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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 RESULTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

		For the six months ended 31 December		
		2018	2017 (restated) ⁽ⁱ⁾	% Change
		HK\$M	HK\$M	
Revenue	:	2,291.7	2,381.8	-3.8%
Gross profit	:	291.7	288.2	+1.2%
Profit attributable to equity holders of the Company ⁽ⁱⁱ⁾	:	113.5	120.9	-6.1%
Basic earnings per share ⁽ⁱⁱ⁾	:	HK\$0.25	HK\$0.27	-7.4%

The Board declared the payment of an interim dividend of HK10.1 cents (2017: HK7.8 cents) per share for the six months ended 31 December 2018⁽ⁱⁱⁱ⁾.

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 1(c) to the condensed consolidated interim financial statements.

Note (ii) During the six months ended 31 December 2018, the Group recorded profit attributable to equity holders of the Company amounting to HK\$113.5M (equivalent to basic earnings per share of HK\$0.25), representing a decrease of HK\$7.4M or 6.1% as compared with HK\$120.9M (restated) for the same period last year.

This amount increased by 30.8% as compared with HK\$86.8M (equivalent to basic earnings per share of HK\$0.19) as previously reported in the Group's condensed consolidated interim financial statements for the six months ended 31 December 2017, which does not include the profit of HK\$34.1M made by the facility services business during the six months ended 31 December 2017 accounted for pursuant to its application of merger accounting for business combinations under common control as mentioned in Note (i) above.

Note (iii) The interim dividend for the six months ended 31 December 2018 of HK10.1 cents per share to be paid in March 2019 represents a dividend payout ratio of 40.0% (Six months ended 31 December 2017: 40.4%, based on the Group's profit for the six months ended 31 December 2017 attributable to equity holders of the Company of HK\$86.8M as previously reported in the Group's condensed consolidated interim financial statements for the six months ended 31 December 2017, which does not include the profit of HK\$34.1M made by the facility services business during the six months ended 31 December 2017).

RESULTS

The board of directors (the “Board”) of FSE Services Group Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31 December 2018.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

	Notes	For the six months ended	
		31 December 2018	2017 (restated)*
		HK\$'000	HK\$'000
Revenue	3	2,291,720	2,381,758
Cost of services and sales		(2,000,000)	(2,093,542)
Gross profit		291,720	288,216
Other income/gains, net	4	678	3,011
General and administrative expenses		(158,383)	(153,378)
Operating profit	5	134,015	137,849
Finance income		2,629	9,941
Finance costs		-	(177)
Profit before income tax		136,644	147,613
Income tax expenses	6	(23,096)	(26,744)
Profit for the period attributable to equity holders of the Company		113,548	120,869
Earnings per share for profit attributable to equity holders of the Company (expressed in HK\$)			
- Basic and diluted	7	0.25	0.27

* 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 1(c) to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
– UNAUDITED

	For the six months ended	
	31 December	
	2018	2017
		(restated)*
	HK\$'000	HK\$'000
Profit for the period attributable to equity holders of the Company	113,548	120,869
	-----	-----
Other comprehensive income:		
<i>Items that may be subsequently reclassified to condensed consolidated income statement:</i>		
Currency translation differences	(6,925)	8,038
Reclassification of revaluation reserve to profit or loss upon maturity of available-for-sale financial assets, net of tax	-	60
Fair value change of available-for-sale financial assets, net of tax	-	2
<i>Item that will not be subsequently reclassified to condensed consolidated income statement:</i>		
Remeasurement gains on long service payment liabilities, net of tax	938	2,121
	-----	-----
Other comprehensive income, net of tax	(5,987)	10,221
	-----	-----
Total comprehensive income for the period attributable to equity holders of the Company	107,561	131,090
	=====	=====

* 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 1(c) to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
– UNAUDITED

	As at 31 December 2018 HK\$'000 (Unaudited)	As at 30 June 2018 HK\$'000 (Audited)
	Note	
ASSETS		
Non-current assets		
Property, plant and equipment	395,723	412,242
Investment property	11,428	11,620
Land use rights	20,726	21,230
Other intangible assets	52,371	52,796
Deposits for purchase of equipment	4,908	-
Deferred income tax assets	11,603	14,329
	<u>496,759</u>	<u>512,217</u>
	-----	-----
Current assets		
Inventories	36,362	26,006
Contract assets	180,786	-
Amounts due from customers for contract works	-	343,029
Trade and other receivables	9 1,177,136	1,278,947
Cash and bank balances	521,883	407,561
	<u>1,916,167</u>	<u>2,055,543</u>
	-----	-----
Total assets	<u>2,412,926</u>	<u>2,567,760</u>
	=====	=====
EQUITY		
Share capital	45,000	45,000
Reserves	640,061	592,350
	<u>685,061</u>	<u>637,350</u>
Total equity	<u>685,061</u>	<u>637,350</u>
	=====	=====

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
– UNAUDITED (CONTINUED)

		As at	As at
		31 December	30 June
		2018	2018
		HK\$'000	HK\$'000
	Note	(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		25,638	25,419
Long service payment liabilities		21,093	21,320
		<hr/>	<hr/>
		46,731	46,739
		<hr/>	<hr/>
Current liabilities			
Contract liabilities		451,642	-
Amounts due to customers for contract works		-	475,397
Trade and other payables	10	1,196,550	1,343,323
Taxation payable		32,942	64,951
		<hr/>	<hr/>
		1,681,134	1,883,671
		<hr/>	<hr/>
Total liabilities		1,727,865	1,930,410
		<hr/>	<hr/>
Total equity and liabilities		2,412,926	2,567,760
		<hr/>	<hr/>
Net current assets		235,033	171,872
		<hr/>	<hr/>
Total assets less current liabilities		731,792	684,089
		<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

This unaudited condensed consolidated interim financial information for the six months ended 31 December 2018 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 2018, 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 2018, except for the adoption of new standards as described below.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

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

For the six months ended 31 December 2018, the Group adopted the following new standards, amendments to existing standards and interpretation which are effective for the accounting periods beginning on or after 1 January 2018 and relevant to the Group’s operations:

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

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 9 and HKFRS 15 as described below:

(I) HKFRS 9 “Financial Instruments”

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces a new impairment model for financial assets.

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

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss) after initial recognition, and
- those to be measured subsequently at amortised cost after initial recognition.

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

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

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

(i) Measurement

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

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

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

(1) Debt instruments

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

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

using the effective interest rate method. Foreign exchange gains and losses are presented in “Other gains/(losses), net” and impairment expenses are presented within “General and administrative expenses” in another as separate line item in the income statement.

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

(2) Equity instruments

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

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

The application of HKFRS 9 does not have significant impact on the classification and measurement of its financial assets.

(ii) Impairment

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

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

- actual or expected significant adverse changes in external credit rating of the debtors

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

(II) HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 issued by the HKICPA is effective for annual accounting periods beginning or after 1 January 2018.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to be recognised through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when a performance obligation is satisfied. The core principle is that a company should recognise revenue when control of a good or service transfers to a customer.

From 1 July 2018 onwards, the Group has adopted the following accounting policies on revenue.

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

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

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

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

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

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

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

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

(i) Engineering contracts

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

(ii) Service fee income

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

(iii) Sales of goods

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

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

The impact of the application of HKFRS 15 has been disclosed in Note 2.

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

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

		<u>Effective for accounting periods beginning on or after</u>
HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 Amendments	Long-term Interests in Associate and Joint Ventures	1 January 2019
HKFRS 9 Amendment	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements	2015 – 2017 Cycle	1 January 2019
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, except for HKFRS 16 as described below:

HKFRS 16, "Leases"

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

The Group conducted preliminary assessment and estimated that the adoption of HKFRS 16 would result in recognition of lease assets and lease liabilities primarily arising from leases of premises and properties in relation to the Group's various businesses.

As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$80.5 million. This will result in the recognition of an asset and a liability for future payments, and the Group expects there will not be any material effect on the profit or loss.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory to the Group's annual reporting period beginning on or after 1 July 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

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

The acquisition was considered as a business combination under common control as FSGL and the Target Group are both ultimately controlled by FSE Holdings Limited. The acquisition of the Target Group was accounted for using merger accounting in accordance with Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("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 restated its comparative amounts of the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the six months ended 31 December 2017 by including the financial 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, i.e. 1 July 2017.

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

The following are reconciliations of the effects arising from the accounting of common control combination in accordance with AG 5 on the Group's consolidated income statements and consolidated statements of comprehensive income in connection with the Target Group for the period ended 31 December 2017.

- (i) Effect on the condensed consolidated income statement for the six months ended 31 December 2017 (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	1,763,335	618,931	(508)	2,381,758
Cost of services and sales	(1,556,387)	(537,663)	508	(2,093,542)
Gross profit	206,948	81,268	-	288,216
Other income/gains, net	2,625	386	-	3,011
General and administrative expenses	(112,570)	(40,808)	-	(153,378)
Operating profit	97,003	40,846	-	137,849
Finance income	9,794	147	-	9,941
Finance costs	-	(177)	-	(177)
Profit before income tax	106,797	40,816	-	147,613
Income tax expenses	(20,017)	(6,727)	-	(26,744)
Profit for the period attributable to equity holders of the Company	86,780	34,089	-	120,869
Earnings per share for profit attributable to equity holders of the Company (expressed in HK\$)				
- Basic and diluted	0.19	0.08	-	0.27

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

- (ii) Effect on the condensed consolidated statement of comprehensive income for the period ended 31 December 2017 (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 attributable to equity holders of the Company	86,780	34,089	120,869
Other comprehensive income:			
<i>Items that may be subsequently reclassified to consolidated income statement:</i>			
Currency translation differences	8,038	-	8,038
Reclassification of revaluation reserve to profit or loss upon maturity or disposal of available-for-sale financial assets, net of tax	60	-	60
Fair value change of available-for-sale financial assets, net of tax	2	-	2
<i>Item that will not be subsequently reclassified to consolidated income statement:</i>			
Remeasurement gains on long service payment liabilities, net of tax	-	2,121	2,121
Other comprehensive income, net of tax	8,100	2,121	10,221
Total comprehensive income for the period attributable to equity holders of the Company	94,880	36,210	131,090

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.

2 Changes in accounting policies

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

The accounting policies were changed to comply with HKFRS 9 and HKFRS 15. HKFRS 9 replaces the provisions of HKAS 39 “Financial Instruments: Recognition and Measurement” that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The application of HKFRS 9 does not have significant impact on the classification and measurement of its financial assets. HKFRS 15 replaces both the provisions of HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations that relate to the recognition, classification and measurement of revenue and costs. The effects of the adoption of HKFRS 15 are as follows:

Presentation of contract assets and liabilities

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

- “Contract assets” recognised in relation to contracting activities were previously presented as “Amounts due from customers for contract works”.
 - “Contract liabilities” recognised in relation to contracting activities were previously presented as “Amounts due to customers for contract works”.
- (a) The impact on the Group’s financial position by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that was previously in effect before the adoption of HKFRS 15 is as follows:

	As at 1 July 2018		
	As previously reported HK\$’000	Effects of the adoption of HKFRS 15 HK\$’000	As restated HK\$’000
Condensed consolidated statement of financial position (extract)			
Amounts due from customers for contract works	343,029	(343,029)	-
Contract assets	-	343,029	343,029
Amounts due to customers for contract works	475,397	(475,397)	-
Contract liabilities	-	475,397	475,397

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

	As at 31 December 2018		
	Without the adoption of HKFRS 15 HK\$’000	Effects of the adoption of HKFRS 15 HK\$’000	As reported HK\$’000
Condensed consolidated statement of financial position (extract)			
Amounts due from customers for contract works	180,786	(180,786)	-
Contract assets	-	180,786	180,786
Amounts due to customers for contract works	451,642	(451,642)	-
Contract liabilities	-	451,642	451,642

The adoption of HKFRS 15 has no impact to the 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.

Accounting for contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The Group recognises a contract asset for the right to consideration in exchange for goods or services that the Group has transferred to a customer, and the amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the payments from customer exceeds the revenue recognised to date, then the Group recognises a contract liability for the difference.

The Group recognises the costs of obtaining a contract with a customer within contract assets if the Group expects to recover those costs.

3 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 and facility services income. An analysis of the Group's revenue is as follows:

	For the six months ended 31 December	
	2018	2017 (restated)
	HK\$'000	HK\$'000
Revenue		
Contracting	1,597,124	1,655,883
Maintenance services	69,599	61,527
Sales of goods	44,596	45,642
Facility services	580,401	618,706
Total	2,291,720	2,381,758

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

- (i) E&M engineering - Provision of engineering services and trading of building materials;
- (ii) Environmental management services - Trading of environmental products and provision of related engineering and consultancy services; and
- (iii) Facility services – Management of cleaning and waste disposal services, recycling and environmental disposal services and provision of laundry services.

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

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

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowances that are reported as direct offsets in the statement of financial position. Segment assets consist primarily of property, plant and equipment, investment property, land use rights, other intangible assets, deposits for purchase of equipment, deferred income tax assets, inventories, contract assets, amounts due from customers for contract works, trade and other receivables 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 2018, 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 1(c).

Capital expenditure comprises mainly additions to property, plant and equipment.

(a) **For the six months ended and as at 31 December 2018**

The segment results for the six months ended 31 December 2018 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	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue - External	1,676,109	35,210	580,401	-	2,291,720
Revenue - Internal	910	1,547	1,643	(4,100)	-
Total revenue	1,677,019	36,757	582,044	(4,100)	2,291,720
Timing of revenue recognition					
Over time	1,634,194	34,947	582,044	(4,061)	2,247,124
At a point of time	42,825	1,810	-	(39)	44,596
Total revenue	1,677,019	36,757	582,044	(4,100)	2,291,720
Operating profit before unallocated corporate expenses	106,246	5,057	24,887	-	136,190
Unallocated corporate expenses					(2,175)
Operating profit					134,015
Finance income					2,629
Finance costs					-
Profit before income tax					136,644
Income tax expenses					(23,096)
Profit for the period attributable to equity holders of the Company					113,548
Other items					
Depreciation	6,609	7,102	8,565	-	22,276
Amortisation of land use rights	290	-	-	-	290
Amortisation of other intangible assets	185	-	240	-	425

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

	E&M engineering HK\$'000	Environmental management services HK\$'000	Facility services HK\$'000	Total HK\$'000
Segment assets	1,631,287	56,978	458,009	2,146,274
Unallocated assets				266,652
Total assets				<u>2,412,926</u>
Segment liabilities	1,508,316	22,696	194,071	1,725,083
Unallocated liabilities				2,782
Total liabilities				<u>1,727,865</u>
Capital expenditure	2,374	247	3,183	5,804
Unallocated capital expenditure				-
Total capital expenditure				<u>5,804</u>

(b) For the six months ended 31 December 2017 and as at 30 June 2018

The segment results for the six months ended 31 December 2017, 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	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue – External, as restated	1,729,252	33,800	618,706	-	2,381,758
Revenue – Internal, as restated	237	1,056	225	(1,518)	-
Total revenue	1,729,489	34,856	618,931	(1,518)	2,381,758
Timing of revenue recognition					
Over time	1,684,823	33,853	618,931	(1,491)	2,336,116
At a point of time	44,666	1,003	-	(27)	45,642
Total revenue	1,729,489	34,856	618,931	(1,518)	2,381,758
Operating profit before unallocated corporate expenses	95,826	3,344	40,846	-	140,016
Unallocated corporate expenses					(2,167)
Operating profit, as restated					137,849
Finance income, as restated					9,941
Finance costs, as restated					(177)
Profit before income tax, as restated					147,613
Income tax expenses, as restated					(26,744)
Profit for the period attributable to equity holders of the Company, as restated					120,869
Other items					
Depreciation, as restated	11,819	1,025	10,895	-	23,739
Amortisation of land use rights	300	-	-	-	300
Amortisation of other intangible assets, as restated	185	-	240	-	425

The segment assets and liabilities as at 30 June 2018 and capital expenditure for the six months ended 31 December 2017, as restated, are as follows:

	E&M engineering HK\$'000	Environmental management services HK\$'000	Facility services HK\$'000	Total HK\$'000
Segment assets	1,835,604	40,999	421,302	2,297,905
Unallocated assets				269,855
Total assets				<u>2,567,760</u>
Segment liabilities	1,733,265	15,130	179,221	1,927,616
Unallocated liabilities				2,794
Total liabilities				<u>1,930,410</u>
Capital expenditure, as restated	2,487	183	8,981	11,651
Unallocated capital expenditure				-
Total capital expenditure, as restated				<u>11,651</u>

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	
	2018	2017
	HK\$'000	(restated) HK\$'000
Revenue		
Hong Kong	1,863,506	1,944,927
Mainland China	371,311	249,628
Macau	56,903	187,203
Total	<u>2,291,720</u>	<u>2,381,758</u>

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

	As at	As at
	31 December	30 June
	2018	2018
	HK\$'000	HK\$'000
Non-current assets, other than deferred tax assets		
Hong Kong	430,273	441,781
Mainland China	24,742	25,756
Macau	30,141	30,351
Total	<u>485,156</u>	<u>497,888</u>

4 Other income/gains, net

	For the six months ended	
	31 December	
	2018	2017
		(restated)
	HK\$'000	HK\$'000
Rental income	1,264	-
Ex-gratia payment from the government for retirement of motor vehicles	87	327
Exchange (losses)/gains, net	(906)	3,929
(Loss)/gain on disposal of property, plant and equipment, net	(8)	59
Fair value loss on financial assets at fair value through profit or loss	-	(1,443)
Loss on maturity of available-for-sale financial assets	-	(72)
Sundries	241	211
Total	678	3,011

5 Operating profit

	For the six months ended	
	31 December	
	2018	2017
		(restated)
	HK\$'000	HK\$'000
Operating profit is stated after charging/(crediting):		
Cost of inventories sold	27,727	25,783
Raw materials and consumables used	532,514	431,004
Subcontracting fees	815,549	903,691
Provision for inventories	351	234
Reversal of impairment loss on trade receivables	(627)	(730)
Impairment loss on receivables	3,198	-
Depreciation of property, plant and equipment	22,084	23,739
Depreciation of investment property	192	-
Amortisation of land use rights	290	300
Amortisation of other intangible assets	425	425
Operating lease rental for land and buildings	23,575	18,715
Less: Operating lease rental capitalised under contracts in progress	(1,602)	(2,065)
Staff costs (including directors' emoluments)		
Salaries and allowances	614,386	672,092
Pension costs on defined contribution schemes	27,749	28,892
(Less)/add: Staff costs (capitalised)/released under contracts in progress	(18,734)	18,339

6 Income tax expenses

	For the six months ended	
	31 December	
	2018	2017 (restated)
	HK\$'000	HK\$'000
Current income tax		
Hong Kong profits tax	20,042	14,371
Mainland China taxation	2,260	9,124
Macau taxation	(2,033)	1,969
Deferred income tax expense	2,827	1,280
Total	23,096	26,744

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 2017 and 2018.

7 Earnings per share for profit attributable to equity holders of the Company

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six months ended 31 December 2018 and 2017.

	For the six months ended	
	31 December	
	2018	2017 (restated)
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	113,548	120,869
Weighted average number of ordinary shares in issue (shares in thousands)	450,000	450,000
Basic earnings per share (HK\$)	0.25	0.27

(b) Diluted

As the Company did not have any dilutive potential ordinary shares during the six months ended 31 December 2018 and 2017, the diluted earnings per share equals the basic earnings per share.

8 Dividend

At a meeting held on 25 February 2019, the Board has resolved to declare an interim dividend of HK10.1 cents (2017: HK7.8 cents) per ordinary share for the six months ended 31 December 2018, equivalent to a total amount of HK\$45.45 million (2017: HK\$35.10 million). The interim dividend will be paid in cash.

9 Trade and other receivables

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 2018 HK\$'000	As at 30 June 2018 HK\$'000
Current to 90 days	544,124	413,893
91 – 180 days	19,274	17,856
Over 180 days	7,235	8,118
Total	570,633	439,867

10 Trade and other payables

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 2018 HK\$'000	As at 30 June 2018 HK\$'000
1 – 90 days	224,074	274,934
91 – 180 days	3,215	1,232
Over 180 days	22,705	1,239
Total	249,994	277,405

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 31 December 2018 (the “period under review”), the Group recorded revenue amounting to HK\$2,291.7 million, representing a decrease of HK\$90.1 million or 3.8%, as compared with HK\$2,381.8 million (restated) for the six months ended 31 December 2017 (the “same period last year”). Profit attributable to equity holders for the period under review was HK\$113.5 million, representing a decrease of HK\$7.4 million or 6.1% as compared with HK\$120.9 million (restated) for the same period last year, mainly attributable to a decline in the Group’s finance income following the utilization of its cash on hand and proceeds from sale of investments to acquire the facility services (cleaning and laundry services) business in April 2018. The expanded business scale after the completion of the acquisition of the facility services business provides a broader and more diversified revenue stream and enhanced profit source to the Group. The Group’s profit attributable to equity holders of the Company for the period under review of HK\$113.5 million (equivalent to basic earnings per share of HK\$0.25) increased by 30.8% as compared with HK\$86.8 million (equivalent to basic earnings per share of HK\$0.19) as previously reported in the Group’s condensed consolidated interim financial statements for the same period last year before its inclusion of the profit of HK\$34.1 million made by the facility services business.

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 emission and construction waste. In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as Building Information Modelling (BIM), modularisation and prefabrication, laser scanning and mobile solutions.

Going ahead, the Group will continue to focus on applying its core competencies to raise customer satisfaction and ensure sustainable growth and profitability of its business. It shall give 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 2018, the Group's E&M engineering projects encompassed a wide range of buildings and facilities, including offices, shopping malls, convention and exhibition centres, hotels, integrated resorts, residential properties, universities, hospitals, airport and public transportation facilities buildings, which have a total gross value of contract sum of HK\$10,050 million with a total outstanding contract sum of HK\$5,531 million. During the period under review, the Group submitted tenders for 302 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\$13,467 million.

During the period under review, this business segment was awarded new contracts with a total value of HK\$1,480 million, which include 59 contracts (with a net contract sum equal to or exceeding HK\$1 million for each project) with a total net contract sum of HK\$1,367 million.

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 2018, this business segment has a total gross value of contract sum of HK\$101 million with a total outstanding contract sum of HK\$59 million. During the period under review, the Group submitted tenders for 16 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\$55 million.

During the period under review, this business segment was awarded new contracts with a total value of HK\$42 million, which include 6 projects (with a net contract sum equal to or exceeding HK\$1 million for each project) with a total net contract sum of HK\$19 million.

FACILITY SERVICES SEGMENT

Cleaning Services

The Group's cleaning services business encompassed a wide range of buildings and facilities, including office towers, shopping malls, hotels, universities, academic campuses, international schools, tourism facilities, government properties, public utilities, convention and exhibition centre, railway stations, airport terminal building, hospitals, industrial buildings and residential properties.

As one of leading service providers in the Hong Kong's cleaning service industry, the Group's cleaning business group, Waihong, is mainly engaged in providing specialist cleaning services, including general cleaning, initial cleaning, housekeeping, recycling, marble and granite floor maintenance, food and solid waste management, integrated pest management and support services. Waihong became a member of FSE Services Group since 11 April 2018.

Regarding its cleaning services business, growing public awareness for clean and hygienic environment with better life style and better home is boosting the demand of quality service providers. Waihong will focus on providing efficient, effective and the highest professional standard services to meet its customer needs.

During the period under review, the Group's cleaning services business submitted tenders for 188 cleaning service projects (with a contract sum equal to or exceeding HK\$1 million for each project) with a total tender sum of HK\$2,203 million.

During the period under review, the Group's cleaning services business was awarded new service contracts with a total value of HK\$349 million, which include 53 service contracts (with a contract sum equal to or exceeding HK\$1 million for each service contract) with a total contract sum of HK\$338 million. Among these 53 service contracts, 10 of them are major service contracts (with contract sum equal to or more than HK\$10 million for each service contract) with a total contract sum of HK\$193 million, which include large-scale service facilities for a premier mixed-use commercial complex in Causeway Bay, an international bank's office building together with all its branches in Hong Kong, an academic campus for art and performance training, a newly-completed private luxury real estate in Sham Shui Po, a leisure facility with golf and tennis training in Sai Kung District, a large-scale shopping mall in Tsuen Wan, a tourism facility in The Peak, two large-scale residential estates in Quarry Bay and Shatin and a mid-scale residential estate in Tung Chung.

With the growing demand for outsourcing in cleaning and hygiene services, Waihong has partly recovered its loss of revenue from the discontinuation of a transportation company's contracts during the period under review. It will invest more resources to participate in tendering government or semi-government service projects and explore business opportunities from different markets to widen our service portfolios.

The cleaning service industry is also facing the challenge of labour shortage. Waihong has encountered a problem of serious labour shortage resulted in pressure of rising operations costs to comply with contract stipulations. Following the proposed increase of statutory minimum wage by 8% with effect from 1 May 2019 subject to approval by the Legislative Council, Waihong is able to adjust the rates it charges to customers supported by its strong market competitiveness.

Laundry

The Group's laundry business group, NCL, is an experienced expert in laundry and dry cleaning services, and a market leader in the industry in Hong Kong. NCL dropped pins in prestigious hotels, famous apartments, high-end clubhouses, an international theme park and top airlines. NCL became a member of FSE Services Group since 11 April 2018.

During the period under review, NCL has started to provide laundry services to a new customer segment of Airport VIP Lounge. It continued to maintain its existing client segments and explored new segments that require high quality of laundry services. In addition, NCL has been awarded the dry cleaning services of non-catering sector in a renowned world-class racing club contract starting July 2018. Moreover, NCL keeps working closely with its international theme park client for its expansion plan and prepares for its operation development by upgrading its machinery. For NCL's existing clients, the expansion of flight schedules by a leading airline company also boosted up its revenue during the period under review.

During the period under review, the Group's laundry business was awarded new contracts with a total value of HK\$7 million, which include 4 service contracts (with a contract sum equal to or exceeding HK\$1 million for each service contract) with a total contract sum of HK\$6 million.

As at 31 December 2018, this business segment has a total gross value of contract sum of HK\$2,865 million with a total outstanding contract sum of HK\$1,049 million for the cleaning services business.

FINANCIAL REVIEW

Revenue

During the period under review, the Group's revenue dropped by HK\$90.1 million or 3.8% to HK\$2,291.7 million from HK\$2,381.8 million (restated) for the same period last year, attributable mostly to a decrease in revenue derived from its E&M engineering segment and facility services segment amounting to HK\$53.2 million and HK\$38.3 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			
	2018	% of total	2017 (restated)	% of total
	HK\$'M	revenue	HK\$'M	revenue
E&M engineering*	1,676.1	73.2%	1,729.3	72.6%
Environmental management services*	35.2	1.5%	33.8	1.4%
Facility services*	580.4	25.3%	618.7	26.0%
Total	2,291.7	100.0%	2,381.8	100.0%

* Segment revenue does not include inter-segment sales.

	For the six months ended 31 December			
	2018	2017 (restated)	Change	% change
	HK\$'M	HK\$'M	HK\$'M	
Hong Kong	1,863.5	1,945.0	(81.5)	-4.2%
Mainland China	371.3	249.6	121.7	+48.8%
Macau	56.9	187.2	(130.3)	-69.6%
Total	2,291.7	2,381.8	(90.1)	-3.8%

- E&M (electrical and mechanical) engineering*: This segment continued to be the key turnover driver of the Group and contributed 73.2% (2017: 72.6% (restated)) of the Group's total revenue. Segment revenue dropped slightly by 3.1%, or HK\$53.2 million, to HK\$1,676.1 million from HK\$1,729.3 million (restated), owing mainly to a reduced revenue contribution from Hong Kong and Macau by HK\$44.6 million and HK\$130.3 million, respectively, partly mitigated by an increase in revenue contribution from Mainland China of HK\$121.7 million. The decrease in revenue contribution from Hong Kong and Macau reflects a number of E&M projects which had been substantially completed and made significant progress in the same period last year, including Ocean

Pride and Ocean Supreme in Tsuen Wan, Victoria Dockside in Tsim Sha Tsui and Morpheus Hotel at City of Dreams in Macau, partly mitigated by the revenue contribution from a sizeable engineering installation project of West Kowloon Government Office in Yau Ma Tei. Also, works in relation to a number of sizeable engineering installation projects, including design and construction of Inland Revenue Tower in Kai Tak, Transport Department's Vehicle Examination Centre in Tsing Yi and a residential development at Tai Wai Station, were still at an early stage and yet to contribute significant revenue. Nevertheless, there was an increase in contribution from Mainland China with HVAC and electrical installation for the podium of Spring City 66 in Kunming which had significant progress in the period under review.

- *Environmental management services:* Revenue contribution of this business segment, which principally operates in Hong Kong currently, increased to HK\$35.2 million from HK\$33.8 million (restated), representing a growth of 4.1%, or HK\$1.4 million, as compared with the same period last year. The increase was mainly attributable to the increase in revenue from its environmentally-related contracting and maintenance services, primarily water treatment services and bio-technology services.
- *Facility services:* This segment, which presently provides services in Hong Kong, contributed 25.3% (2017: 26.0%) of the Group's total revenue. The revenue of HK\$580.4 million for the period under review composed of revenue from provision of cleaning and laundry services amounting to HK\$493.3 million and HK\$87.1 million, respectively. Segment revenue recorded a drop of 6.2%, or HK\$38.3 million, to HK\$580.4 million for the period under review from HK\$618.7 million, owing mainly to the discontinuation of one of the cleaning service contracts with a transportation company upon expiry in January 2018, despite a partly mitigation of this decline by the revenue contribution generated from a number of new cleaning service contracts, including a heritage project managed by a world-class racing club, a large-scale service facilities for public transportation and two shopping arcades in North Point and Sheung Wan, respectively.

Gross profit

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

	For the six months ended 31 December			
	2018		2017 (restated)	
	Gross profit	Gross profit	Gross profit	Gross profit
	HK\$'M	margin	HK\$'M	margin
		%		%
E&M engineering	214.0	12.8	198.2	11.5
Environmental management services	9.6	27.3	8.7	25.7
Facility services	68.1	11.7	81.3	13.1
Total	291.7	12.7	288.2	12.1

The Group's overall gross profit increased by HK\$3.5 million or 1.2% to HK\$291.7 million for the period under review from HK\$288.2 million (restated) for the six months ended 31 December 2017, whereas its overall gross profit margin remained relatively stable at 12.7% (Six months ended 31 December 2017: 12.1% (restated)). The increase in gross profit was driven by the E&M engineering business recording an increase in gross profit during the period under review to 12.8% from 11.5%. The gross profit margin of the environmental management services segment remained relatively stable at 27.3% (Six months ended 31 December 2017: 25.7%) with gross profit rose by 10.3% to HK\$9.6 million for the period under review from HK\$8.7 million for the same period last year, mainly attributable to the contribution from biological deodorizing maintenance services. The gross profit of facility services segment dropped by HK\$13.2 million to HK\$68.1 million from HK\$81.3 million with segment gross profit margin decreased to 11.7% from 13.1% mainly the combined result from a decreased revenue contribution from the provision of cleaning services and an escalation of labour costs due to labour shortage for provision of cleaning and laundry services.

Other income/gains, net

For the period under review, other income/net gains, which amounted to HK\$0.7 million (Six months ended 31 December 2017: HK\$3.0 million (restated)), mainly included rental income, partly offset by net foreign exchange losses.

Finance income

The Group recorded finance income of HK\$2.6 million (Six months ended 31 December 2017: HK\$9.9 million (restated)). The decrease was mainly due to the interest income from the investments in available-for-sale financial assets and financial assets at fair value through profit or loss in the same period last year and all investments had been sold as at 30 June 2018.

General and administrative expenses

General and administrative expenses of the Group for the period under review increased by 3.3% to HK\$158.4 million, compared to HK\$153.4 million (restated) for the same period last year. The increase of HK\$5.0 million was mainly attributable to a provision for impairment of one of the third party trade receivables of the E&M engineering business and higher rental of the Fanling laundry plant from April 2018.

Taxation

The effective tax rate of the Group declined to 16.9% from 18.1% (restated) for the same period last year as a result of a higher profit contribution from Mainland China in the same period last year which has a relatively higher applicable corporate income tax rate.

Profit attributable to equity holders of the Company

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

	For the six months ended 31 December			
	2018	2017	Change	% change
	HK\$'M	(restated) HK\$'M	HK\$'M	
E&M engineering	88.3	84.0	4.3	+5.1%
Environmental management services	4.1	2.8	1.3	+46.4%
Facility services	21.1	34.1	(13.0)	-38.1%
Total	113.5	120.9	(7.4)	-6.1%

As a result of the foregoing, the Group's profit for the period under review decreased by 6.1% or HK\$7.4 million to HK\$113.5 million, compared to HK\$120.9 million (restated) for same period last year. The decrease was mainly the combined result of a decrease in finance income and an increase in general and administrative expenses due to the provision for impairment of one of the third party receivables and higher rental of the Fanling laundry plant from April 2018, partly mitigated by a higher gross profit contribution mostly from the Group's core E&M engineering business segment. The net profit margin of the Group remained stable at 5.0% for the period under review (Six months ended 31 December 2017: 5.1%).

Other comprehensive income

The Group recorded an other comprehensive loss of HK\$6.0 million for the period under review, mostly reflective of a decrease in exchange reserve from the depreciation of the Renminbi ("RMB") for conversion of net investments in Mainland China operations.

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 2018, the Group had total cash and bank balances of HK\$521.9 million, of which 71%, 23% and 6% (30 June 2018: 48%, 28% and 24%) were denominated in Hong Kong dollars, RMB and other currencies, respectively. As compared to HK\$407.6 million as at 30 June 2018, the Group's cash and bank balances increased by HK\$114.3 million to HK\$521.9 million, which primarily reflects an increase in net cash inflow from operating activities, partly offset by the Company's distribution of final dividend of HK\$59.9 million for the year ended 30 June 2018.

The Group maintained a healthy liquidity position throughout the reporting period with no bank and other borrowings outstanding as at 31 December 2018 (30 June 2018: Nil), Its net gearing ratio was maintained at zero as at 31 December 2018 (30 June 2018: zero). This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents. As at 31 December 2018, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK\$1,604.3 million (30 June 2018: HK\$1,537.5 million) (excluding unutilised banking facilities shared with FSE Management Company Limited ("FMC", a direct wholly-owned subsidiary of FSE Holdings Limited) and its subsidiaries, which are guaranteed by FMC). Amongst the total banking facilities

as at 31 December 2018, HK\$201.8 million (30 June 2018: HK\$242.1 million) were guaranteed by FMC. As at 31 December 2018, HK\$229.5 million (30 June 2018: HK\$263.5 million) had been utilised for bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet its current business operation and capital expenditure requirements.

Foreign currency exposure

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

As part of our business is carried out in Mainland China, part of our 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\$180.0 million as at 31 December 2018 (30 June 2018: HK\$179.0 million). The foreign currency translation arising from translation of these Mainland China operations' financial statements from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the Group's presentation currency) does not affect the Group's profit before and after tax, and will be recognised in its other comprehensive income.

During the period under review, the fluctuation of RMB against Hong Kong dollars was 5.2% (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 2018, if the Hong Kong dollars had strengthened/weakened by another 5.2% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK\$9.4 million lower/higher.

Use of net proceeds from listing

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

	Original use of proceeds from Global offering	Utilised amount as at 26 June 2018	Revised use of proceeds as announced pursuant to the Company's announcement dated 26 June 2018	Aggregated utilised amount as from 27 June 2018 to 31 December 2018	Unutilised amount as at 31 December 2018
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	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	4.1	15.9
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	2.1	13.9
Enhancement of quality testing laboratory	12.2	4.9	7.3	0.8	6.5
Upgrade of corporate information technology system and software	8.0	5.9	2.1	2.1	-
General working capital	25.0	25.0	-	-	-
Total	264.5	131.0	133.5	97.2	36.3

The Group has utilised HK\$228.2 million of the net proceeds from the Company's Global offering, of which HK\$96.6 million was utilised during the period under review and expects that the remaining balance of the IPO proceeds would be utilised within 5 years up to 2023. The Group held the unutilised net proceeds mainly in short-term deposits or time deposits with licensed banks and authorised financial institutions in Hong Kong.

Capital commitments

The Group had capital commitments of approximately HK\$9.7 million (30 June 2018: HK\$1.3 million) as at 31 December 2018 in relation to the purchase of equipment.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2018 and 30 June 2018.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had a total of 7,736 employees (31 December 2017: 7,894), including 1,332 casual workers (31 December 2017: 792). Staff costs for the period under review, including salaries and benefits, was HK\$642.1 million (Six months ended 31 December 2017: HK\$701.0 million (restated)). The decrease mainly reflects a reduced headcount at the Group's cleaning service division.

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

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

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

Overview

Leveraging its market leadership and buttressed by a proven track record, a well-established customer network and ample financial reserves, the Group will be able to continuously seek acquisition opportunities and engage competent professional talent to help it explore new market opportunities and expand geographical coverage in Hong Kong, Macau and Mainland China.

The Group will stay focused on applying its core competencies to raise customer satisfaction and to ensure the sustainable growth and profitability of its business. The Board is confident that the Group, through its unwavering efforts, can maximise shareholders' value and enhance its corporate image as well as its position in the E&M engineering, environmental management services and facility services industries.

Currently, the E&M engineering segment in Hong Kong, which accounts for over 70% of the Group's total revenue, remains as its core business. While proud of its performance in this segment in Hong Kong, the Group is striving to bolster its market presence in other regions.

Driven by the increasing awareness of healthy living and hygiene in Hong Kong, the Group's facility services business, together with its environmental management services business, being as one of the top players in the industry in terms of revenue, is expected to have considerable growth potential in the years to come.

E&M Engineering Segment

1. Installation Services

According to the construction expenditure forecast provided by the Hong Kong Construction Industry Council, expenditure in E&M construction works will amount to over HK\$22 billion for the public sector and over HK\$25 billion for the private sector over the next few years.

The long-term housing strategy of the Hong Kong Government, as stated in its 2017 Policy Address, aims at continuing its ongoing efforts in increasing the land and housing supply. 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 in accordance with its revised public-private housing ratio to 7:3 under its long-term strategy announced in December 2018. One of the six new housing initiatives announced in June 2018 is to reallocate nine private housing sites for public housing development in Kai Tak and Anderson Road Quarry, and a total of 10,600 units are expected to be provided.

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 Queen Mary Hospital, Kwong Wah Hospital, United Christian Hospital and Kwai Chung 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.

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, is expected to commence in early 2019 and to be completed in 2022/2023.

In addition, the Government has invited 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. The Hong Kong Science and Technology Parks expansion project including the InnoCell residential building for talent, as well as the Data Technology Hub and the Advanced Manufacturing Centre in Tseung Kwan O Industrial Estate are to be completed progressively starting from 2020 as scheduled.

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

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

Since the establishment of the new ELV division, the Group has been awarded several ELV projects including 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 and Inland Revenue Tower.

Looking ahead, the Group will keep working with vendors to customise those systems according to the specific needs of customers, using advanced technologies such as intelligent IP/IT-based and mobile Apps systems. The Group believes that with a highly qualified and experienced staff and sound project management skills, it can fulfill its commitment of delivering quality and professional services to all 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 Phases 3 and 4 (HK\$43 billion investment), Londoner Macao (HK\$8 billion investment) and Studio City Phase 2 and the renewal of casino licences in 2020 and 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.

Environmental Management Services Segment

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

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

Laboratory Services

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 engineering segments.

During the period, the Group has been approved as an Accredited Indoor Air Quality ("IAQ") Certificate Issuing Body ("CIB") and assigned the registration number HKIAS032. The inspection works of IAQ further strengthen the Group's environmental consultancy services.

Technology Development

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 a strong oxidising fluid and solid waste technology.

Facility Services Segment

1. Cleaning Services

New Business Opportunity

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, which include a large number of commercial, 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 Group's prime marketing strategy will be to focus on these newly-completed properties. Waihong is one of the companies capable of providing stable and quality services to this kind of new projects in the face of a labour shortage in this area. Furthermore, Waihong also aims at providing initial cleaning services to those buildings under construction and offering fine cleaning services to flats for developers before handover to owners. This type of one-off cleaning services may potentially generate higher returns to the Group. Also, with the increasing need for outsourcing environmental services, it is expected that the demand for environmental services from property management companies and property owners will be raised as well.

In addition, due to past outbreaks of disease in prior years, it is expected that the Hong Kong Government will place increasing emphasis on environmental and hygiene control and allocate funds for reinforcing its related policies, including waste management and recycling. It is envisaged that 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 through capitalising on its extensive experience, quality and customised services and distinctive brand.

Business Development

With thousands of tenders and quotations to be released to the market year to year, cleaning services providers benefit from contracts totalling 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. Moving forward, the Group will focus on the high-end market including premier office towers and hotel facilities, in particular, those newly-built properties.

Despite the challenges of labour shortages that could result in higher costs, Waihong will continue to control its overall quality of services through its experienced management team in supervising the labour force.

2. Laundry

In the coming years, the Hong Kong laundry service market is expected to achieve a moderate growth and attain a value of HK\$10.5 billion by the end of 2021. NCL intends to continue to invest and upgrade its advanced and innovative laundry equipment, such as an upgrade of one of its continuous batch washers scheduled in June 2019, to enhance its service and efficiency and provide value-added services to its clients, including international hotel groups and large enterprises.

Moreover, NCL will keep exploring advanced energy-saving methods with major utility companies in order to achieve a Green Laundry.

Conclusion

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

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK10.1 cents per share for the six months ended 31 December 2018 (2017: HK7.8 cents). The interim dividend will be paid in cash to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 13 March 2019. It is expected that the dividend warrants will be posted to shareholders on or about Wednesday, 20 March 2019.

CLOSURE OF REGISTER OF MEMBERS

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

Ex-dividend date	8 March 2019
Latest time to lodge transfer documents for registration	4:30 pm on 11 March 2019
Closure of register of members	12 and 13 March 2019
Record date	13 March 2019
Interim dividend payment date	on or about 20 March 2019

During the above closure period, no transfer of 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the latest time specified above.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and enhance corporate value. Throughout the six months ended 31 December 2018, the Company had complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with the exception of code provision E.1.2.

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

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 2018 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 2018 have been reviewed by the Company's external auditors, 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.

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 2018.

On behalf of the Board of
FSE Services Group Limited
Lam Wai Hon, Patrick
Vice-Chairman

Hong Kong, 25 February 2019

As at the date of this announcement, the Board comprises Dr. Cheng Kar Shun, Henry (Chairman) and Mr. Wong Kwok Kin, Andrew as non-executive directors, Mr. Lam Wai Hon, Patrick (Vice-Chairman), Mr. Poon Lock Kee, Rocky (Chief Executive Officer), Mr. Doo William Junior Guilherme, Mr. Lee Kwok Bong, Mr. Soon Kweong Wah and Mr. Wong Shu Hung as executive directors, Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung and Dr. Tong Yuk Lun, Paul as independent non-executive directors.