative.	Our audit procedures in relation to revenue recognition of the contracting work included the following: — Tested the operating effectiveness of key controls operated by the Group about the estimation of the total contract revenue, total contract costs and actual costs incurred; — Checked, on a sample basis, the contractual terms of the work and variation orders in order to understand their work nature and contractual relationships with the customers; checked correspondences with the customers, including the agreed documents or communication evidence to evaluate the reasonableness of management's estimates on the budgeted total contract revenue, especially the estimates of revenue arising from variation orders and claims; — Checked, on a sample basis, to correspondences, such as agreed documents or communication evidence, with the sub-contractors, and legal advice obtained from internal or external legal counsel to evaluate the reasonableness of management's assessment of budgeted total contract costs and actual costs incurred, especially the estimates of costs relating to variation orders, litigation and claims; and — Selected contracts, on a sample basis, to perform interview with the project directors and assessed whether or not these estimates showed any evidence of management bias. We found the management's estimations and judgements on the revenue recognition in respect of contracting work to be supportable based on the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Ho Chi Keung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 September 2019

Consolidated Income Statement

For the year ended 30 June 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	6	**4,930,517**	4,926,518
Cost of services and sales		**(4,330,713)**	(4,335,497)
Gross profit		**599,804**	591,021
Other income/gains, net	7	**3,886**	3,336
General and administrative expenses		**(311,361)**	(323,185)
Operating profit	8	**292,329**	271,172
Finance income	11	**5,163**	18,194
Finance costs	11	**–**	(1,066)
Profit before income tax		**297,492**	288,300
Income tax expenses	12	**(49,980)**	(51,516)
Profit for the year attributable to equity holders of the Company		**247,512**	236,784
Earnings per share for profit attributable to equity holders of the Company (expressed in HK$)			
— Basic and diluted	13	**0.55**	0.53

The notes on pages 71 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

	2019 HK$'000	2018 HK$'000
Profit for the year attributable to equity holders of the Company	**247,512**	236,784
Other comprehensive (loss)/income:		
Items that may be subsequently reclassified to consolidated income statement:		
Currency translation differences	**(7,402)**	6,225
Release of exchange reserve upon dissolution of subsidiaries	**(1,905)**	–
Reclassification of revaluation reserve to profit or loss upon maturity or disposal of available-for-sale financial assets, net of tax	**–**	754
Fair value change of available-for-sale financial assets, net of tax	**–**	(1,255)
Item that will not be subsequently reclassified to consolidated income statement:		
Remeasurement gains on long service payment liabilities, net of tax	**1,765**	6,750
Other comprehensive (loss)/income, net of tax	**(7,542)**	12,474
Total comprehensive income for the year attributable to equity holders of the Company	**239,970**	249,258

The notes on pages 71 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	393,945	412,242
Investment property	16	11,235	11,620
Land use rights	17	20,432	21,230
Other intangible assets	18	51,946	52,796
Deferred income tax assets	19	9,337	14,329
		486,895	512,217
Current assets			
Inventories	20	40,206	26,006
Contract assets	21	290,822	–
Amounts due from customers for contract works	21	–	343,029
Trade and other receivables	22	1,422,927	1,278,947
Cash and bank balances	23	447,043	407,561
		2,200,998	2,055,543
Total assets		2,687,893	2,567,760
EQUITY			
Share capital	24	45,000	45,000
Reserves	25	727,020	592,350
Total equity		772,020	637,350
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	19	26,787	25,419
Long service payment liabilities	27	21,055	21,320
		47,842	46,739
Current liabilities			
Contract liabilities	21	224,119	–
Amounts due to customers for contract works	21	–	475,397
Trade and other payables	26	1,590,093	1,343,323
Taxation payable		53,819	64,951
		1,868,031	1,883,671
Total liabilities		1,915,873	1,930,410
Total equity and liabilities		2,687,893	2,567,760
Net current assets		332,967	171,872
Total assets less current liabilities		819,862	684,089

The notes on pages 71 to 137 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 66 to 137 were approved by the Board of Directors on 26 September 2019 and were signed on its behalf.

Lam Wai Hon, Patrick
Director

Poon Lock Kee, Rocky
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

	Share capital HK$'000	Reserves (Note 25) HK$'000	Total HK$'000
At 1 July 2017	45,000	1,025,718	1,070,718
Profit for the year attributable to equity holders of the Company	–	236,784	236,784
Other comprehensive income/(loss):			
Reclassification of revaluation reserve to profit or loss upon maturity or disposal of available-for-sale financial assets, net of tax	–	754	754
Currency translation differences	–	6,225	6,225
Fair value change of available-for-sale financial assets, net of tax	–	(1,255)	(1,255)
Remeasurement gains on long service payment liabilities, net of tax	–	6,750	6,750
Total comprehensive income attributable to equity holders of the Company	–	249,258	249,258
Transactions with owners:			
Dividends (Note 14)	–	(71,550)	(71,550)
Dividends to the original shareholder of subsidiaries of the Acquired Group	–	(85,000)	(85,000)
Deemed distribution (Note 2.1(iv))	–	(10,262)	(10,262)
Acquisition of the Acquired Group (Note 2.1(iv))	–	(515,814)	(515,814)
At 30 June 2018	45,000	592,350	637,350
At 1 July 2018	**45,000**	**592,350**	**637,350**
Profit for the year attributable to equity holders of the Company	**–**	**247,512**	**247,512**
Other comprehensive (loss)/income:			
Currency translation differences	**–**	**(7,402)**	**(7,402)**
Release of exchange reserve upon dissolution of subsidiaries	**–**	**(1,905)**	**(1,905)**
Remeasurement gains on long service payment liabilities, net of tax	**–**	**1,765**	**1,765**
Total comprehensive income attributable to equity holders of the Company	**–**	**239,970**	**239,970**
Transactions with owners:			
Dividends (Note 14)	**–**	**(105,300)**	**(105,300)**
At 30 June 2019	**45,000**	**727,020**	**772,020**

The notes on pages 71 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Cash generated from operations	29(a)	224,151	11,153
Hong Kong profits tax paid		(32,923)	(25,341)
Mainland China and Macau income tax paid		(21,902)	(28,375)
Interest paid		–	(1,066)
Net cash generated from/(used in) operating activities		169,326	(43,629)
Cash flows from investing activities			
Purchase of property, plant and equipment		(24,971)	(34,634)
Interest received		5,163	18,194
Proceeds from disposal of property, plant and equipment		368	739
Decrease in time deposits with original maturities over three months		–	10,000
Purchase of available-for-sale financial assets		–	(47,000)
Proceeds from maturity or disposal of available-for-sale financial assets		–	113,478
Purchase of financial assets at fair value through profit or loss		–	(63,722)
Proceeds from disposal of financial assets at fair value through profit or loss		–	90,462
Business combination under common control	29(b)	–	(515,814)
Disposal of subsidiaries	29(c)	–	(444)
Additions to intangible assets		–	(2,139)
Net cash used in investing activities		(19,440)	(430,880)
Cash flows from financing activities			
Dividends paid		(105,300)	(71,550)
Proceeds from new bank borrowings		–	130,000
Repayment of bank loans		–	(160,000)
Dividends paid to the original shareholder of subsidiaries of the Acquired Group		–	(85,000)
Decrease in amount due to a related company	29(d)	–	(46,061)
Net cash used in financing activities		(105,300)	(232,611)
Net increase/(decrease) in cash and cash equivalents during the year		44,586	(707,120)
Cash and cash equivalents at the beginning of the year		407,561	1,104,052
Exchange differences	29(e)	(5,104)	10,629
Cash and cash equivalents at the end of the year		447,043	407,561
Analysis of balances of cash and cash equivalents			
Representing:			
Cash and bank balances as stated in the consolidated statement of financial position		447,043	407,561

The notes on pages 71 to 137 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors of the Company (the "Board") on 26 September 2019.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis and significant accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5 to the consolidated financial statements.

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

2.1 Basis of preparation *(Continued)*

(i) New standards, amendments, interpretations and improvements to existing standards that are effective for the Group's financial year beginning on 1 July 2018

The following new standards, amendments, interpretations and improvements to existing standards, that are relevant to the Group's operation, are mandatory for the financial year of the Group beginning on 1 July 2018:

HKAS 40 Amendments	Transfers of Investment Property
HKFRS 2 Amendments	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 Amendments	Clarifications to HKFRS 15
HK (IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements	2014 – 2016 Cycle

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

The Group's adoption of the above amendments, interpretations and improvements neither have any material effect on the results and financial position of the Group nor any substantial changes in the Group's accounting policies and presentation of its consolidated financial statements, except for HKFRS 9 and HKFRS 15 as described below:

(a) HKFRS 9 "Financial Instruments"

The Group's adoption of HKFRS 9 has resulted in changes in its accounting policies. While the new policies are generally required to be applied retrospectively, the Group has taken the transitional provisions in HKFRS 9 not to restate comparative information for prior periods with respect to its classification and measurement (including impairment) requirements. Therefore, comparative amounts have not been restated and continue to be reported under the Group's accounting policies prevailing prior to 1 July 2018. Differences in the carrying amounts, if any, resulting from the Group's adoption of HKFRS 9 are recognised as adjustments to the opening consolidated statement of financial position on 1 July 2018.

HKFRS 9 largely retains the requirements in Hong Kong Accounting Standard ("HKAS") 39 "Financial Instruments: Recognition and Measurement" for the classification and measurement of financial liabilities. The Group's adoption of HKFRS 9 has not had a significant effect on its accounting policies related to financial liabilities. However, HKFRS 9 eliminates the HKAS 39 categories of financial assets of held to maturity, loans and receivables and available for sale. From 1 July 2018 onwards, the Group, for the purpose of reporting for its financial statements, is required to classify and measure financial assets in accordance with HKFRS 9 categories of measured at amortised cost, at fair value either through other comprehensive income ("FVOCI") or through profit or loss ("FVPL").

The Group's adoption of HKFRS 9 does not have significant impact on the classification and measurement of its financial assets.

Set out in Note 2.11 and 2.14 to the consolidated financial statements are further details on the changes in significant accounting policies under HKFRS 9 that have been applied from 1 July 2018 onwards, where they are different to those applied in preparing its 2018 annual financial statements.

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

2.1 Basis of preparation *(Continued)*

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

(b) HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 permits either a full retrospective or a modified retrospective approach for the adoption. The Group has elected to apply the modified retrospective approach for transition to this new standard. Under this transition approach, comparative amounts for prior periods are not restated and continued to be reported under the accounting policies prevailing prior to 1 July 2018. Differences in the carrying amounts, if any, resulting from the Group's adoption of HKFRS 15 are recognised as adjustments to the opening consolidated statement of financial position on 1 July 2018.

Reclassifications were made as at 1 July 2018 to be consistent with the terminology used under HKFRS 15:

- "Contract assets" recognised in relation to contracting activities were previously presented as "Amounts due from customers for contract works".

- "Contract liabilities" recognised in relation to contracting activities were previously presented as "Amounts due to customers for contract works".

Set out in Note 2.21 are details of the changes in the Group's significant accounting policies under HKFRS 15 that have been applied from 1 July 2018, where they are different to those applied in preparing its 2018 annual financial statements.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.1 Basis of preparation *(Continued)*

(iii) New standard, amendments, interpretations and improvements to existing standards that have been issued but not yet effective and have not been early adopted by the Group

The following new standards, amendments, interpretations and improvements to existing standards, that are relevant to the Group's operation, have been issued but not yet effective for the financial year of the Group beginning on 1 July 2018 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 Amendments	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 Amendments	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements	2015 – 2017 cycle	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and HKAS 8 Amendments	Definition of Material	1 January 2020
HKFRS 3 Amendments	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of the above pronouncements to the Group and considers that there will not be any substantial changes to the Group's accounting policies and presentation of its consolidated financial statements, except for HKFRS 16 as described below:

HKFRS 16 "Leases"

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

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

2.1 Basis of preparation *(Continued)*

(iii) New standards and amendments and improvements to existing standards that have been issued but not yet effective and have not been early adopted by the Group *(Continued)*

HKFRS 16 "Leases" *(Continued)*

The Group adopted HKFRS 16 starting from 1 July 2019, which results in its recognition of lease assets and lease liabilities primarily arising from leases of premises and properties in relation to the Group's various businesses.

As at the reporting date, the Group has non-cancellable operating lease commitments of HK$70.9 million. This results in the Group's recognition of assets and liabilities for future payments. Some of the commitments are covered by the exemptions for short-term leases and leases for which the underlying asset is of low-value. There will not be any material effect on the Group's profit or loss for its adoption of HKFRS 16.

(iv) Application of merger accounting for business combinations under common control

On 27 February 2018, FSE Facility Services Group Limited ("FSGL"), a wholly-owned subsidiary of the Company, as the purchaser and FSE Management Company Limited ("FMC"), a fellow subsidiary of the Company, as the vendor entered into a conditional sales and purchase agreement, pursuant to which FMC agreed to sell, and FSGL agreed to purchase, the entire issued share capital of Crystal Brilliant Limited and its subsidiaries (the "Target Group"), except for those of the Non-Target Group as described below, at an initial cash consideration of HK$502.0 million, subject to subsequent adjustment by reference to the change in the net tangible asset value ("NTAV") of the Target Group from 31 December 2017 to the date of completion of the acquisition. The acquisition was completed on 11 April 2018 (the "Completion Date") and a positive NTAV adjustment of HK$13.8 million was made to the total consideration for this transaction, which thus in aggregate amounts to HK$515.8 million. Prior to the completion of the acquisition on 11 April 2018, the entire issued share capital of Macro Brilliant Limited and its subsidiary (the "Non-Target Group") was disposed of by the Target Group to FMC in February 2018. The Target Group (or the "Acquired Group") is principally engaged in the provision of facility services including cleaning and laundry services.

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

The Non-Target Group was included in the consolidated financial statements before the Completion Date, as it formed an integral part of the Target Group prior to the Completion Date. Upon completion of the acquisition of the Target Group on 11 April 2018, the excess of the book values of the assets and liabilities of the Non-Target Group over the consideration of disposal by the Target Group for these net assets amounting to HK$10.3 million was recorded as a deemed distribution from the Group to FSE Holdings Limited.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.2 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(ii) Business combinations under common control

Business combinations under common control refers to combinations where the combining entities are controlled by the same party or parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is recorded in other reserve. Any direct transaction costs attributable to the business combination are expensed as incurred. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds, respectively.

The Company applies merger accounting to account for the business combinations under common control in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

(iii) Business combinations not under common control

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. All other components of non controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised in the consolidated income statement.

Intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.2 Consolidation *(Continued)*

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are reclassified to consolidated income statement or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

(v) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in the subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

All other repairs and maintenance costs are charged to the consolidated income statement during the financial year in which they are incurred.

Freehold land is not depreciated.

Depreciation of property, plant and equipment, except for freehold land, is calculated to allocate their costs to their residual values over their estimated useful lives using the straight-line method. Estimated useful lives are summarised as follows:

Leasehold land under finance leases and buildings	Shorter of 20 to 40 years, or the remaining lease terms
Leasehold improvement	Shorter of 5 years or the remaining lease terms
Plant and machinery	2 to 7 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 to 5 years

The residual values and estimated useful lives of the assets are reviewed, and adjusted if appropriate, at each date of statement of financial position.

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

2.3 Property, plant and equipment *(Continued)*

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount as described in Note 2.7 to the consolidated financial statements.

Gains and losses on disposals of plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised within "Other income/gains, net" in the consolidated income statement.

2.4 Investment property

Investment property is initially measured at cost, including related transaction costs and where applicable borrowings costs. After initial recognition, investment property is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred. The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Buildings are depreciated over their estimated useful lives of 40 years or the relevant lease periods of the leasehold land, whichever is shorter, using the straight-line method. Leasehold land is depreciated over the lease periods using the straight-line method.

The residual values and estimated useful lives of the assets are reviewed, and adjusted if appropriate, at each date of statement of financial position.

Gains or losses on disposals of investment property are determined by comparing the proceeds with the carrying amount are recognised within "Other income/gain, net" in the consolidated income statement.

Buildings and leasehold land is depreciated over the lease periods using the straight-line method.

2.5 Land use rights

The up-front payments made for the land use rights are expensed in consolidated income statement on a straight-line basis over the period of the rights or where there is impairment, the impairment is recognised in consolidated income statement.

2.6 Intangible assets (other than land use rights)

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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

2.6 Intangible assets (other than land use rights) *(Continued)*

(i) Goodwill *(Continued)*

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Trademarks and brand names

Separately acquired trademarks and brand names are shown at historical cost. Trademarks and brand names acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and brand names have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and brand names over their estimated useful lives of 10 years.

(iii) Internally generated environmental technology

(a) Environmental technology

Costs associated with research phase of the internally generated environmental technology are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of the technology controlled by the Group are recognised as intangible assets when the following criteria are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

(b) Research and development

Research expenditure and development expenditure that do not meet the criteria in (iii) above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

2.6 Intangible assets (other than land use rights) *(Continued)*

(iii) Internally generated environmental technology *(Continued)*

(c) Amortisation method and period

The Group amortises intangible assets with a limited useful life using the straight-line method over the following period:

Internally generated environmental technology	10 years

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated income statement for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in-first-out or weighted average basis for different type and nature of inventories. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2.9 Contract assets and contract liabilities

Accounting policies applied from 1 July 2018 onwards

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as a contract asset if its cumulative revenue recognised in the profit or loss exceeds cumulative progress billing to customers. Conversely, the contract is a liability and recognised as contract liability if its cumulative progress billing to customers exceeds the revenue recognised in the profit or loss. Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortised cost. Contract liabilities are recognised as revenue when the Group transfers the goods or services to the customers and therefore satisfies its performance obligations.

The incremental costs of obtaining a contract with a customer are capitalised and presented as contract related assets, if the Group expects to recover those costs, and are subsequently amortised on a systematic basis that is consistent with the transfer to the customers of the goods or services to which the assets relate. The Group recognises an impairment loss in the consolidated income statement to the extent that the carrying amount of the contract related assets recognised exceeds the remaining amounts of consideration that the Group expects to receive less the costs that directly relate to those goods or services and have not been recognised as expenses.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.10 Contracts in progress

Accounting policies applied before 1 July 2018

Contracts in progress is stated at cost plus attributable profits recognised on the basis set out in Note 2.21 to the consolidated financial statements, less provision for anticipated losses and progress payments received and receivable. Cost comprises materials, direct labour and overheads attributable to bringing the work in progress to its present condition.

Gross amount due from customers for contract work for all contracts in progress represents costs incurred plus recognised profits (less recognised losses) which exceed progress billings. Progress billings not yet paid by customers and retention are included under current assets.

Gross amount due to customers for contract work for all contracts in progress represents progress billings which exceed costs incurred plus recognised profits (less recognised losses).

2.11 Financial assets

Accounting policies applied from 1 July 2018 onwards

(i) Classifications

The Group classifies its financial assets in the following measurement categories:

(a) those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss) after initial recognition; and

(b) those to be measured subsequently at amortised cost after initial recognition.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses are either to be recorded in the profit or loss or OCI. For investments in equity instruments that are not held for trading, the accounting treatment for them depends on whether the Group has made an irrevocable election at the time of their initial recognition to account for them as the equity investments at fair value through other comprehensive income (FVOCI) or not.

Financial assets are classified as current assets if they are expected to be settled within 12 months or in the normal operating cycle of the business. Otherwise, they are classified as non-current.

The Group reclassifies debt investments when and only when its business model for managing these assets changes.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.11 Financial assets *(Continued)*

Accounting policies applied from 1 July 2018 onwards *(Continued)*

(ii) Recognition and Measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial asset not measured at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the profit or loss and presented in "Other gains/(losses), net", together with foreign exchange gains and losses. Impairment losses are presented within "General and administrative expenses" in another line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised directly in the profit or loss. When an financial asset is derecognised, its cumulative gain or loss previously recognised in OCI is reclassified from equity to the profit or loss and recognised in "Other gains/(losses), net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains/(losses), net" and impairment expenses are presented within "General and administrative expenses" in another as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the profit or loss and presented net within "Other gains/(losses), net" in the period in which it arises.

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

2.11 Financial assets *(Continued)*

Accounting policies applied from 1 July 2018 onwards *(Continued)*

(ii) Recognition and Measurement *(Continued)*

(b) Equity instruments

The Group subsequently measures all equity instruments at fair value. When the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in "Other gain/(losses), net" in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Accounting policies applied before 1 July 2018

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non- current assets.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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

2.11 Financial assets *(Continued)*

Accounting policies applied before 1 July 2018 *(Continued)*

(ii) Recognition and Measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'Other income/gains, net' in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

2.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the provision is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivable. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement. See Note 2.14 to the consolidated financial statements for a description of Group's impairment policies.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.14 Impairment of financial assets

Accounting policies applied from 1 July 2018 onwards

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI and trade receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment on these financial assets are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The Group considers the probability of default upon initial recognition of, a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in external credit rating of the debtors;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

Accounting policies applied before 1 July 2018

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

2.14 Impairment of financial assets *(Continued)*

Accounting policies applied before 1 July 2018 *(Continued)*

(i) Assets carried at amortised cost *(Continued)*

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss — is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.15 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.19 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of consolidated statement of financial position in the countries where the Group and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

(a) Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the date of statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(b) Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except deferred income tax liability where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period when the dividends are approved by the Company's shareholders/directors, where appropriate.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.21 Revenue recognition

Accounting policies applied from 1 July 2018 onwards

Revenue is measured at the fair value of the consideration received or receivable for the services and sales of goods in the ordinary course of the Group's activities. If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset. Specific criteria where revenue is recognised are described below.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

(i) Engineering contracts

Revenue from engineering contracts is recognised over time as the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. Thus, the Group satisfies a performance obligation over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. In determining the transaction price, the Group adjusts the amount of consideration for the effect of a financing component if it is significant.

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

2.21 Revenue recognition *(Continued)*

Accounting policies applied from 1 July 2018 onwards *(Continued)*

(ii) Service fee income

Maintenance service fees and consultancy fees are recognised over time when services are rendered. Revenue from the provision and management of cleaning and waste disposal services, provision of recycling and environmental services, laundry services and pest control services are recognised over time when the services are rendered.

(iii) Sales of goods

Revenue from sales of goods is recognised when control of the products has transferred, being when the products are delivered to the customers, and there is no unfulfilled obligations that could affect the customers' acceptance of the products. A delivery occurs when the products have been delivered to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that consideration is unconditional because only the passage of time is required before the payment is due.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

(vi) Linen management services

Income from the provision of linen management services is recognised over time in accordance with the terms of the service agreements when the services are rendered.

(vii) Rental income of investment property

Rental income net of any incentives given to the lessee is recognised over the periods of the respective leases on a straight-line basis.

Accounting policies applied before 1 July 2018

Revenue is measured at the fair value of the consideration received and receivable for the sale of goods and services rendered in the ordinary course of the Group's activities. Revenue is stated net of returns, rebates and discounts, allowances for credit and other revenue reducing factors after eliminating sales within the Group.

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities have been met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the activities have been resolved. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

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

2.21 Revenue recognition *(Continued)*

Accounting policies applied before 1 July 2018 *(Continued)*

(i) Engineering contracts

Revenue from engineering service contracts is recognised using the percentage of completion method when the outcome of contracts can be estimated reliably and it is probable that the contract will be profitable. Revenue from engineering service contracts is measured by reference to the proportion of costs incurred for work performed to the date of the statement of financial position as compared to the estimated total costs to completion. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

(ii) Service fee income

Maintenance service fee and consultancy fee are recognised when services are rendered. Revenue from the provision and management of cleaning and waste disposal services, provision of recycling and environmental services, laundry services and pest control services are recognised when the services are rendered.

(iii) Sales of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

(vi) Linen management services

Income from the provision of linen management services is recognised in accordance with the terms of the service agreements on an accrual basis.

(vii) Rental income of investment property

Rental income net of any incentives given to the lessee is recognised over the periods of the respective leases on a straight-line basis.

2.22 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of consolidated statement of financial position. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

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

2.22 Employee benefits *(Continued)*

(ii) Bonus plan

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Defined contribution schemes

Contributions to defined contribution schemes, including the Mandatory Provident Fund ("MPF") Scheme and employee pension schemes established by municipal government in Mainland China, are expensed as incurred. Except for the MPF Scheme, contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

(iv) Long service payment liabilities

The Group's net obligation in respect of long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed by using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the combined statement of comprehensive income so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlements accrued under the Group's MPF and Occupational Retirement Schemes Ordinance ("ORSO") scheme that is attributable to contributions made by the Group.

Changes in the present value of the long service payment liabilities resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.24 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and the Group's presentation currency.

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

2.24 Foreign currencies *(Continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

(iii) Group companies

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement. For all other partial disposals (that is, reductions in the Group's ownership interests in joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to consolidated income statement.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.25 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.26 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The executive directors that make strategic decisions have been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

3 CHANGES IN ACCOUNTING POLICIES

As explained in Note 2.1(ii) above, the Group has adopted HKFRS 9 and HKFRS 15 starting from 1 July 2018, which resulted in changes in its accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9 and HKFRS 15, comparative amounts have not been restated.

HKFRS 9 replaced the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group's application of HKFRS 9 does not have significant impact on its classification and measurement of its financial assets. HKFRS 15 replaced both the provisions of HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations that relate to the recognition, classification and measurement of revenue and costs. The effects of the adoption of HKFRS 15 are as follows:

Presentation of contract assets and liabilities

Reclassifications were made as at 1 July 2018 to be consistent with the terminology used under HKFRS 15:

- "Contract assets" recognised in relation to contracting activities were previously presented as "Amounts due from customers for contract works".
- "Contract liabilities" recognised in relation to contracting activities were previously presented as "Amounts due to customers for contract works".

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows:

	As at 1 July 2018		
	As previously reported HK$'000	Effects of the adoption of HKFRS 15 HK$'000	As restated HK$'000
Consolidated statement of financial position (Extract)			
Amounts due from customers for contract works	343,029	(343,029)	–
Contract assets	–	343,029	343,029
Amounts due to customers for contract works	475,397	(475,397)	–
Contract liabilities	–	475,397	475,397

(b) The amount by each financial statement line items affected in the current year by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows:

	As at 30 June 2019		
	Without the adoption of HKFRS 15 HK$'000	Effects of the adoption of HKFRS 15 HK$'000	As reported HK$'000
Consolidated statement of financial position (Extract)			
Amounts due from customers for contract works	290,822	(290,822)	–
Contract assets	–	290,822	290,822
Amounts due to customers for contract works	224,119	(224,119)	–
Contract liabilities	–	224,119	224,119

The adoption of HKFRS 15 has no impact to the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and net cash flow from operating, investing and financing activities on the consolidated statement of cash flows for the year ended 30 June 2019.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and foreign exchange risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. It is the Group's policy not to enter into derivative transaction for speculative purposes.

The Group sets financial risk management policies in accordance with policies and procedures approved by the Board of Directors. The Group's treasury function serves as a centralised unit for providing cost efficient funding and managing major risks.

(i) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The credit risk of the Group's financial assets, which mainly comprise deposits with banks and financial institutions and trade and other receivables, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(a) Credit risk of deposits with banks and financial institutions

To manage this risk arising from cash and cash equivalents and restricted bank balances, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(b) Credit risk of trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The maximum exposure to credit risk is represented by the carrying amount of each receivable in the statement of financial position after deducting any impairment allowance.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(ii) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. It is the policy of the Group to regularly monitor current and expected liquidity requirements and to ensure that adequate funding is available for operating, investing and financing activities. The Group also maintains undrawn committed credit facilities to further reduce liquidity risk in meeting funding requirements.

The tables below analyse the Group's financial liabilities into relevant maturity groups based on the remaining period at the end of the reporting periods to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	Less than 1 year	
As at 30 June	**2019** **HK$'000**	2018 HK$'000
Trade and other payables, excluding accrued employee benefits	**1,410,422**	1,160,535

(iii) Foreign exchange risk

The Group operates primarily in Hong Kong, Mainland China and Macau. Entities within the Group are exposed to foreign exchange risk from future commercial transactions and monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency. Entities in Macau and Mainland China are not exposed to significant exchange risk.

The Group currently does not have a foreign currency hedging policy. It manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and will consider to enter into forward foreign exchange contracts to reduce the exposure should the need arises.

As at 30 June 2019 and 2018, if Hong Kong dollars had strengthened/weakened by 5% against Renminbi with all other variables unchanged, there would have insignificant impact on the Group's profit for the year before income tax.

At 30 June 2019, the Group had net monetary assets denominated in United States dollar of HK$2.8 million (2018: HK$82.0 million). Under the Linked Exchange Rate System in Hong Kong, Hong Kong dollar is pegged to the United States dollar, management therefore considers that there is no significant foreign exchange risk with respect to the United States dollar.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Fair value estimation

At 30 June 2019, the carrying amounts of Group's financial assets and liabilities approximate their fair values due to short-term maturities of these assets and liabilities.

4.3 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy is to maintain sufficient capital with the funds generated from operations.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and enhance shareholder value in the long term. The capital structure consists of total equity as shown in the consolidated statement of financial position. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to equity holders, or issue new shares.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

5.1 Estimation of revenue, costs and foreseeable losses of contracting works

The Group recognises its contract revenue according to the percentage of total estimated costs for each contract of contracting work. The management estimates the completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. In determining the transaction price, the Group adjusts the amount of consideration for the effect of a financing component if it is significant. Because of the nature of the activity undertaken in contracts, the date at which the contract activity entered into and the date when the activity is completed usually fall into different financial periods. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue. Any revision of these costs and revenue will impact the result for the subsequent financial periods.

Budgeted contracting income is determined in accordance with the terms set out in the relevant contracts. Budgeted contracting costs which mainly comprise staff costs, sub-contracting charges and costs of materials are prepared by the management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, the Group's management conducts periodic review on the management budgets by comparing the budgeted amounts to the actual amounts incurred. When it is probable that total budgeted contracting costs will exceed total budgeted contracting income, the expected loss is recognised as an expense immediately.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

5.2 Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment according to their recoverable amounts determined by the CGUs based on value in use calculations. These calculations require the use of estimates which are subject to change of economic environment in future. Details are set out in Note 18 to the consolidated financial statements.

5.3 Long service payment liabilities

The present value of the long service payment liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for long service payment liabilities include the discount rate. Any changes in these assumptions will impact the carrying amount of long service payment liabilities.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the long service payment liabilities. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the liabilities will be paid, and that have terms to maturity approximating the terms of the related long service payment liabilities.

Other key assumptions for long service payment liabilities are based in part on current market conditions. Additional information is disclosed in Note 27 to the consolidated financial statements.

5.4 Income taxes

The Group is subject to income tax in Hong Kong, Macau and Mainland China. Judgement is required in determining the provision for taxation in these jurisdictions. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income taxation in the financial period in which such determination is made.

5.5 Depreciation of property, plant and equipment

The expected useful lives and residual values of property, plant and equipment are determined by the management based on the internal accounting guidelines and industrial practices of similar property, plant and equipment. Management will revise the depreciation charges where useful lives and residual values are different to previously estimated.

6 REVENUE AND SEGMENT INFORMATION

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

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

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Revenue		
Contracting services	3,506,894	3,532,839
Maintenance services	137,879	129,587
Sales of goods	92,099	93,616
Facility services	1,193,645	1,170,476
Total	4,930,517	4,926,518

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

(i) E&M engineering — Provision of engineering services and trading of building materials;

(ii) Environmental management services — Trading of environmental products and provision of related engineering and consultancy services; and

(iii) Facility services — Management of cleaning and waste disposal services, recycling and environmental disposal services and provision of laundry services.

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

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

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowance that are reported as direct offsets in the statement of financial position. Segment assets consist primarily of property, plant and equipment, investment property, land use rights, other intangible assets, deferred income tax assets, inventories, contract assets, amounts due from customers for contract works, trade and other receivables and cash and bank balances.

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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

As at 30 June 2019, unallocated assets and unallocated liabilities represented the assets and liabilities not arising from the operation of the operating segments.

Capital expenditure comprises mainly additions to property, plant and equipment (Note 15).

(a) As at and for the year ended 30 June 2019

The segment results for the year ended 30 June 2019 and other segment items included in the consolidated income statement are as follows:

	E&M engineering HK$'000	Environmental management services HK$'000	Facility services HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue — External	3,665,794	71,078	1,193,645	–	4,930,517
Revenue — Internal	1,701	3,907	10,009	(15,617)	–
Total revenue	3,667,495	74,985	1,203,654	(15,617)	4,930,517
Timing of revenue recognition					
Over time	3,578,758	71,560	1,203,654	(15,554)	4,838,418
At a point in time	88,737	3,425	–	(63)	92,099
Total revenue	3,667,495	74,985	1,203,654	(15,617)	4,930,517
Operating profit before unallocated corporate expenses	232,489	10,601	53,524	–	296,614
Unallocated corporate expenses					(4,285)
Operating profit					292,329
Finance income (Note 11)					5,163
Finance costs (Note 11)					–
Profit before income tax					297,492
Income tax expenses (Note 12)					(49,980)
Profit for the year attributable to equity holders of the company					247,512
Other items					
Depreciation (Notes 15 and 16)	25,692	1,882	14,679	–	42,253
Amortisation of land use rights (Note 17)	581	–	–	–	581
Amortisation of intangible assets (Note 18)	370	–	480	–	850

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) As at and for the year ended 30 June 2019 *(Continued)*

The segment assets and liabilities as at 30 June 2019 and capital expenditure for the year then ended are as follows:

	E&M engineering HK$'000	Environmental management services HK$'000	Facility services HK$'000	Total HK$'000
Segment assets	1,887,204	46,816	494,758	2,428,778
Unallocated assets				259,115
Total assets				2,687,893
Segment liabilities	1,677,243	22,292	212,286	1,911,821
Unallocated liabilities				4,052
Total liabilities				1,915,873
Total capital expenditure	4,895	687	19,389	24,971

(b) As at and for the year ended 30 June 2018

The segment results for the year ended 30 June 2018 and other segment items included in the consolidated income statement are as follows:

	E&M engineering HK$'000	Environmental management services HK$'000	Facility services HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue — External	3,694,258	61,784	1,170,476	–	4,926,518
Revenue — Internal	1,074	2,857	509	(4,440)	–
Total revenue	3,695,332	64,641	1,170,985	(4,440)	4,926,518
Timing of revenue recognition					
Over time	3,604,586	61,771	1,170,985	(4,440)	4,832,902
At a point in time	90,746	2,870	–	–	93,616
Total revenue	3,695,332	64,641	1,170,985	(4,440)	4,926,518
Operating profit before unallocated corporate expenses	204,674	7,697	69,196	–	281,567
Unallocated corporate expenses					(10,395)
Operating profit					271,172
Finance income (Note 11)					18,194
Finance costs (Note 11)					(1,066)
Profit before income tax					288,300
Income tax expenses (Note 12)					(51,516)
Profit for the year attributable to equity holders of the company					236,784
Other items					
Depreciation (Notes 15 and 16)	25,808	2,247	19,809	–	47,864
Amortisation of land use rights (Note 17)	588	–	–	–	588
Amortisation of intangible assets (Note 18)	370	–	480	–	850

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) As at and for the year ended 30 June 2018 *(Continued)*

The segment assets and liabilities as at 30 June 2018 and capital expenditure for the year then ended are as follows:

	E&M engineering HK$'000	Environmental management services HK$'000	Facility services HK$'000	Total HK$'000
Segment assets	1,835,604	40,999	421,302	2,297,905
Unallocated assets				269,855
Total assets				2,567,760
Segment liabilities	1,733,265	15,130	179,221	1,927,616
Unallocated liabilities				2,794
Total liabilities				1,930,410
Total capital expenditure	14,358	473	19,803	34,634

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

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

For the year ended 30 June	**2019 HK$'000**	2018 HK$'000
Revenue		
Hong Kong	**3,938,184**	3,913,818
Mainland China	**792,671**	658,832
Macau	**199,662**	353,868
Total	**4,930,517**	4,926,518

The analysis of the Group's major customer, which a single external customer has contributed 10% or more to the Group's revenue, is as follows:

For the year ended 30 June	**2019 HK$'000**	2018 HK$'000
Customer A	**1,101,605**	1,335,275

The revenue contributed by the above major customer is mainly attributable to the Group's E&M engineering segment in Hong Kong and Mainland China and facility services segment in Hong Kong.

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

The non-current assets, other than deferred income tax assets, are allocated based on the regions in which the non-current assets are located as follows:

As at 30 June	2019 HK$'000	2018 HK$'000
Non-current assets, other than deferred income tax assets		
Hong Kong	423,089	441,781
Mainland China	29,789	25,756
Macau	24,680	30,351
Total	477,558	497,888

7 OTHER INCOME/GAINS, NET

	2019 HK$'000	2018 HK$'000
Rental income	2,328	790
Release of exchange reserve upon dissolution of subsidiaries	1,905	–
Ex-gratia payments from the government for retirement of motor vehicles	489	295
Loss on disposal of property, plant and equipment, net	(831)	(151)
Exchange (loss)/gain, net	(763)	6,134
Loss on disposal or maturity of available-for-sale financial assets and fair value changes of financial assets at fair value through profit or loss	–	(5,652)
Sundries	758	1,920
Total	3,886	3,336

8 OPERATING PROFIT

For the year ended 30 June	Notes	2019 HK$'000	2018 HK$'000
Operating profit is stated after charging/(crediting):			
Cost of inventories sold		**49,937**	49,802
Raw materials and consumables used		**1,058,327**	987,718
Subcontracting fees		**1,875,953**	1,895,954
Provision for inventories		**456**	245
Staff costs (including Directors' emoluments)	9, 10	**1,341,892**	1,400,826
Depreciation of property, plant and equipment	15	**41,868**	47,768
Depreciation of investment property	16	**385**	96
Amortisation of land use rights	17	**581**	588
Amortisation of intangible assets	18	**850**	850
Operating lease rental for land and buildings		**42,632**	35,317
Reversal of impairment loss on trade receivables	22	**(626)**	(727)
Impairment loss on trade and other receivables	22	**3,274**	1,463
Auditors' remuneration			
Audit services		**4,606**	4,607
Non-audit services		**511**	2,030

9 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Salaries, wages and bonuses	**1,306,944**	1,342,235
Contributions to defined contribution schemes	**56,328**	55,062
(Less)/add: Staff costs (capitalised)/released under contract assets and contract liabilities/contracts in progress	**(21,380)**	3,529
Total	**1,341,892**	1,400,826

10 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Fees	1,498	1,440
Salaries and other emoluments	18,493	16,868
Contributions to defined contribution schemes	1,009	970
Total	21,000	19,278

The directors of the Company represent key management personnel of the Group having authority and responsibility for planning, directing and controlling the activities of the Group.

(i) The remuneration of each Director for the year ended 30 June 2019 is set out below:

	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000	Other benefits HK$'000	Employer's contributions to defined contribution schemes HK$'000	Total HK$'000
Lam Wai Hon, Patrick	–	1,910	–	–	191	2,101
Poon Lock Kee, Rocky	–	3,593	3,269	–	359	7,221
Doo William Junior Guilherme	–	1,591	–	–	80	1,671
Lee Kwok Bong	–	1,324	–	–	99	1,423
Soon Kweong Wah	–	2,795	1,721	–	280	4,796
Wong Shu Hung	–	1,775	515	–	–	2,290
Cheng Kar Shun, Henry	333	–	–	–	–	333
Wong Kwok Kin, Andrew	277	–	–	–	–	277
Kwong Che Keung, Gordon	222	–	–	–	–	222
Hui Chiu Chung, Stephen	222	–	–	–	–	222
Lee Kwan Hung, Eddie	222	–	–	–	–	222
Tong Yuk Lun, Paul	222	–	–	–	–	222
Total	1,498	12,988	5,505	–	1,009	21,000

10 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Directors' emoluments *(Continued)*

(ii) The remuneration of each Director for the year ended 30 June 2018 is set out below:

	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000	Other benefits HK$'000	Employer's contributions to defined contribution schemes HK$'000	Total HK$'000
Lam Wai Hon, Patrick	–	1,836	–	–	184	2,020
Poon Lock Kee, Rocky	–	3,454	3,228	–	345	7,027
Doo William Junior Guilherme	–	1,530	–	–	77	1,607
Lee Kwok Bong	–	1,273	–	–	95	1,368
Soon Kweong Wah	–	2,686	1,691	–	269	4,646
Wong Shu Hung	–	936	234	–	–	1,170
Cheng Kar Shun, Henry	321	–	–	–	–	321
Wong Kwok Kin, Andrew	213	–	–	–	–	213
Kwong Che Keung, Gordon	267	–	–	–	–	267
Hui Chiu Chung, Stephen	213	–	–	–	–	213
Lee Kwan Hung, Eddie	213	–	–	–	–	213
Tong Yuk Lun, Paul	213	–	–	–	–	213
Total	1,440	11,715	5,153	–	970	19,278

Notes:

(a) Mr. Poon Lock Kee, Rocky is the Chief Executive Officer of the Company.

(b) During the year ended 30 June 2019, no directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

(c) With effect from 18 December 2017, Mr. Wong Shu Hung was appointed as an Executive Director of the Company.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

10 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(c) Five highest paid individuals' emoluments

The five individuals whose emoluments were the highest in the Group during the years ended 30 June 2019 include three directors (2018: two) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2018: three) individuals during the years are as follows:

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind and bonuses	5,476	7,584
Contributions to defined contribution schemes	196	277
Total	5,672	7,861

The emoluments fell within the following bands:

	2019 Number of individuals	2018 Number of individuals
Emolument bands		
HK$2,000,001 – HK$2,500,000	–	1
HK$2,500,001 – HK$3,000,000	2	2

During the year ended 30 June 2019, no emoluments were paid by the Group to any of the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

11 FINANCE INCOME AND COSTS

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Finance income		
Interest from bank deposits	5,163	11,982
Interest from available-for-sale financial assets	–	2,845
Interest from financial assets at fair value through profit or loss	–	3,367
	5,163	18,194
Finance costs		
Interest on short-term bank borrowings	–	(1,066)
Net finance income	5,163	17,128

12 INCOME TAX EXPENSES

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Current income tax		
Hong Kong profits tax	41,369	31,952
Mainland China taxation		
Income tax	5,175	12,913
Withholding tax	–	1,745
Macau taxation	(2,777)	7,567
Under-provision/(over-provision) in prior years	58	(68)
Deferred income tax expense/(credit) (Note 19)		
Income tax	5,440	(2,977)
Withholding tax	715	384
Total	49,980	51,516

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year. Taxation on Mainland China and Macau profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates. These rates range from 12% to 25% for the year ended 30 June 2019 (2018: 12% to 25%). According to applicable the People's Republic of China ("PRC") tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the Mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. Hence, the Group used 5% to accrue the withholding tax for certain PRC subsidiaries which are expected to fulfill the aforesaid conditions.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Profit before income tax	297,492	288,300
Calculated at a tax rate of 16.5% (2018: 16.5%)	49,086	47,570
Effect of different taxation rates in other regions	249	2,664
Income not subject to taxation	(1,122)	(2,227)
Expenses not deductible for taxation purposes	1,732	2,716
Temporary differences not recognised	595	306
Utilisation of previously unrecognised tax losses	(1,997)	(2,409)
Tax losses not recognised	881	835
Withholding tax on undistributed earnings from subsidiaries in Mainland China	715	2,129
Tax exemption granted	(217)	–
Under-provision/(over-provision) in prior years	58	(68)
Income tax expenses	49,980	51,516

13 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the years ended 30 June 2019 and 2018.

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Profit for the year attributable to equity holders of the Company	247,512	236,784
Weighted average number of ordinary shares in issue (shares in thousands)	450,000	450,000
Basic earnings per share (HK$)	0.55	0.53

(b) Diluted

As the Company did not have any dilutive potential ordinary shares during the years ended 30 June 2019 and 2018, the diluted earnings per share equals the basic earnings per share.

14 DIVIDENDS

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Interim dividend paid of HK10.1 cents (2018: HK7.8 cents) per share	45,450	35,100
Final dividend proposed of HK11.9 cents (2018: HK13.3 cents) per share	53,550	59,850
Total	99,000	94,950

Note:

At a meeting held on 26 September 2019, the Board recommended a final dividend of HK11.9 cents (2018: HK13.3 cents) per share. The final dividend will be paid in cash. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements but will be reflected as an appropriation of the retained earnings for the year ending 30 June 2020.

15 PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Leasehold land and buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and others HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 30 June 2018							
Opening net book value	24,935	373,119	31,414	38,118	14,371	13,910	495,867
Additions	–	–	14,375	11,457	6,623	2,179	34,634
Disposals	–	–	(13)	(534)	(55)	(288)	(890)
Currency translation differences	–	90	14	–	44	21	169
Depreciation charge	–	(11,729)	(11,150)	(11,793)	(7,112)	(5,984)	(47,768)
Disposal of subsidiaries (Note 29(c))	–	(58,054)	–	–	–	–	(58,054)
Reclassification to investment property (Note 16)	–	(11,716)	–	–	–	–	(11,716)
Closing net book value	24,935	291,710	34,640	37,248	13,871	9,838	412,242
At 30 June 2018							
Cost	24,935	318,047	68,289	138,366	75,438	42,900	667,975
Accumulated depreciation	–	(26,337)	(33,649)	(101,118)	(61,567)	(33,062)	(255,733)
Net book value	24,935	291,710	34,640	37,248	13,871	9,838	412,242
Year ended 30 June 2019							
Opening net book value	**24,935**	**291,710**	**34,640**	**37,248**	**13,871**	**9,838**	**412,242**
Additions	**–**	**–**	**4,704**	**12,526**	**4,904**	**2,837**	**24,971**
Disposals	**–**	**–**	**(98)**	**(949)**	**(65)**	**(87)**	**(1,199)**
Currency translation differences	**–**	**(68)**	**(16)**	**–**	**(80)**	**(37)**	**(201)**
Depreciation charge	**–**	**(10,126)**	**(11,532)**	**(7,780)**	**(7,142)**	**(5,288)**	**(41,868)**
Closing net book value	**24,935**	**281,516**	**27,698**	**41,045**	**11,488**	**7,263**	**393,945**
At 30 June 2019							
Cost	**24,935**	**317,993**	**72,630**	**142,184**	**78,142**	**44,161**	**680,045**
Accumulated depreciation	**–**	**(36,477)**	**(44,932)**	**(101,139)**	**(66,654)**	**(36,898)**	**(286,100)**
Net book value	**24,935**	**281,516**	**27,698**	**41,045**	**11,488**	**7,263**	**393,945**

Note:

(a) None of the above property, plant and equipment was pledged as security as at 30 June 2019 (2018: None).

16 INVESTMENT PROPERTY

	HK$'000
Year ended 30 June 2018	
Opening net book value	–
Reclassification from property, plant and equipment (Note 15)	11,716
Depreciation charge	(96)
Closing net book value	11,620
At 30 June 2018	
Cost	14,700
Accumulated depreciation	(3,080)
Net book value	11,620
Year ended 30 June 2019	
Opening net book value	**11,620**
Depreciation charge	**(385)**
Closing net book value	**11,235**
At 30 June 2019	
Cost	**14,700**
Accumulated depreciation	**(3,465)**
Net book value	**11,235**

Notes:

(a) The fair value of the Group's investment property is determined based on direct comparison method and it is within level 3 of the fair value hierarchy. Based on management's estimation, the fair value of the property is approximately HK$64.4 million as at 30 June 2019 (2018: HK$46.5 million).

(b) For the year ended 30 June 2019, the Group's investment property generated rental income of HK$2,012,000 (2018: HK$419,000) and incurred direct operating expenses of HK$206,000 (2018: HK$388,000).

17 LAND USE RIGHTS

	HK$'000
Year ended 30 June 2018	
Opening net book value	21,655
Currency translation differences	163
Amortisation	(588)
Closing net book value	21,230
At 30 June 2018	
Cost	23,728
Accumulated amortisation	(2,498)
Net book value	21,230
Year ended 30 June 2019	
Opening net book value	**21,230**
Currency translation differences	**(217)**
Amortisation	**(581)**
Closing net book value	**20,432**
At 30 June 2019	
Cost	**23,469**
Accumulated amortisation	**(3,037)**
Net book value	**20,432**

18 OTHER INTANGIBLE ASSETS

	Goodwill HK$'000	Trademarks and brand names HK$'000	Development costs HK$'000	Total HK$'000
Year ended 30 June 2018				
Opening net book value	41,757	9,750	–	51,507
Additions	–	–	2,139	2,139
Amortisation	–	(850)	–	(850)
Closing net book value	41,757	8,900	2,139	52,796
At 30 June 2018				
Cost	46,428	26,660	2,139	75,227
Accumulated amortisation	–	(10,480)	–	(10,480)
Accumulated impairment	(4,671)	(7,280)	–	(11,951)
Net book value	41,757	8,900	2,139	52,796
Year ended 30 June 2019				
Opening net book value	**41,757**	**8,900**	**2,139**	**52,796**
Amortisation	**–**	**(850)**	**–**	**(850)**
Closing net book value	**41,757**	**8,050**	**2,139**	**51,946**
At 30 June 2019				
Cost	**46,428**	**26,660**	**2,139**	**75,227**
Accumulated amortisation	**–**	**(11,330)**	**–**	**(11,330)**
Accumulated impairment	**(4,671)**	**(7,280)**	**–**	**(11,951)**
Net book value	**41,757**	**8,050**	**2,139**	**51,946**

(a) Impairment tests for goodwill

Goodwill is monitored at the segment level and is allocated to the CGUs of the Group's segments. For the purpose of impairment test, the recoverable amount of the Group's CGUs is determined based on value-in-use calculations. The key assumptions adopted on growth rates and discount rates used in the value-in-use calculations are based on management's best estimates and past experience.

A summary of the goodwill allocation to business units is presented below:

As at 30 June	2019 HK$'000	2018 HK$'000
E&M engineering	**33,841**	33,841
Cleaning services	**7,916**	7,916
Total	**41,757**	41,757

18 OTHER INTANGIBLE ASSETS *(Continued)*

(a) Impairment tests for goodwill *(Continued)*

The recoverable amount of a group of CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period which the growth rates are stated as below. Cash flows beyond the five-year period are extrapolated using zero growth rate for the E&M business unit and 1% growth rate for the Cleaning services business unit. The growth rate does not exceed the long-term average growth rate for the businesses in which the Group's CGUs operate.

	2019		2018	
	E&M engineering	Cleaning services	E&M engineering	Cleaning services
Cash flows in the first five years				
Gross margin	9.5% – 10.8%	8.8% – 9.5%	9.5% – 9.7%	10.5% – 11.7%
Growth rate	5%	2% – 3%	5%	2% – 3%
Pre-tax discount rate	14%	9.5%	14%	9.5%
Cash flows beyond five-year period				
Terminal growth rate	0%	1%	0%	1%
Pre-tax discount rate	14%	9.5%	14%	9.5%

These assumptions have been used for the analysis of the Group's CGUs within the operating segments.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments and business life-cycle. On the basis of these reviews, management concluded that no impairment was required for goodwill as at 30 June 2019 (2018: Nil).

A reasonably possible change in a key assumption would not cause the recoverable amount to fall below the carrying value of the respective group of CGUs.

19 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

As at 30 June	2019 HK$'000	2018 HK$'000
Deferred income tax assets	9,337	14,329
Deferred income tax liabilities	(26,787)	(25,419)
Net	(17,450)	(11,090)

19 DEFERRED INCOME TAX ASSETS/(LIABILITIES) *(Continued)*

Deferred income tax assets and deferred income tax liabilities are expected to be recovered/settled after 12 months. Their movements in the Group's deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year and net balances after offsetting at the end of the reporting periods are as follows:

Deferred income tax assets

	Accelerated accounting depreciation HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 July 2017	493	4,592	8,711	13,796
Credited/(charged) to the consolidated income statement (Note 12)	800	(654)	1,440	1,586
At 30 June 2018	1,293	3,938	10,151	15,382
At 1 July 2018	**1,293**	**3,938**	**10,151**	**15,382**
Credited/(charged) to the consolidated income statement (Note 12)	**785**	**340**	**(5,977)**	**(4,852)**
Currency translation differences	**–**	**–**	**1**	**1**
At 30 June 2019	**2,078**	**4,278**	**4,175**	**10,531**

	2019 HK$'000	2018 HK$'000
Total deferred income tax assets before offsetting	**10,531**	15,382
Less: Amount offset against deferred tax liabilities	**(1,194)**	(1,053)
Net deferred income tax assets after offsetting	**9,337**	14,329

19 DEFERRED INCOME TAX ASSETS/(LIABILITIES) *(Continued)*

Deferred income tax liabilities

	Accelerated deprecation allowance HK$'000	Fair value adjustment on trademarks and brand names HK$'000	Fair value adjustment on property, plant and equipment arising from business combinations HK$'000	Remeasurement of long service payment liabilities HK$'000	Others HK$'000	Total HK$'000
At 1 July 2017	(9,318)	(1,610)	(16,423)	–	(3,130)	(30,481)
(Charged)/credited to other comprehensive income	–	–	–	(1,334)	99	(1,235)
Credited to the consolidated income statement (Note 12)	335	140	351	–	181	1,007
Disposal of subsidiaries (Note 29(c))	2,432	–	1,805	–	–	4,237
At 30 June 2018	(6,551)	(1,470)	(14,267)	(1,334)	(2,850)	(26,472)
At 1 July 2018	**(6,551)**	**(1,470)**	**(14,267)**	**(1,334)**	**(2,850)**	**(26,472)**
Charged to other comprehensive loss	**–**	**–**	**–**	**(206)**	**–**	**(206)**
(Charged)/credited to the consolidated income statement (Note 12)	**(1,180)**	**140**	**487**	**–**	**(750)**	**(1,303)**
At 30 June 2019	**(7,731)**	**(1,330)**	**(13,780)**	**(1,540)**	**(3,600)**	**(27,981)**

	2019 HK$'000	2018 HK$'000
Total deferred income tax liabilities before offsetting	**(27,981)**	(26,472)
Less: Amount offset against deferred tax assets	**1,194**	1,053
Net deferred income tax liabilities after offsetting	**(26,787)**	(25,419)

As at 30 June 2019, the Group did not recognise deferred income tax assets of HK$13 million (2018: HK$15 million), arising from unused tax losses of HK$80 million (2018: HK$87 million). Except for tax losses of HK$0.4 million as at 30 June 2019 which will expire within three years from 30 June 2019 (2018: HK$0.6 million which will expire within three years and HK$3 million which will expire within five years from 30 June 2018), the remaining tax losses have no expiry date.

20 INVENTORIES

As at 30 June	2019 HK$'000	2018 HK$'000
Raw materials	688	731
Finished goods	36,221	22,101
Spare parts and consumables	3,297	3,174
Total	40,206	26,006

21 CONTRACT ASSETS/(LIABILITIES) AND CONTRACTS IN PROGRESS

As at 30 June	2019 HK$'000	2018 HK$'000
Contract costs incurred plus attributable profits less foreseeable losses	2,440,665	3,929,339
Progress payments received and receivable	(2,373,962)	(4,061,707)
Net	66,703	(132,368)
Representing:		
Contract assets	290,822	–
Contract liabilities	(224,119)	–
Amounts due from customers for contract works	–	343,029
Amounts due to customers for contract works	–	(475,397)
Net	66,703	(132,368)

Notes:

(a) The Group's "Amounts due from customers for contract works" and "Amounts due to customers for contract works" at 30 June 2018 have been reclassified on 1 July 2018 as "Contract assets" and "Contracts liabilities', respectively. Details of this change are set out in Note 3 to the consolidated financial statements.

(b) All of the Group's contract assets and liabilities at 30 June 2019 and 1 July 2018 relate to its engineering contracts with customers and no loss allowances have been included therein.

(c) During the year ended 30 June 2019, the Group recognised (i) HK$455.0 million of revenue for its engineering contracts relating to its carried-forward contract liabilities at 1 July 2018 and (ii) HK$102.6 million of revenue from its performance obligations satisfied in previous reporting years.

(d) As at 30 June 2019, the aggregate amount of transaction price allocated to the Group's remaining performance obligations in respect of engineering, environmental management and cleaning service contracts is HK$6,673 million. The Group will recognise this revenue during the completion of the related works, which is expected to occur over the next 51 months after 30 June 2019.

(e) The decrease in the Group's contract assets and contract liabilities during the year ended 30 June 2019 was principally due to its completion of certain sizeable engineering contracts near 30 June 2019.

22 TRADE AND OTHER RECEIVABLES

As at 30 June	2019 HK$'000	2018 HK$'000
Trade receivables		
Third parties	411,521	328,571
Related companies (Note 30(c))	128,292	116,195
	539,813	444,766
Less: Provision for impairment		
Third parties	(7,389)	(4,899)
	532,424	439,867
Retention receivables		
Third parties	137,114	125,263
Related companies (Note 30(c))	207,663	251,208
	344,777	376,471
Accrued contract revenue	478,746	378,197
Less: Provision for impairment	(149)	–
	478,597	378,197
Other receivables and prepayments	67,129	84,412
Total	1,422,927	1,278,947

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

Expected credit losses

The Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. The Group's expected credit loss is minimal as the majority of the trade and other receivables is due from a number of independent customers for whom there is no recent history of default, except for an account receivable with full impairment provision being provided for during the period because it has been undergoing financial difficulties.

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

As at 30 June	2019 HK$'000	2018 HK$'000
Current to 90 days	487,863	400,576
91 – 180 days	33,528	28,300
Over 180 days	11,033	10,991
Total	532,424	439,867

22 TRADE AND OTHER RECEIVABLES *(Continued)*

At 30 June 2019, the Group's trade receivables and accrued contract revenue of HK$7,538,000 (2018: HK$4,899,000) were impaired.

The carrying amounts of the trade and other receivables of the Group approximate their fair values and are denominated in the following currencies:

As at 30 June	2019 HK$'000	2018 HK$'000
Hong Kong dollars	1,027,886	1,087,104
Renminbi	347,497	183,673
Macau patacas	46,590	8,131
United States dollars	104	39
EURO	850	–
Total	1,422,927	1,278,947

Movements in provision for impairment of the Group's trade receivables and accrued contract revenue are as follows:

As at 30 June	2019 HK$'000	2018 HK$'000
At the beginning of the year	4,899	4,609
Currency translation differences	–	(1)
Receivables written off during the year	(9)	(445)
Provision for the year	3,274	1,463
Reversal of provision during the year	(626)	(727)
At the end of the year	7,538	4,899

Retention receivables in respect of contracting services are settled in accordance with the terms of respective contracts. Other classes within trade and other receivables do not contain material impaired assets.

23 CASH AND BANK BALANCES

As at 30 June	2019 HK$'000	2018 HK$'000
Time deposits — original maturities within three months	214,768	78,474
Other cash at banks and in hand	232,275	329,087
Total	447,043	407,561

At 30 June 2019, the effective interest rate on bank deposits is 2.56% per annum (2018: 2.00% per annum).

The carrying amounts of cash and bank balances of the Group approximate their fair values and are denominated in the following currencies:

As at 30 June	2019 HK$'000	2018 HK$'000
Hong Kong dollars	333,925	197,432
Renminbi	87,458	115,598
Macau patacas	14,057	6,691
United States dollars	2,501	81,994
Euros	3,757	2,954
Others	5,345	2,892
Total	447,043	407,561

24 SHARE CAPITAL

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

	Number of shares	HK$'000
Ordinary shares, authorised:		
As at 30 June 2018 and 2019	1,000,000,000	100,000
Ordinary shares, issued and fully paid:		
As at 30 June 2018 and 2019	450,000,000	45,000

25 RESERVES

	Investment revaluation reserve HK$'000	Share premium HK$'000	Merger reserve (Note a) HK$'000	Exchange reserve HK$'000	Statutory reserves (Note b) HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 July 2017	498	743,204	(9,400)	(25,968)	21,757	295,627	1,025,718
Profit for the year	–	–	–	–	–	236,784	236,784
Reclassification of revaluation reserve to profit or loss upon maturity or disposal of available-for-sale financial assets, net of tax	754	–	–	–	–	–	754
Fair value changes of available-for-sale financial assets, net of tax	(1,255)	–	–	–	–	–	(1,255)
Dividends	–	–	–	–	–	(71,550)	(71,550)
Dividends to the original shareholder of subsidiaries of the Acquired Group	–	–	–	–	–	(85,000)	(85,000)
Acquisition of the Acquired Group	–	–	(515,814)	–	–	–	(515,814)
Deemed distribution	–	–	–	–	–	(10,262)	(10,262)
Remeasurement gains on long service payment liabilities	–	–	–	–	–	8,084	8,084
Deferred tax on remeasurement gains on long service payment liabilities	–	–	–	–	–	(1,334)	(1,334)
Currency translation differences	3	–	–	6,222	–	–	6,225
Appropriation to statutory reserves	–	–	–	–	441	(441)	–
At 30 June 2018	–	743,204	(525,214)	(19,746)	22,198	371,908	592,350
At 1 July 2018	–	743,204	(525,214)	(19,746)	22,198	371,908	592,350
Profit for the year	–	–	–	–	–	247,512	247,512
Dividends	–	–	–	–	–	(105,300)	(105,300)
Remeasurement gains on long service payment liabilities	–	–	–	–	–	1,971	1,971
Deferred tax on remeasurement gains on long service payment liabilities	–	–	–	–	–	(206)	(206)
Currency translation differences	–	–	–	(7,402)	–	–	(7,402)
Release of exchange reserve upon dissolution of subsidiaries	–	–	–	(1,905)	–	–	(1,905)
Release of statutory reserve upon dissolution of a subsidiary	–	–	–	–	(588)	588	–
At 30 June 2019	–	743,204	(525,214)	(29,053)	21,610	516,473	727,020

Notes:

(a) Merger reserve arises from (i) the difference between the consideration for the acquisition of the FSE Engineering Group Limited, FSE Environmental Technologies Limited and Building Materials Supplies Limited by the Company and their issued share capital upon the completion of the reorganisation on 30 June 2015 and (ii) the difference between the consideration for the acquisition of Crystal Brilliant Limited and its subsidiaries by the Company's wholly-owned subsidiary, FSE Facility Services Group Limited, and their issued share capital upon the completion of the acquisition on 11 April 2018.

(b) PRC companies are required to allocate 10% of the companies' net profits to the statutory reserves fund until such fund reaches 50% of the companies' registered capitals. The statutory reserves fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses, if any, or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capitals.

(c) During the year ended 30 June 2019, no appropriation from retained earnings to statutory reserves for PRC companies was made (2018: the board of directors of the PRC companies resolved to appropriate HK$441,000 from retained earnings to statutory reserves) and the remaining statutory reserves of HK$588,000 for a PRC subsidiary dissolved was transferred to retained earnings.

26 TRADE AND OTHER PAYABLES

As at 30 June	2019 HK$'000	2018 HK$'000
Trade payables		
Third parties	210,489	277,258
Related companies (Note 30(c))	58	147
	210,547	277,405
Bills payable		
Third parties	12,025	–
Retention payables		
Third parties	231,157	237,290
Accrued expenses	213,118	198,882
Provision for contracting costs	861,378	578,139
Other creditors and accruals	61,868	51,607
Total	1,590,093	1,343,323

The carrying amounts of the above balances approximate their fair values.

The carrying amounts of the trade and other payables of the Group are denominated in the following currencies:

As at 30 June	2019 HK$'000	2018 HK$'000
Hong Kong dollars	1,190,693	932,248
Renminbi	325,922	280,332
Macau patacas	69,034	130,594
United States dollars	2,785	103
Euros	1,645	4
Malaysian ringgits	–	16
Others	14	26
Total	1,590,093	1,343,323

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

As at 30 June	2019 HK$'000	2018 HK$'000
1 – 90 days	203,790	274,934
91 – 180 days	4,835	1,232
Over 180 days	1,922	1,239
Total	210,547	277,405

27 LONG SERVICE PAYMENT LIABILITIES

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's MPF and ORSO schemes that are attributable to contributions made by the Group. The Group has not set aside any assets to fund any remaining obligations.

The liability recognised in the consolidated statement of financial position is the present value of unfunded obligations and its movements are as follows:

As at 30 June	**2019** **HK$'000**	2018 HK$'000
At the beginning of the year	**21,320**	34,479
Expenses recognised in the consolidated income statement	**2,627**	3,068
Remeasurement gains recognised in other comprehensive (loss)/income	**(1,971)**	(8,084)
Benefits paid	**(921)**	(8,143)
At the end of the year	**21,055**	21,320

Significant actuarial assumptions adopted for the purpose of the actuarial valuation are as follows:

As at 30 June	**2019**	2018
Discount rate	**1.30%**	1.30%
Long term rate of salary increases	**3.55% – 4.35%**	3.80% – 4.80%
Long term rate of increase of maximum salary and amount of long service payment and MPF Relevant Income limit	**3.0%**	3.0%
Long term average expected return on MPF and ORSO balances	**3.75% – 4.25%**	3.75% – 4.25%

The below analysis shows how the long service payment liability as at each year end date would have increased/(decreased) as a result of 0.25% change in significant actuarial assumptions:

As at 30 June	**2019**		2018	
Assumptions	**Increase in 0.25% HK$'000**	**Decrease in 0.25% HK$'000**	Increase in 0.25% HK$'000	Decrease in 0.25% HK$'000
Long term rate of salary increases	**1,353**	**(1,386)**	1,328	(1,347)
Long term average expected return on MPF and ORSO balances	**(1,030)**	**1,043**	(1,019)	1,049

The above sensitivity analyses are based on change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the long service payment liability to significant actuarial assumptions, the same actuarial valuation method has been applied as when calculating the long service payment liability recognised in the consolidated statement of financial position.

28 COMMITMENTS

Operating lease commitments

(a) The Group as lessees

The Group has future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

As at 30 June	2019 HK$'000	2018 HK$'000
No later than one year	35,073	40,725
Later than one year and no later than five years	32,797	41,253
Over five years	3,072	5,376
Total	70,942	87,354

(b) The Group as a lessor

The Group's investment property is leased to a tenant under a long-term operating lease with rentals payable monthly. Minimum lease payments receivable on the lease of the Group's investment property are as follows:

As at 30 June	2019 HK$'000	2018 HK$'000
No later than one year	2,007	1,936
Later than one year and no later than five years	8,148	7,420
More than five years	6,616	8,804
Total	16,771	18,160

29 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

For the year ended 30 June	Notes	2019 HK$'000	2018 HK$'000
Profit before income tax		**297,492**	288,300
Finance income		**(5,163)**	(18,194)
Finance costs		**–**	1,066
Depreciation of property, plant and equipment	15	**41,868**	47,768
Depreciation of investment property	16	**385**	96
Amortisation of land use rights	17	**581**	588
Amortisation of other intangible assets	18	**850**	850
Provision for inventories	8	**456**	245
Reversal of impairment loss on trade receivables	8	**(626)**	(727)
Impairment loss on trade and other receivables	8	**3,274**	1,463
Loss on disposal of property, plant and equipment, net	7	**831**	151
Release of exchange reserve upon dissolution of subsidiaries	7	**(1,905)**	–
Loss on disposal or maturity of available-for-sale financial assets and fair value changes of financial assets at fair value through profit or loss	7	**–**	5,652
Long service payment liabilities			
Expenses recognised in the consolidated income statement	27	**2,627**	3,068
Benefit paid	27	**(921)**	(8,143)
Unrealised exchange differences		**513**	(2,502)
Operating cash flows before changes in working capital		**340,262**	319,681
Changes in working capital:			
Inventories		**(14,656)**	(619)
Net contract assets/liabilities		**(205,075)**	–
Net amounts due to customers for contract works		**–**	(145,575)
Trade and other receivables		**(157,114)**	(221,498)
Trade and other payables		**260,734**	59,164
Cash generated from operations		**224,151**	11,153

(b) Business combination under common control

On 11 April 2018, the Group acquired the Acquired Group at a total consideration of HK$515.8 million. Details of the transaction are set out in Note 2.1(iv) to the consolidated financial statements.

(c) Disposal of subsidiaries

In February 2018, New China Steam Laundry Limited, a wholly-owned subsidiary of the Acquired Group, disposed of its 100% equity interest in Marco Brilliant Limited and its subsidiary with a net asset value of HK$53.5 million for HK$43.3 million to FMC and settled it through its current account with FMC (Note 29(f)). Details of the transaction are set out in Note 2.1(iv).

29 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Disposal of subsidiaries *(Continued)*

The total net assets of the disposed subsidiary at the date of disposal were as follows:

	HK$'000
Property, plant and equipment (Note 15)	58,054
Cash and bank balances	444
Deferred income tax liabilities (Note 19)	(4,237)
Trade and other payables	(680)
Taxation payable	(35)
Net assets	53,546
Deemed distribution	(10,262)
Consideration	43,284

Analysis of net outflow of cash and cash equivalents in respect of the above disposal of subsidiaries:

	HK$'000
Cash considerations received	–
Less: Cash and cash equivalents disposed	(444)
Net	(444)

(d) Net cash reconciliation

This section sets out an analysis of net cash and the movements in net cash for the year ended 30 June 2019.

	Cash and cash equivalents HK$'000	Amount due to a related company HK$'000	Borrowings due within one year HK$'000	Total HK$'000
Net cash at 1 July 2017	1,104,052	(90,845)	(30,000)	983,207
Cash flows	(707,120)	46,061	30,000	(631,059)
Non-cash transaction (Note 29(f))	–	44,784	–	44,784
Currency translation differences	10,629	–	–	10,629
Net cash at 1 July 2018	**407,561**	**–**	**–**	**407,561**
Cash flows	**44,586**	**–**	**–**	**44,586**
Currency translation differences	**(5,104)**	**–**	**–**	**(5,104)**
Net cash at 30 June 2019	**447,043**	**–**	**–**	**447,043**

(e) Exchange differences

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

29 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(f) Major non-cash transactions

As described in Note 29(c), in February 2018, New China Steam Laundry Limited disposed of its 100% equity interest in Marco Brilliant Limited and its subsidiary for HK$43.3 million to FMC and settled it through its current account with FMC (Note 29(d)).

In February 2018, NCL settled HK$1.5 million of its amounts due to FMC through offsetting against its receivables from FMC (Note 29(d)).

30 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group undertook the following transactions with related parties, which in the opinion of the Directors of the Company, were carried out in the normal course of business during the year ended 30 June 2019.

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

Name	Relationship
FSE Management Company Limited	Note i
Beamland Limited	Note i
DMI Development Limited	Note i
General Security (H.K.) Limited	Note i
Hong Kong Island Landscape Company Limited	Note i
International Property Management Limited	Note i
Kenbase Engineering Limited	Note i
Kiu Lok Service Management Company Limited	Note i
KOHO Facility Management Limited	Note i
Nova Insurance Consultants Limited	Note i
Nova Risk Services Holdings Limited	Note i
Onglory International Limited	Note i
Paramatta Estate Management Limited	Note i
Perfect Modern Limited	Note i
Power Estate Investments Limited	Note i
Success Ocean Limited	Note i
Turning Technical Services Limited	Note i
Urban Management Services Limited	Note i
Urban Property Management Limited	Note i
Urban-Wellborn Property Management Limited	Note i
上海新尚賢坊房地產發展有限公司	Note i
上海豐昌物業管理有限公司	Note i
ACE Island Limited	Note ii
Anway Ltd	Note ii
AOS Management Ltd	Note ii
ATL Logistics Centre Hong Kong Ltd	Note ii
Bright Link Engineering Limited	Note ii

30 RELATED PARTY TRANSACTIONS *(Continued)*

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

Name	Relationship
Broadway-Nassau Investments Limited	Note ii
Build King Construction Ltd	Note ii
Chow Tai Fook Enterprises Ltd	Note ii
Chow Tai Fook Jewellery and Watch (Macau) Limited	Note ii
Chow Tai Fook Jewellery Company Limited	Note ii
CiF Solution Limited	Note ii
Citybus Limited	Note ii
Discovery Park Commercial Services Limited	Note ii
East Concept Investments Ltd	Note ii
Ever Light Limited	Note ii
Grand Hyatt Hong Kong	Note ii
Gammon — Hip Hing Joint Venture	Note ii
GH Hotel Company Limited	Note ii
GHK Hospital Limited	Note ii
Head Step Ltd T/A Pentahotel HK Kowloon	Note ii
HH — CW Joint Venture	Note ii
Hip Hing Builders Company Limited	Note ii
Hip Hing Construction Company Limited	Note ii
Hip Hing Engineering Company Limited	Note ii
Hip Hing Joint Venture	Note ii
Hip Seng Builders Ltd	Note ii
Hip Seng Construction Company Limited	Note ii
HK Convention & Exhibition Centre	Note ii
Hong Kong Golf & Tennis Academy Management Co., Ltd.	Note ii
Hong Kong Island Development Ltd	Note ii
Hyatt Regency Hong Kong	Note ii
K11 Concepts Limited	Note ii
K11 Design Store Ltd	Note ii
K11 Select Ltd	Note ii
Kai Tak Sports Park Ltd	Note ii
Kiu Lok Property Services (China) Limited	Note ii
Marriott Properties (International) Limited	Note ii
Markson Limited	Note ii
New Town Project Management Ltd	Note ii
New World China Construction Limited	Note ii
New World China Land Ltd	Note ii
New World Construction Company Limited	Note ii
New World Development (China) Limited	Note ii
New World Department Stores Limited	Note ii
New World Development Company Limited	Note ii

30 RELATED PARTY TRANSACTIONS *(Continued)*

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

Name	Relationship
New World Facilities Management Company Limited	Note ii
New World First Bus Services Limited	Note ii
New World Harbourview Hotel Co Ltd	Note ii
New World Hotel Management Ltd	Note ii
New World Project Management (China) Limited	Note ii
New World Property Management Company Limited	Note ii
New World Strategic Investment Ltd	Note ii
New World Telecommunications Ltd	Note ii
New World TMT Ltd	Note ii
New World Tower Company Ltd	Note ii
NW Project Management Limited	Note ii
NWS Holdings Limited	Note ii
Pentahotel Hong Kong	Note ii
Pridemax Ltd	Note ii
Renaissance Harbour View Hotel HK	Note ii
Seaworthy Investment Limited	Note ii
Rosewood Hotels (HK) Ltd	Note ii
Shanghai Ramada Plaza Ltd	Note ii
Sky Connection Limited	Note ii
Space Enterprises Limited	Note ii
The Automall Ltd	Note ii
The Dynasty Club Ltd	Note ii
Ultimate Vantage Limited	Note ii
Urban Parking Ltd	Note ii
Vibro (H.K.) Ltd	Note ii
Vibro Construction Company Limited	Note ii
Wise City Investment Limited	Note ii
上海三聯物業發展有限公司	Note ii
大連新世界大廈有限公司	Note ii
大連僑樂物業服務有限公司	Note ii
天津新世界百貨有限公司	Note ii
天津新世界環渤海房地產開發有限公司	Note ii
北京京廣中心有限公司	Note ii
北京崇文 • 京崇新世界房地產發展有限公司	Note ii
北京祥和物業管理有限公司	Note ii
北京新世界物業管理有限公司	Note ii
新世界協中建築有限公司	Note ii
深圳拓勁房地產開發有限公司	Note ii
清遠新世界旅遊發展有限公司	Note ii

Notes to the Consolidated Financial Statements

30 RELATED PARTY TRANSACTIONS *(Continued)*

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

Name	Relationship
湖南成功新世紀投資有限公司	Note ii
湖南梓山湖置業有限公司	Note ii
新世界(瀋陽)房地產開發有限公司	Note ii
新世界(瀋陽)房地產開發第五有限公司	Note ii
新世界發展(武漢)有限公司	Note ii
新世界嘉業(武漢)有限公司	Note ii
新世界(中國)地產投資有限公司	Note ii
新世界房地產發展有限公司	Note ii
寧波公泰置業有限公司	Note ii
寧波新立房地產開發有限公司	Note ii
廣州市新御運營管理有限公司	Note ii
廣州新世界地產策劃有限公司	Note ii
鄭州新世界百貨有限公司	Note ii
廊坊新世界房地產開發有限公司	Note ii

Notes:

(i) These companies are commonly controlled by the Ultimate Controlling Shareholder.

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

30 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related companies during the year ended 30 June 2019.

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Contract revenue (Note i)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	72,665	92,114
Other related companies (Note ii)	1,738,281	1,756,606
Total	1,810,946	1,848,720
Facility service income (Note i)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	167,748	160,562
Other related companies (Note ii)	126,063	104,328
Total	293,811	264,890
Insurance broking service expenses (Note iii)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	25,509	19,138
Rental expenses (Note iv)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	18,128	9,763
Other related companies (Note ii)	1,668	3,993
Total	19,796	13,756
IT secondment fee to a related company (Note v)	120	116
Miscellaneous service fees (Note vi)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	961	2,989
Other related companies (Note ii)	32	–
Total	993	2,989

Notes:

(i) Revenue from provision of contracting work and facility service income is principally charged in accordance with respective contracts.

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

(iii) Insurance broking service expenses were principally charged in accordance with respective insurance policies.

(iv) Rental expenses were principally charged in accordance with respective rental agreements.

(v) IT secondment fee was charged based on fixed amount mutually agreed by the parties.

(vi) Miscellaneous service fee was charged based on fixed amounts mutually agreed by the parties.

(vii) The above transactions with related parties are based upon mutually agreed terms and conditions.

(viii) As at 30 June 2019, none of the banking facilities granted to the Group was guaranteed by its related companies (2018: HK$242.1 million guaranteed by a related company of the Group).

30 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

As at 30 June	2019 HK$'000	2018 HK$'000
Trade receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**51,915**	40,261
Other related companies (Note i)	**76,377**	75,934
Total	**128,292**	116,195
Contract assets/Amounts due from customers for contract works		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**2,682**	7,045
Other related companies (Note i)	**77,502**	114,960
Total	**80,184**	122,005
Contract liabilities/Amounts due to customers for contract works		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**11,565**	7,690
Other related companies (Note i)	**51,402**	297,062
Total	**62,967**	304,752
Retention receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**1,966**	1,917
Other related companies (Note i)	**205,697**	249,291
Total	**207,663**	251,208
Trade payables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**58**	147

Note:

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

30 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

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

For the year ended 30 June	2019 HK$'000	2018 HK$'000
Fees	1,498	1,440
Salaries and other emoluments	42,000	39,835
Contributions to defined contribution schemes	2,315	2,137
Total	45,813	43,412

The emoluments to directors and members of the senior management of the Group fell within the following bands:

For the year ended 30 June	2019 Number of individuals	2018 Number of individuals
Emolument bands		
Nil – HK$1,000,000	8	7
HK$1,000,001 – HK$1,500,000	5	4
HK$1,500,001 – HK$2,000,000	5	5
HK$2,000,001 – HK$2,500,000	5	5
HK$2,500,001 – HK$3,000,000	2	2
HK$3,000,001 – HK$3,500,000	–	–
HK$3,500,001 – HK$4,000,000	–	–
HK$4,000,001 – HK$4,500,000	–	–
HK$4,500,001 – HK$5,000,000	1	1
HK$5,000,001 – HK$5,500,000	–	–
HK$5,500,001 – HK$6,000,000	–	–
HK$6,000,001 – HK$6,500,000	–	–
HK$6,500,001 – HK$7,000,000	–	–
HK$7,000,001 – HK$7,500,000	1	1
Total	27	25

31 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

As at 30 June	2019 HK$'000	2018 HK$'000
ASSETS		
Non-current asset		
Subsidiaries	501,697	501,697
Current assets		
Trade and other receivables	268	243
Amounts due from subsidiaries	1,069,629	1,064,935
Cash and bank balances	950	959
	1,070,847	1,066,137
Total assets	1,572,544	1,567,834
EQUITY		
Share capital	45,000	45,000
Reserves (Note (a))	421,744	531,329
Total equity	466,744	576,329
LIABILITIES		
Current liabilities		
Trade and other payables	2,552	1,973
Amounts due to subsidiaries	1,103,248	989,532
Total liabilities	1,105,800	991,505
Total equity and liabilities	1,572,544	1,567,834
Net current (liabilities)/assets	(34,953)	74,632
Total assets less current liabilities	466,744	576,329

The statement of financial position of the Company was approved by the Board of Directors on 26 September 2019 and was signed on its behalf.

Lam Wai Hon, Patrick
Director

Poon Lock Kee, Rocky
Director

Note (a): Reserve movement of the Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2017	743,204	(129,942)	613,262
Loss for the year	–	(10,383)	(10,383)
Dividends	–	(71,550)	(71,550)
At 30 June 2018	743,204	(211,875)	531,329
At 1 July 2018	743,204	(211,875)	531,329
Loss for the year	–	(4,285)	(4,285)
Dividends	–	(105,300)	(105,300)
At 30 June 2019	743,204	(321,460)	421,744

32 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries as at 30 June 2019:

Company name	Place of incorporation or establishment/ place of operation	Registered/ issued and paid-up capital	Attributable equity interest of the Group As at 30 June 2019	2018	Principal activities
Directly-owned subsidiaries:					
Building Material Supplies Limited	British Virgin Islands	100,000 shares of HK$1 each paid up to HK$1	100	100	Investment holding
FSE Engineering Group Limited	British Virgin Islands/ Hong Kong	50,000,000 shares of HK$1 each paid up to HK$50,000,000	100	100	Investment holding
FSE Environmental Technologies Limited	British Virgin Islands	50,000 shares of US$1 each paid up to US$1	100	100	Investment holding
FSE Facility Services Group Limited	British Virgin Islands	50,000 shares of US$1 each paid up to US$1	100	100	Investment holding
Lucky Bridge Investments Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 paid up to US$1	100	100	Investment in trading securities
Indirectly owned subsidiaries:					
Bright Team Enterprises Limited	Hong Kong	1 ordinary share paid up to HK$1	100	100	Provision of transportation services to fellow subsidiaries
Companion Building Material Supplies (H.K.) Limited	Hong Kong	100 ordinary shares paid up to HK$100	100	100	Trading of ceramic tiles and building materials and provision of maintenance and fitting out services
Crystal Brilliant Limited	British Virgin Islands	50,000 shares of US$1 each paid up to US$1	100	100	Investment holding
Environmental Pioneers & Solutions Limited	Hong Kong	1,000 ordinary shares paid up to HK$100,000	100	100	Trading of environmental products and the provision of related engineering and consultancy services
Extensive Trading Company Limited	Hong Kong	8,500,000 ordinary shares and 1,500,000 non-voting deferred shares paid up to HK$10,100,000	100	100	Trading of equipment and materials

32 PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or establishment/ place of operation	Registered/ issued and paid-up capital	Attributable equity interest of the Group As at 30 June 2019	2018	Principal activities
EPS Environmental Technologies (Macao) Limited	Macau	MOP25,000	100	100	Trading of environmental products and the provision of related engineering and consultancy services
Far East Engineering Services Limited	Hong Kong	766,714 ordinary shares and 233,288 non-voting deferred shares paid up to HK$10,000,020	100	100	Mechanical and electrical engineering, trading and project management consultancy
Far East Technical Service (Macao) Limited	Macau	MOP25,000	100	100	Mechanical and electrical engineering
FSE Environmental Laboratory Services Limited	Hong Kong	10,000 ordinary shares paid up to HK$10,000	100	100	Provision of testing and calibration services
Joneson Environmental Technologies Limited	Hong Kong	535,000 ordinary shares and 35,000 non-voting deferred shares paid up to HK$570,000	100	100	Trading, building maintenance, chemical engineering
Kleaners Limited	Hong Kong	5,000,000 ordinary shares paid up to HK$5,000,000	100	100	Laundry services
Majestic Engineering Company Limited	Hong Kong	30,000 ordinary shares paid up to HK$30,000,000	100	100	Mechanical and electrical engineering
Majestic Engineering (Macao) Company Limited	Macau	MOP25,000	100	100	Mechanical and electrical engineering
Majestic Plumbing Engineers Limited	Hong Kong	2,000,000 ordinary shares paid up to HK$2,000,000	100	100	Plumbing engineering services
New China Laundry Limited	Hong Kong	40,000,002 ordinary shares and 704,000 non-voting deferred shares paid up to HK$40,704,002	100	100	Laundry services
New China Steam Laundry Limited	British Virgin Islands	100,000 shares of HK$1 each paid up to HK$1	100	100	Investment holding
Ocean Front Investments Limited	Hong Kong	1 share paid up to HK$1	100	100	Property holding

32 PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or establishment/ place of operation	Registered/ issued and paid-up capital	Attributable equity interest of the Group As at 30 June		Principal activities
			2019	2018	
Smart and Safe Fleet Management Limited	Hong Kong	1 ordinary share paid up to HK$1	100	100	Provision of fleet management services in Hong Kong
Tridant Engineering Company Limited	Hong Kong	34,400,000 ordinary shares and 15,600,000 non-voting deferred shares paid up to HK$50,000,000	100	100	Provision of mechanical and electrical engineering services
Waihong Cleaning Limited	British Virgin Islands	100,000 shares of HK$1 each paid up to HK$1	100	100	Investment holding
Waihong Environmental Services Limited	Hong Kong	400,000 ordinary shares paid up to HK$40,000,000	100	100	Provision and management of cleaning and waste disposal services and provision of recycling and environmental disposal services
Waihong Integrated Green Services Limited	Hong Kong	400,000 ordinary shares paid up to HK$400,000	100	100	Provision of pest control services
Waihong Medicare Services Limited	Hong Kong	1 ordinary share paid up to HK$1	100	100	Provision of cleaning services in hospitals
Yau Fai Building Material Supplies (Macao) Limited	Macau	MOP25,000	100	100	Trading and supply of building materials
Young's Engineering Company Limited	Hong Kong	4,000,000 ordinary shares paid up to HK$40,000,000	100	100	Mechanical and electrical engineering
Young's Engineering (Macao) Company Limited	Macau	MOP100,000	100	100	Mechanical and electrical engineering
豐盛機電工程有限公司[(1)]	Mainland China	RMB50,000,000	100	100	Mechanical and electrical engineering
北京遠東景福機電設備維修有限公司[(1)]	Mainland China	US$150,000	100	100	Mechanical, electrical engineering and maintenance
景福機電安裝工程(上海)有限公司[(1)]	Mainland China	RMB15,000,000	100	100	Mechanical and electrical engineering

Note:

(1) These subsidiaries are limited liability companies incorporated in Mainland China.

Five-Year Financial Summary

FSE SERVICES GROUP — CONSOLIDATED[i]

RESULTS	For the year ended 30 June				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019 HK$'000**
Revenue	3,819,044	4,487,551	4,829,618	4,926,518	**4,930,517**
Profit for the year attributable to equity holders of the company	198,543	214,202	225,396	236,784	**247,512**

ASSETS, LIABILITIES AND EQUITY	As at 30 June				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019 HK$'000**
Total assets	2,016,721	3,130,639	3,016,287	2,567,760	**2,687,893**
Total liabilities	1,444,408	2,151,188	1,945,569	1,930,410	**1,915,873**
Total equity	572,313	979,451	1,070,718	637,350	**772,020**

FINANCIAL INFORMATION PER SHARE	For the year ended 30 June/As at 30 June				
	2015	2016	2017	2018	**2019**
Earnings (HK$)	0.66	0.56	0.50	0.53	**0.55**
Net tangible assets (HK$)	1.65	2.01	2.22	1.25	**1.55**

KEY RATIOS	For the year ended 30 June/As at 30 June				
	2015	2016	2017	2018	**2019**
Return on assets	9.8%	6.8%	7.5%	9.2%	**9.2%**
Return on equity	34.7%	21.9%	21.1%	37.2%	**32.1%**
Current ratio (times)	1.3	1.4	1.3	1.1	**1.2**
Gearing ratio	0%	0%	0%	0%	**0%**

Note (i): Consolidated figures after intra-group eliminations. For presentation purpose, the financial information for 2015 to 2018 have been restated for the Group's application of merger accounting for its acquisition of the Acquired Group completed on 11 April 2018 which have been accounted for as a business combination under common control. Details of the acquisition are set out in Note 2.1(iv) to the consolidated financial statements.

Five-Year Financial Summary

E&M ENGINEERING AND ENVIRONMENTAL MANAGEMENT SERVICES SEGMENTS

RESULTS	For the year ended 30 June				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Revenue	2,825,107	3,471,907	3,700,133	3,757,158	**3,738,497**
Profit for the year	151,368	163,211	173,796	179,549	**202,809**

ASSETS, LIABILITIES AND EQUITY	As at 30 June				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Total assets	1,560,266	2,660,420	2,524,381	2,261,390	**2,304,059**
Total liabilities	1,141,072	1,837,579	1,611,873	1,750,973	**1,705,440**
Total equity	419,194	822,841	912,508	510,417	**598,619**

KEY RATIOS	For the year ended 30 June/As at 30 June				
	2015	2016	2017	2018	**2019**
Return on assets	9.7%	6.1%	6.9%	7.9%	**8.8%**
Return on equity	36.1%	19.8%	19.0%	35.2%	**33.9%**
Current ratio (times)	1.3	1.4	1.3	1.0	**1.1**
Gearing ratio	0%	0%	0%	0%	**0%**

FACILITY SERVICES SEGMENT

RESULTS	For the year ended 30 June				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Revenue	993,963	1,016,543	1,130,443	1,170,985	**1,203,654**
Profit for the year	47,175	50,991	51,600	57,235	**44,703**

ASSETS, LIABILITIES AND EQUITY	As at 30 June				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Total assets	456,647	470,312	492,153	421,518	**494,758**
Total liabilities	303,528	313,702	333,943	294,585	**321,357**
Total equity	153,119	156,610	158,210	126,933	**173,401**

KEY RATIOS	For the year ended 30 June/As at 30 June				
	2015	2016	2017	2018	**2019**
Return on assets	10.3%	10.8%	10.5%	13.6%	**9.0%**
Return on equity	30.8%	32.6%	32.6%	45.1%	**25.8%**
Current ratio (times)	1.2	1.3	1.2	1.3	**1.4**
Gearing ratio	5.4%	10.2%	0%	0%	**0%**

Corporate Information

BOARD OF DIRECTORS

Non-executive Directors

Dr. Cheng Kar Shun, Henry *GBM, GBS (Chairman)*
Mr. Wong Kwok Kin, Andrew

Executive Directors

Mr. Lam Wai Hon, Patrick *(Vice-Chairman)*
Mr. Poon Lock Kee, Rocky *(Chief Executive Officer)*
Mr. Doo William Junior Guilherme *JP*
Mr. Lee Kwok Bong
Mr. Soon Kweong Wah
Mr. Wong Shu Hung

Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Hui Chiu Chung, Stephen *JP*
Mr. Lee Kwan Hung, Eddie
Dr. Tong Yuk Lun, Paul

Alternate Director

Dr. Cheng Chun Fai (alternate to Mr. Wong Shu Hung) (appointed on 30 September 2019)

AUDIT COMMITTEE

Mr. Kwong Che Keung, Gordon *(Chairman)*
Mr. Hui Chiu Chung, Stephen *JP*
Mr. Lee Kwan Hung, Eddie
Dr. Tong Yuk Lun, Paul

REMUNERATION COMMITTEE

Mr. Hui Chiu Chung, Stephen *JP (Chairman)*
Mr. Lee Kwan Hung, Eddie
Dr. Tong Yuk Lun, Paul
Mr. Lam Wai Hon, Patrick
Mr. Poon Lock Kee, Rocky

NOMINATION COMMITTEE

Mr. Lee Kwan Hung, Eddie *(Chairman)*
Mr. Hui Chiu Chung, Stephen *JP*
Dr. Tong Yuk Lun, Paul
Mr. Poon Lock Kee, Rocky
Mr. Doo William Junior Guilherme *JP*

COMPANY SECRETARY

Mr. Chan Ju Wai

AUDITOR

PricewaterhouseCoopers
22/F Prince's Building
Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
Crédit Agricole Corporate and Investment Bank Hong Kong Branch
Fubon Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
JPMorgan Chase Bank NA, Singapore
Nanyang Commercial Bank, Limited
Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 801 – 810
8th Floor, Chevalier Commercial Centre
8 Wang Hoi Road, Kowloon Bay
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

331

INVESTOR RELATIONS

Strategic Financial Relations Limited
2401 – 02, Admiralty Centre I
18 Harcourt Road
Hong Kong

WEBSITE

www.fseservices.com.hk

豐盛服務集團有限公司
FSE SERVICES GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

Units 801–810, 8th Floor
Chevalier Commercial Centre
No. 8 Wang Hoi Road, Kowloon Bay
Kowloon, Hong Kong

Tel: (852) 2733 4188
Fax: (852) 2722 5587
Email: info@fseservices.com.hk
Website: http://www.fseservices.com.hk