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

Interim Report 2019-2020

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 5 major competences: electrical and mechanical ("E&M") engineering, environmental management, cleaning and waste management, professional laundry services as well as property and facility management. FSE Services' competences are being delivered through 5 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"), New China Laundry Group ("NCL") and FSE Property and Facility Management Services Group which comprises Urban Group ("Urban") and Kiu Lok Service Management Group ("Kiu Lok"). 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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This interim report is printed on environmental paper
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Financial Highlights

	For the six months ended 31 December		
	2019	2018 (restated)(i)	% Change
	HK$M	HK$M	
Revenue	**2,420.3**	2,532.6	–4.4%
Gross profit	**372.9**	372.2	+0.2%
Profit attributable to shareholders of the Company	**144.0**	138.9	+3.7%
Basic earnings per share	**HK$0.32**	HK$0.31	+3.2%

The Board declared the payment of an interim dividend of HK12.8 cents (For the six months ended 31 December 2018: HK10.1 cents) per ordinary share to the ordinary shareholders of the Company for the six months ended 31 December 2019(ii).

Note (i) Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2(c) to the condensed consolidated interim financial statements.

Note (ii) The interim dividend for the six months ended 31 December 2019 of HK12.8 cents per share to be paid in March 2020 represents a dividend payout ratio of 54.1%, calculated based on the Group's adjusted profit for the six months ended 31 December 2019 attributable to ordinary shareholders of HK$106.4M (i.e. after excluding the profit of HK$37.3M made by the property and facility management services business during the period from 1 July 2019 to 16 December 2019, the day of completion of the Group's acquisition of the property and facility management services business as described in Note 2(c) to the condensed consolidated interim financial statements, and preferred distribution to the holder of convertible preference shares of HK$0.3M for the six months ended 31 December 2019 from profit attributable to shareholders of the Company of HK$144.0M) (For the six months ended 31 December 2018: 40.0%, calculated based on the Group's profit for the six months ended 31 December 2018 attributable to shareholders of the Company of HK$113.5M as previously reported in the Group's condensed consolidated interim financial statements for the six months ended 31 December 2018 which does not include the profit of HK$25.4M made by the property and facility management services business during the six months ended 31 December 2018 accounted for pursuant to its application of merger accounting for business combinations under common control as mentioned in Note (i) above).

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 unaudited condensed consolidated interim results of the Group for the six months ended 31 December 2019.

ACQUISITION OF PROPERTY AND FACILITY MANAGEMENT SERVICES GROUP

The Company has consistently sought opportunities to further expand its business scale and diversify its revenue streams. This year 2019 marked another important milestone for its development with the successful completion of the acquisition on 16 December 2019 of Urban and Kiu Lok ("FSE Property and Facility Management Services Group") both principally engaged in the provision of property and facility management services in Hong Kong and Mainland China. Discounting service companies owned by property developers, FSE Property and Facility Management Services Group is the largest independent services provider in the residential, non-residential and car park property management markets in Hong Kong. The Group believes that the acquisition can realise cross-selling synergies and better deployment of human resources, thereby increasing profitability and providing higher return to shareholders, and, more importantly, re-position the Group into a leading diversified city services provider in Hong Kong.

MARKET REVIEW

This financial year has been a very challenging year in the face of heightened and rising uncertainty. The medium-term outlook remains soft with overarching challenges and uncertainties looming over the global political and economic environment that continue to exert a drag in 2020, like the hard Brexit, China's economic growth prospects, the movement of US interest rates and phase two trade negotiation between the US and Mainland China. Under the bleak global economic outlook, the market sentiment and the general operating environment for businesses in the city has been susceptible to an economic slowdown and enterprises should be well-prepared for any potential impact in the industry. In view of the social instability and the outbreak of Coronavirus in Hong Kong, our laundry services business has also been affected by the plummeting tourist arrivals and low hotel room occupancy rates. Besides, given this situation, progress for some of our E&M engineering projects have been affected by site suspension of works; delayed delivery of parts and materials, as well as delays in Legislative Council's funding approvals for new public works. Nevertheless, we are confident that our management shall mitigate the operational impacts by taking relevant measures, including proactive reviews of our projects' execution work plans and continuing cost management. Moreover, as in previous years, the Group has encountered a multitude of challenges, mainly keen competition in the marketplace and dwindling numbers of skilled workers that can reduce the profit margin. Amidst the rising external headwinds on the Hong Kong economy, thanks to our resilience, the Group remains vigilant and has prepared itself to drive the development of each of its business segments to the fullest extent possible and strive for strategic goals on growth, enhanced customer experience, higher profits, cost efficiencies and innovation. Talent development is also an essential element and a prerequisite for the sustainable growth of the Group. Therefore, we continue to invest in nurturing talents; provide diversified and tailor-made learning, as well as training and development opportunities offering good career prospects for our young people. For the period under review, coupled with the satisfactory performance achieved by the maintenance services business driven by the increased demand in renovation and systems upgrading works in the commercial and institution sectors, the Group's profit attributable to shareholders reached HK$144.0 million, testimony to its resilience and capability to continuously grow its businesses. The Board has declared an interim dividend of HK12.8 cents per share for the six months ended 31 December 2019, equivalent to a payout ratio of 54.1%.

Chairman's Statement

E&M ENGINEERING

Hong Kong

Overall building and construction activity is expected to further expand albeit at a slower pace in 2020 on the back of strategic infrastructure and private construction investment despite the prevailing local economic and political uncertainty that may lead to delay in the approval of public works. Given the government's sustained effort, the total E&M construction works expenditure for the fiscal year 2020/21 is expected to exceed HK$26.5 billion for the public sector and be more than HK$25.5 billion for the private sector according to the construction expenditure forecast provided by the Construction Industry Council. The Hong Kong Government will continue to increase land supply through a multi-pronged approach along with 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 the position as 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: the mega development SKYCITY Phase 1B & 2 at Hong Kong International Airport and the office development at Murray Road, which are currently under negotiation. Preparations are also underway for the tenders for the additional District Cooling System at the Kai Tak Development, Water Supplies Department and Correctional Services Department Headquarters building in Chai Wan, the second 10-year plan of in-situ hospital re-development, Lok Ma Chau Loop development and the New Town Extension projects at Kwu Tung North, Fanling North and Hung Shui Kiu. Innovation and technology are the key to delivering the infrastructure of tomorrow. Towards that end, in order to accommodate the Construction 2.0 initiative of the Government which advocates innovation, professionalism 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.

Mainland China

The year 2020 is a year to remain cautious and highly alert to signals on where China's economy is headed. Domestically, the Chinese government continues to introduce moderate growth-supportive measures to alleviate the pressure from the precarious economic situation and further liberalise the economy and implement fiscal stimulus as needed. Coupled with the continuous human-centred urbanisation at the national level to upgrade coastal cities and a neutral and prudent monetary policy, this national 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

Despite the potential downside risks and the overall economic slowdown of the surrounding region, 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 centre. The rollout of the Light Rail Transit system throughout Macau in the second half of 2019 will further enhance the connectivity in the city. 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 strategic direction.

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 is one of the top three players whilst NCL is one of the top two players in the Hong Kong environmental hygiene services market and laundry services market respectively. Despite the slowdown of Hong Kong's economy, the Group expects the demand for the environmental hygiene and related services to remain stable. From a public hygiene perspective together with advancing to a low carbon and green economy, 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 for a greener and healthier living environment. 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 for the number of new completions during the coming years. In fact, there are many 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. The increasing need for outsourcing environmental services for these and other projects will raise the demand for environmental services from property management companies and property owners. By capitalising on its extensive experience, quality and customised 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 will continue to expand its 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, environmental hygiene services are labour-intensive and Waihong is nevertheless facing the challenges of labour shortages that could result in higher costs. To meet these challenges, Waihong must maintain a stable experienced management team in supervising the labour force, implementing effective cost control management and controlling the overall quality of services and workplace safety. Last but not least, in view of the social instability and the outbreak of Coronavirus in Hong Kong, our laundry services business has also been affected by declined business activities as mentioned earlier. To cope with this, NCL will intensify its focus on key accounts and effective cost management. Despite the situation, NCL will continue to upgrade our laundry equipment when needed to enhance our operational efficiency.

Chairman's Statement

PROPERTY AND FACILITY MANAGEMENT SERVICES

Urban and Kiu Lok, with a well-established strong brand as "Hong Kong's Premier Community Manager", is the largest among all independent players in the residential, non-residential and car park property management markets in Hong Kong. Based on our over 50 years of substantial experience and professional capabilities, the Group's property and facility management services group shall consistently provide quality management services to preserve and add value to our large and extensive property and facility management portfolio. Along with the strong operational synergies generated from other Group companies after completion and the extensive partnerships with professional service suppliers and contractors in the territory, Urban and Kiu Lok have enhanced cost-effectiveness and operational efficiency to the fullest extent and are reaping benefits from M&A activity. Regarding the industry outlook, it is expected that the property management market is expanding in parallel to the growing number of properties in Hong Kong, supported by the expediting of land supply and the strong demand of housing. Apart from the Hong Kong market, the level of urbanisation and per capita disposal income in the PRC have increased significantly in recent years and have accelerated the growth of the property management industry. The promulgation of the Outline Development Plan for the Greater Bay Area to become an international first-class bay area and world-class city cluster presents a unique opportunity for Hong Kong which offers great institutional advantage. Leveraging the extensive E&M experience in Mainland China, the property management group companies are exploring and accelerating their expansion by means of organic growth, strategic collaboration and mergers and acquisitions into the Greater Bay Area so as to realise its full potential and expand the scale of the property management business geographically.

CONCLUSION

Despite the challenges we face from the Coronavirus and civil unrests in Hong Kong, with our solid financial position and proven track record, the Group will overcome the difficult market situation. As well, it will continue to seek business opportunities to further expand and maximise 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 February 2020

Management Discussion and Analysis

BUSINESS REVIEW

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

E&M ENGINEERING SEGMENT

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

In addition, the Group is committed to creating a greener society. To help build a sustainable environment, it has been constantly optimising design and exploring innovative methods. At the project level, the Group incorporates green building principles into application of building services equipment; and adopts green building design, modular integrated construction (MiC), Design for Manufacture and Assembly (DfMA) to reduce energy usage, carbon footprint and construction waste. In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as Building Information Modelling (BIM), modularisation and prefabrication, Robotic Total Solution (RTS) and Sky Drilling Machine (SDM), 3D laser scanning and mobile solutions.

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

As at 31 December 2019, the Group's E&M engineering projects encompassed a wide range of buildings and facilities, including government buildings and facilities, offices, shopping malls, convention and exhibition centres, hotels, integrated resorts, residential properties, universities, hospitals and airport facilities, which have a total gross value of contract sum of HK$9,137 million with a total outstanding contract sum of HK$7,428 million.

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

Management Discussion and Analysis

ENVIRONMENTAL MANAGEMENT SERVICES SEGMENT

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

As at 31 December 2019, this business segment has a total gross value of contract sum of HK$93 million with a total outstanding contract sum of HK$53 million.

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

FACILITY SERVICES SEGMENT

Cleaning Services

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

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

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

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

Management Discussion and Analysis

Laundry

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

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

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

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

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

PROPERTY AND FACILITY MANAGEMENT SERVICES SEGMENT

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

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

Management Discussion and Analysis

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

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

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

FINANCIAL REVIEW

Revenue

During the period under review, the Group's revenue dropped by HK$112.3 million or 4.4% to HK$2,420.3 million from HK$2,532.6 million (restated) for the same period last year, attributable mostly to lower revenue from the E&M engineering segment amounting to HK$192.0 million, partly mitigated by higher revenue from the facility services segment and property and facility management services segment amounting to HK$56.2 million and HK$22.2 million, respectively.

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

	For the six months ended 31 December			
	2019 HK$'M	**% of Total revenue**	2018 (restated) HK$'M	% of Total revenue
E&M engineering*	**1,484.1**	**61.3%**	1,676.1	66.2%
Environmental management services*	**36.5**	**1.5%**	35.2	1.4%
Facility services*	**622.1**	**25.7%**	565.9	22.3%
Property and facility management services*	**277.6**	**11.5%**	255.4	10.1%
Total	**2,420.3**	**100.0%**	2,532.6	100.0%

* Segment revenue does not include inter-segment revenue.

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

- *E&M (electrical and mechanical) engineering:* This segment continued to be the key revenue driver of the Group and contributed 61.3% of the Group's total revenue (Six months ended 31 December 2018: 66.2% (restated)). Segment revenue dropped by 11.5% or HK$192.0 million to HK$1,484.1 million from HK$1,676.1 million, owing mainly to a reduced revenue contribution from Mainland China and Hong Kong by HK$164.2 million and HK$88.7 million, respectively, partly mitigated by an increase in revenue contribution from Macau of HK$60.9 million. The decrease in revenue contribution from Mainland China and Hong Kong reflected 2 sizeable engineering installation projects which had significant progress in the same period last year, including Spring City 66 in Kunming and West Kowloon Government Offices, partly mitigated by the revenue contribution from a number of engineering installation projects, including Transport Department's Vehicle Examination Centre, Kai Tak Sports Park, Pak Tin Estate Phase 7 and 8 in Hong Kong, Ningbo New World Plaza and Four Seasons Service Apartments in Venetian Macau, which had substantial progress in the period under review. It should be noted that, under contract terms, only the management fees and reimbursable costs are reflected in the revenue of the Kai Tak Sports Park project.

- *Environmental management services:* Revenue contribution of this business segment, which principally operates in Hong Kong currently, increased to HK$36.5 million from HK$35.2 million, representing a growth of 3.7% or HK$1.3 million, as compared with the same period last year. Such increase was mainly attributable to an increase in revenue from its environmentally-related contracting and maintenance services, primarily biological deodorizing system installation services at a number of refuse collection stations of new public housing estates, shopping centres and markets.

- *Facility services:* This segment, which presently provides services in Hong Kong, contributed 25.7% (Six months ended 31 December 2018: 22.3% (restated)) of the Group's total revenue. The revenue of HK$622.1 million (Six months ended 31 December 2018: HK$565.9 million (restated)) for the period under review composed of revenue from provision of cleaning and laundry services amounting to HK$550.7 million (Six months ended 31 December 2018: HK$478.8 million (restated)) and HK$71.4 million (Six months ended 31 December 2018: HK$87.1 million), respectively. Segment revenue recorded a growth of HK$56.2 million or 9.9% to HK$622.1 million for the period under review from HK$565.9 million (restated), owing mainly to the revenue contribution from a number of new cleaning service contracts, encompassed a wide range of buildings and facilities, including a large-scale public transportation facility, shopping malls, a luxury hotel, a government department, residential and commercial properties, despite a partly offset of this increase by the lower revenue from the laundry business resulting from lower hotel room occupancy rates.

- *Property and facility management services:* This segment contributed 11.5% of the Group's total revenue (Six months ended 31 December 2018: 10.1%). Revenue contribution of this business segment, which principally operates in Hong Kong currently, increased to HK$277.6 million from HK$255.4 million, representing a growth of 8.7% or HK$22.2 million, as compared with the same period last year. Such increase was mainly attributable to higher revenue from its non-residential properties management contracts, including government buildings in Hong Kong and Kowloon and staff quarters of a university.

Management Discussion and Analysis

Gross profit

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

	For the six months ended 31 December			
	2019		2018 (restated)	
	Gross profit HK$'M	**Gross profit Margin %**	Gross profit HK$'M	Gross profit Margin %
E&M engineering	**213.2**	**14.4**	214.0	12.8
Environmental management services	**9.8**	**26.8**	9.6	27.3
Facility services	**60.0**	**9.6**	68.1	12.0
Property and facility management services	**89.9**	**32.4**	80.5	31.5
Total	**372.9**	**15.4**	372.2	14.7

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

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

Other income/gains, net

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

Finance income

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

Finance costs

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

General and administrative expenses

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

Income tax expenses

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

Profit for the period attributable to shareholders of the Company

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

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

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

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

Other comprehensive loss

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

Management Discussion and Analysis

Liquidity and financial resources

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

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

Debt profile and maturity

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

Foreign currency exposure

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

As part of the Group's business is carried out in Mainland China, some of its assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in Mainland China operations with net assets of HK$174.8 million (30 June 2019: HK$175.3 million) as at 31 December 2019. The foreign currency translation arising from translation of these Mainland China operations' financial statements from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the Group's presentation currency) does not affect the Group's profit before and after tax, and will be recognised in its other comprehensive income.

During the period under review, the fluctuation of RMB against Hong Kong dollars was 4.5% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the period under review).

As at 31 December 2019, if the Hong Kong dollars had strengthened/weakened by another 4.5% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$7.9 million lower/higher.

Management Discussion and Analysis

Use of net proceeds from listing

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

	Original use of proceeds from Global Offering HK$'M	Utilised amount as at 26 June 2018 HK$'M	Revised use of proceeds as announced pursuant to the Company's announcement dated 26 June 2018 HK$'M	Aggregated utilised amount from 27 June 2018 to 31 December 2019 HK$'M	Unutilised amount as at 31 December 2019 HK$'M
Investment in/acquisition of companies engaged in the installation and maintenance of ELV system	81.6	5.9	–	–	–
Development of environmental management business	51.0	3.6	20.0	15.6	4.4
Operation of E&M engineering projects on hand and prospective projects	47.4	47.4	88.1	88.1	–
Staff-related additional expenses	20.0	20.0	–	–	–
Development and enhancement of design capability	19.3	18.3	16.0	16.0	–
Enhancement of quality testing laboratory	12.2	4.9	7.3	2.7	4.6
Upgrade of corporate information technology system and software	8.0	5.9	2.1	2.1	–
General working capital	25.0	25.0	–	–	–
Total	264.5	131.0	133.5	124.5	9.0

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

Capital commitments

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

Contingent liabilities

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

Management Discussion and Analysis

Major transaction

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

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

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

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

EMPLOYEES AND REMUNERATION POLICY

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

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

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

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

OUTLOOK

E&M Engineering Segment

1. **Installation Services**

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

   The long-term housing strategy of the Hong Kong Government, as stated in its 2018 Policy Address, aims at continuing its ongoing efforts in increasing the land and housing supply and increasing the public-private housing ratio to 7:3. According to government projections, 450,000 residential flats will be provided in the next decade including 220,000 public housing units, 95,000 subsidised-sale units, and 135,000 private housing units. Therefore, the Government is allocating more land to public housing development and increasing the ratio of public housing to 70% of the housing units on its newly developed land for the coming 10 years up to 2029.

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

Management Discussion and Analysis

To prepare for the challenges brought by the an aging population, the Hong Kong Government earmarked HK$200 billion in 2016 for a ten-year hospital development plan covering, among others, the redevelopment of United Christian Hospital, construction of a new acute hospital at the Kai Tak Development Area and the redevelopment or expansion of various hospitals such as the Tuen Mun Hospital Operating Block, Prince of Wales Hospital, North District Hospital, Princess Margaret Hospital and Grantham Hospital. On top of the HK$200 billion invested in the first 10-year plan, the Government has committed to an extra HK$300 billion capital works programme to support the second 10-year hospital development plan, improve the clinic facilities of the Department of Health, and upgrade and increase healthcare training facilities. In addition, the Hong Kong Government has decided to finance HK$5 billion for the construction of a Chinese medicine hospital at Pak Shing Kok in Tseung Kwan O which is expected to be operated in 2024.

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

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

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

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

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

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

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

Since the establishment of the new ELV division, the Group has been awarded several ELV projects including four residential projects on Sai Yuen Lane, Sheung Heung Road, Luk Hop Street and Waterloo Road, two public housing projects on Texaco Road in Tsuen Wan and Tung Chung Area 27, an office development project at King's Road in North Point, an Aviation Training Centre at Chek Lap Kok, Inland Revenue Tower at Kai Tak, Immigration Headquarter at Tseung Kwan O Area 67 and Kai Tak Sports Park.

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

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

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

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

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

2. Maintenance Services

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

Management Discussion and Analysis

Environmental Management Services Segment

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

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

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

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

Facility Services Segment

1. **Cleaning Services**

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

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

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

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

2. Laundry

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

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

Property and Facility Management Services Segment

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

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

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

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

Management Discussion and Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

Conclusion

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

Report on Review of Interim Financial Information

羅兵咸永道

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 66, which comprises the condensed consolidated statement of financial position of FSE Services Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2019 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 February 2020

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

Condensed Consolidated Income Statement — Unaudited

	Notes	For the six months ended 31 December 2019 HK$'000	2018 (restated)* HK$'000
Revenue	6	**2,420,336**	2,532,553
Cost of services and sales		**(2,047,449)**	(2,160,398)
Gross profit		**372,887**	372,155
Other income/gains, net	7	**1,927**	1,021
General and administrative expenses		**(199,916)**	(209,058)
Operating profit	8	**174,898**	164,118
Finance income		**3,297**	2,640
Finance costs		**(2,503)**	(201)
Share of results of an associated company and joint ventures		**467**	473
Profit before income tax		**176,159**	167,030
Income tax expenses	9	**(32,125)**	(28,124)
Profit for the period		**144,034**	138,906
Attributable to:			
Shareholders of the Company		**144,023**	138,888
Non-controlling interests		**11**	18
		144,034	138,906
Earnings per share for profit attributable to shareholders of the Company (expressed in HK$)			
Basic and diluted	10	**0.32**	0.31

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2(c) to the condensed consolidated interim financial statements.

The notes on pages 31 to 66 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Comprehensive Income — Unaudited

	For the six months ended 31 December	
	2019	2018 (restated)*
	HK$'000	HK$'000
Profit for the period	**144,034**	138,906
Other comprehensive (loss)/income:		
Items that may be subsequently reclassified to condensed consolidated income statement:		
Currency translation differences	**(3,400)**	(6,925)
Item that will not be subsequently reclassified to condensed consolidated income statement:		
Remeasurement gains/(losses) on defined benefit retirement scheme, net of tax	**1,048**	(1,294)
Remeasurement (losses)/gains on long service payment liabilities, net of tax	**(1,637)**	979
Other comprehensive loss for the period, net of tax	**(3,989)**	(7,240)
Total comprehensive income for the period	**140,045**	131,666
Attributable to:		
Shareholders of the Company	**140,034**	131,648
Non-controlling interests	**11**	18
	140,045	131,666

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2(c) to the condensed consolidated interim financial statements.

The notes on pages 31 to 66 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position — Unaudited

	Notes	As at 31 December 2019 HK$'000 (Unaudited)	As at 30 June 2019 HK$'000 (restated)*
ASSETS			
Non-current assets			
Property, plant and equipment	12	**396,553**	406,957
Investment property	12	**11,043**	11,235
Right-of-use assets	3,12	**67,743**	–
Land use rights	12	**20,060**	20,432
Other intangible assets	12	**77,259**	78,137
Interests in an associated company		**64**	79
Interests in joint ventures		**934**	934
Deferred income tax assets		**7,040**	9,337
Pension assets		**3,903**	2,849
		584,599	529,960
Current assets			
Trade and other receivables	13	**1,436,988**	1,529,692
Contract assets		**349,148**	290,822
Inventories		**52,832**	40,206
Cash and bank balances	14	**502,675**	562,205
		2,341,643	2,422,925
Total assets		**2,926,242**	2,952,885
EQUITY			
Ordinary shares	15	**45,000**	45,000
Convertible preference shares	15	**140,900**	–
Reserves		**152,373**	809,267
Shareholders' funds		**338,273**	854,267
Non-controlling interests		**78**	67
Total equity		**338,351**	854,334

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2(c) to the condensed consolidated interim financial statements.

The notes on pages 31 to 66 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position — Unaudited *(Continued)*

	Notes	As at 31 December 2019 HK$'000 (Unaudited)	As at 30 June 2019 HK$'000 (restated)*
LIABILITIES			
Non-current liabilities			
Borrowings	2(c)	**562,817**	–
Lease liabilities	3	**30,486**	–
Long service payment liabilities		**34,088**	31,849
Deferred income tax liabilities		**29,355**	29,415
		656,746	61,264
Current liabilities			
Trade and other payables	16	**1,647,210**	1,718,602
Contract liabilities		**156,428**	224,119
Borrowings		**–**	30,000
Current portion of lease liabilities	3	**38,845**	–
Taxation payable		**88,662**	64,566
		1,931,145	2,037,287
Total liabilities		**2,587,891**	2,098,551
Total equity and liabilities		**2,926,242**	2,952,885
Net current assets		**410,498**	385,638
Total assets less current liabilities		**995,097**	915,598

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2(c) to the condensed consolidated interim financial statements.

The notes on pages 31 to 66 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity — Unaudited

	Ordinary shares HK$'000	Convertible preference shares HK$'000	Reserves HK$'000	Equity attributable to shareholders of the Company HK$'000	Non-controlling interests HK$'000	Total (restated)* HK$'000
As at 1 July 2018						
As previously reported	45,000	–	592,350	637,350	–	637,350
Acquisition of the Acquired Group	–	–	139,526	139,526	57	139,583
As restated	45,000	–	731,876	776,876	57	776,933
Profit for the period, as restated	–	–	138,888	138,888	18	138,906
Other comprehensive (loss)/income:						
Currency translation differences	–	–	(6,925)	(6,925)	–	(6,925)
Remeasurement losses on defined benefit retirement scheme, net of tax, as restated	–	–	(1,294)	(1,294)	–	(1,294)
Remeasurement gains on long service payment liabilities, net of tax, as restated	–	–	979	979	–	979
Total comprehensive income for the period, as restated	–	–	131,648	131,648	18	131,666
Transactions with shareholders:						
Dividend	–	–	(59,850)	(59,850)	–	(59,850)
At 31 December 2018	45,000	–	803,674	848,674	75	848,749
As at 1 July 2019						
As previously reported	**45,000**	**–**	**727,020**	**772,020**	**–**	**772,020**
Acquisition of the Acquired Group	**–**	**–**	**82,247**	**82,247**	**67**	**82,314**
As restated	**45,000**	**–**	**809,267**	**854,267**	**67**	**854,334**
Profit for the period	**–**	**–**	**144,023**	**144,023**	**11**	**144,034**
Other comprehensive (loss)/income:						
Currency translation differences	**–**	**–**	**(3,400)**	**(3,400)**	**–**	**(3,400)**
Remeasurement gains on defined benefit retirement scheme, net of tax	**–**	**–**	**1,048**	**1,048**	**–**	**1,048**
Remeasurement losses on long service payment liabilities, net of tax	**–**	**–**	**(1,637)**	**(1,637)**	**–**	**(1,637)**
Total comprehensive income for the period	**–**	**–**	**140,034**	**140,034**	**11**	**140,045**
Transactions with shareholders:						
Issuance of convertible preference shares (Note 15)	**–**	**140,900**	**–**	**140,900**	**–**	**140,900**
Acquisition of the Acquired Group (Note 2(c))	**–**	**–**	**(743,378)**	**(743,378)**	**–**	**(743,378)**
Dividend	**–**	**–**	**(53,550)**	**(53,550)**	**–**	**(53,550)**
At 31 December 2019	**45,000**	**140,900**	**152,373**	**338,273**	**78**	**338,351**

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2(c) to the condensed consolidated interim financial statements.

The notes on pages 31 to 66 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows — Unaudited

	Notes	For the six months ended 31 December 2019 HK$'000	2018 (restated)* HK$'000
Cash flows from operating activities			
Cash generated from operations	17(a)	**58,684**	248,159
Hong Kong profits tax paid		**–**	(42,040)
Mainland China and Macau income tax paid		**(5,730)**	(19,710)
Interest paid		**(283)**	(201)
Net cash generated from operating activities		**52,671**	186,208
Cash flows from investing activities			
Cash consideration for acquisition of a business	17(b)	**(564,000)**	–
Purchase of property, plant and equipment		**(10,719)**	(10,917)
Additions to intangible assets		**(300)**	–
Interest received		**3,297**	2,640
Proceeds from disposal of property, plant and equipment		**666**	25
Proceeds from disposal of intangible assets		**420**	–
Dividend received from an associated company		**482**	468
Net cash used in investing activities		**(570,154)**	(7,784)
Cash flows from financing activities			
Proceeds from bank borrowings, net		**562,792**	40,000
Repayment of bank borrowings		**(30,000)**	(40,000)
Dividend paid		**(53,550)**	(59,850)
Payments for lease liabilities		**(19,649)**	–
Net cash from/(used) in financing activities		**459,593**	(59,850)
Net (decrease)/increase in cash and cash equivalents during the period		**(57,890)**	118,574
Cash and cash equivalents at the beginning of the period		**562,205**	514,126
Exchange differences	17(c)	**(1,640)**	(4,792)
Cash and cash equivalents at the end of the period		**502,675**	627,908
Representing:			
Cash and bank balances as stated in the condensed consolidated statement of financial position		**502,675**	627,908

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2(c) to the condensed consolidated interim financial statements.

The notes on pages 31 to 66 are an integral part of these condensed consolidated interim financial statements.

1 GENERAL INFORMATION

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

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

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

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

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

HKFRS 16 "Leases"

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

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

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

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

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

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

4.2 Fair value estimation

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

5 ESTIMATES

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

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

6 REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

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

(iv) Property and facility management services — Provision of property and facility management services, property agency and related services for buildings, carparks management services and guarding services.

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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

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

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

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

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

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

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

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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

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

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

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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

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

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

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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

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

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

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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

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

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

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

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

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

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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

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

7 OTHER INCOME/GAINS, NET

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

8 OPERATING PROFIT

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

9 INCOME TAX EXPENSES

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

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

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

(a) Basic

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

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

(b) Diluted

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

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

11 DIVIDEND

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

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

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

13 TRADE AND OTHER RECEIVABLES

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

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

13 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

14 CASH AND BANK BALANCES

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

15 SHARE CAPITAL

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

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

15 SHARE CAPITAL *(Continued)*

Note

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

- Each convertible preference share shall entitle the holder to convert within a period of 10 years after the Issue Date, provided that any conversion shall not result in the Company failing to comply with any public float requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

- Each convertible preference share is convertible into such number of ordinary share(s) being one multiplied by the conversion rate. The conversion rate is determined by dividing the Issue Price of convertible preference shares by the conversion price.

- The conversion price is the Issue Price, subject to adjustment upon the occurrence of certain prescribed events.

- Each convertible preference share shall confer on the holder the right to receive preferred distributions from the Issue Date at a rate of 6.0% per annum on the Issue Price, payable annually in arrears. Each preferred distribution is cumulative. The Board may, in its sole discretion, elect to defer or not to pay a preferred distribution. No interest accrues on any unpaid preferred distribution. If the Board elects to defer or not to pay a preferred distribution, the Company shall not (a) pay any dividends, distributions or make any other payment on any ordinary shares or (b) redeem, cancel, repurchase or acquire for any consideration any ordinary shares, unless at the same time it pays to the holder of the convertible preference shares any deferred or unpaid preferred distribution which was scheduled to be paid on a day falling in the same financial year in respect of which payment of such dividends, distributions or other payments is made or during which such redemption, cancellation, repurchase or acquisition occurs.

- The holder of the convertible preference shares shall not have the right to attend or vote at any general meeting of the Company (except a general meeting for winding up of the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of such holder).

- The holder of the convertible preference shares will have priority over the holders of ordinary shares of the Company on the assets and funds of the Company available for distribution in a distribution of assets on liquidation, winding up or dissolution of the Company.

- At any time after 10 years following the Issue Date, the Company may at its sole discretion serve at least ten days' prior written notice to the holder of the convertible preference shares to redeem either in whole or in part of the convertible preference shares for the time being outstanding, at a redemption price equals to the Issue Price together with all outstanding preferred distributions accrued to the date fixed for redemption.

16 TRADE AND OTHER PAYABLES

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

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

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

17 NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

17 NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Cash consideration for acquisition of a business

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

(c) Exchange differences

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

(d) Non-cash transaction

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

18 RELATED PARTY TRANSACTIONS

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

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

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

18 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

18 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

18 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

18 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

Notes:

(i) These companies are commonly controlled by the Ultimate Controlling Shareholder.

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

(b) Transactions with related parties

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

18 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

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

Notes:

(i) Revenue from provision of contracting work and facility service income is principally charged in accordance with the terms of the respective contracts.

(ii) These related companies are companies of which the key management personnel are close members of the family of the ultimate controlling shareholder (Mr. Doo Wai Hoi, William).

(iii) Premises management service fee and building manager remuneration was charged based on certain percentages of total expenditures of the properties in accordance with the management contracts.

(iv) Handling fee income was charged at a rate mutually agreed between the parties.

(v) Insurance broking service expenses were principally charged in accordance with the terms of the respective insurance policies.

(vi) Rental expenses/additions of rights-of-use assets were principally calculated in accordance with the terms of the respective rental agreements.

(vii) Management fee expenses were charged at prices and terms as agreed by both parties involved.

(viii) Appointment fees were charged at prices and terms as agreed by both parties.

(ix) Miscellaneous service fees were charged based on fixed amounts mutually agreed by the parties.

(x) The above transactions with related parties are based upon mutually agreed terms and conditions.

(xi) As at 31 December 2019, the Group had banking facilities amounting to HK$125.0 million (30 June 2019: HK$137.0 million (restated)) guaranteed by a related company.

18 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

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

Note:

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

18 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

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

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

19 CAPITAL COMMITMENTS

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

Interim Dividend

The Board has resolved to declare the payment of an interim dividend of HK12.8 cents (For the six months ended 31 December 2018: HK10.1 cents) per ordinary share to the ordinary shareholders of the Company for the six months ended 31 December 2019. The interim dividend will be paid in cash to shareholders whose names appear on the register of ordinary shareholders of the Company at the close of business on Friday, 13 March 2020. It is expected that the dividend warrants will be posted to shareholders on or about Friday, 20 March 2020.

CLOSURE OF REGISTER OF ORDINARY SHAREHOLDERS

For the purpose of determining shareholders' entitlement to the interim dividend, the register of ordinary shareholders of the Company will be closed. Details of such closure are set out below:

Ex-dividend date	10 March 2020
Latest time to lodge transfer documents for registration	4:30 pm on 11 March 2020
Closure of register of ordinary shareholders	12 and 13 March 2020
Record date	13 March 2020
Interim dividend payment date	on or about 20 March 2020

During the above closure period, no transfer of ordinary shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the latest time specified above.

Other Information

REVIEW OF INTERIM RESULTS

The Audit Committee of the Company was established by the Board for the purposes of, among other things, reviewing and providing supervision over the Group's financial reporting process and internal controls. It currently comprises four independent non-executive directors of the Company. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 31 December 2019 and discussed financial related matters with the management and the external auditors of the Company.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 December 2019 have been reviewed by the Company's external auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and enhance corporate value of the Group. Throughout the six months ended 31 December 2019, the Company had complied with all the code provisions set out in 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").

DIRECTORS' DEALINGS IN THE COMPANY'S SECURITIES

The Company has adopted its own Securities Dealing Code, which is 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. All directors of the Company 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 six months ended 31 December 2019.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the directors since the publication of the 2018-2019 Annual Report are set out below:

— Dr. Cheng Kar Shun, Henry was appointed non-executive director of DTXS Silk Road Investment Holdings Company Limited, a listed public company in Hong Kong, with effect from 28 August 2019. Dr. Cheng retired as non-executive of SJM Holdings Limited with effect from the conclusion of its annual general meeting held on 11 June 2019.

— Mr. Poon Lock Kee, Rocky was awarded the Medal of Merit — Professions by the Macau Government in September 2019. Mr. Poon's position in the Hong Kong Federation of Electrical & Mechanical Contractors Limited was changed from Chairman to President in October 2019.

— Mr. Doo William Junior Guilherme was appointed as an independent non-executive director of The Bank of East Asia, Limited, a listed public company in Hong Kong, with effect from 1 November 2019. He ceased to act as an adjudicator of the Immigration Tribunal in September 2019.

— Mr. Kwong Che Keung, Gordon retired as an independent non-executive director of OP Financial Limited with effect from the conclusion of its annual general meeting held on 27 August 2019.

— Mr. Lee Kwan Hung, Eddie acts as an independent non-executive director of Landsea Green Properties Co., Ltd, the company name of which was changed from Landsea Green Group Co., Ltd. with effect from 8 October 2019. He is also an independent non-executive director of Glory Sun Financial Group Limited, the company of which was changed from China Goldjoy Group Limited with effect from 2 May 2019.

Except as mentioned above, there is no change in information of each director of the Company that is required to be disclosed under Rule 13.51(2) of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 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 were as follows:

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

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 of FSE Holdings in issue as at 31 December 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 31 December 2019.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 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 and underlying shares of the Company

Name	Capacity/nature of interests	Number of ordinary shares in issue	Number of underlying shares[6]	Total number of ordinary shares interested in	Approximate percentage of shareholding[7]
FSE Holdings[1&4]	Beneficial interests and interest of controlled corporation[5]	337,500,000	43,676,379	381,176,379	84.71%
Sino Spring Global Limited ("Sino Spring")[1&2]	Interest of controlled corporation	337,500,000	43,676,379	381,176,379	84.71%
Mr. Doo Wai Hoi, William ("Mr. Doo")[1&2]	Interest of controlled corporation	337,500,000	43,676,379	381,176,379	84.71%
Mrs. Doo Cheng Sau Ha, Amy ("Mrs. Doo")[3]	Interest of spouse	337,500,000	43,676,379	381,176,379	84.71%
FSE Management Company Limited ("FMC")[4&6]	Beneficial interests	–	43,676,379	43,676,379	9.71%

Notes:

1. FSE Holdings 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 the shares in which FSE Holdings is interested.

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 the 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 the shares in which Mr. Doo is interested by virtue of Part XV of the SFO.

4. FMC is wholly owned by FSE Holdings. By virtue of Part XV of the SFO, FSE Holdings is deemed to be interested in all the shares in which FMC is interested.

5. The 381,176,379 ordinary shares in which FSE Holdings is interested include 337,500,000 ordinary shares in issue, of which FSE Holdings is the beneficiary owner, and 43,676,379 ordinary shares to be issued pursuant to the CPS as referred to in Note 6 below and beneficially owned by FMC, in which FSE Holdings is deemed to be interested as referred to Note 4 above.

6. A total of 43,676,379 non-voting redeemable convertible preference shares (the "CPS") were issued by the Company to FMC on 16 December 2019. Upon the exercise of the conversion rights attaching to each of the CPS, each CPS is convertible into one ordinary share of the Company (subject to adjustments upon occurrence of certain prescribed events, including consolidation, subdivision or reclassification of shares in the capital of the Company, capitalisation of profits or reserves etc., in each case if not also made available to holder(s) of CPS) within a period of 10 years from its date of issue.

7. The approximate percentage of shareholding is calculated on the basis of 450,000,000 issued voting shares of the Company as at 31 December 2019. Upon full conversion of the CPS and assuming no further issue of voting shares of the Company, the total number of issued voting shares of the Company will be 493,676,379 and the diluted approximate percentage of shareholding held by (i) FSE Holdings, Sino Spring, Mr. Doo and Mrs. Doo and (ii) FMC will be 77.21% and 8.85% respectively. Please note that these percentages are provided for illustrative purposes only. The terms of the CPS will not permit conversion if immediately after such conversion, the public float of the ordinary shares of the Company will fall below the minimum requirements of the Listing Rules.

Other Information

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 31 December 2019.

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.21 OF THE LISTING RULES

On 18 October 2019, FSE Property Management Group Limited ("FPMGL") (as borrower), and FSE Engineering Group Limited ("FSEEG") and FSE Facility Services Group Limited ("FFSGL") (as guarantors), all being wholly-owned subsidiaries of the Company, entered into a 2-year term loan facility agreement (the "Facility Agreement") with a bank. The Facility Agreement provides for up to the lesser of HK$600 million or 80% of the total consideration of an acquisition, details of which are set out in the "Management Discussion and Analysis" under the paragraphs headed "Major transaction" on pages 16 to 17, for the financing for the acquisition. The loan under the Facility Agreement bears an interest of 0.7% per annum over Hong Kong Interbank Offered Rate and is repayable on the date that is two years from the drawdown date.

Under the Facility Agreement, each of FPMGL, FSEEG and FFSGL (collectively, the "Obligors") undertakes to procure that Mr. Doo Wai Hoi, William, a controlling shareholder of the Company, and Mr. Doo William Junior Guilherme, a director of the Company, shall maintain not less than 51% direct or indirect shareholding of each of the Obligors, the breach of which will constitute an event of default under the Facility Agreement. Upon occurrence of an event of default, all amounts advanced under the Facility Agreement including all interest accrued thereon will become immediately due and repayable, and the bank shall not be required to make any further advances under the Facility Agreement.

Announcement regarding the entering into of the Facility Agreement was made on 18 October 2019 pursuant to Rule 13.18 of the Listing Rules. As at 31 December 2019, the principal amount of the bank loan in respect of the Facility Agreement of HK$563.9 million remained outstanding.

Save as disclosed above, as at 31 December 2019, the Company did not have other disclosure obligations under Rule 13.21 of the Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 20 November 2015. No share option has been granted under the Scheme since its adoption.

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 six months ended 31 December 2019.

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)

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
Certified Public Accountants and Registered PIE Auditor
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

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INVESTOR RELATIONS

Strategic Financial Relations Limited
2401–02, Admiralty Centre I
18 Harcourt Road
Hong Kong

WEBSITE

www.fseservices.com.hk