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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)

ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

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

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

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

The board of directors (the “Board”) of FSE Services Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 30 June 2019 (“FY2019” or the “Year”).

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2019

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Note	**2019** **HK$'000**	2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**393,945**	412,242
Investment property		**11,235**	11,620
Land use rights		**20,432**	21,230
Other intangible assets		**51,946**	52,796
Deferred income tax assets		**9,337**	14,329
		486,895	512,217
Current assets			
Inventories		**40,206**	26,006
Contract assets		**290,822**	-
Amounts due from customers for contract works		**-**	343,029
Trade and other receivables	9	**1,422,927**	1,278,947
Cash and bank balances		**447,043**	407,561
		2,200,998	2,055,543
Total assets		**2,687,893**	2,567,760
EQUITY			
Share capital		**45,000**	45,000
Reserves		**727,020**	592,350
Total equity		**772,020**	637,350

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 30 June 2019

	Note	**2019 HK$'000**	2018 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**26,787**	25,419
Long service payment liabilities		**21,055**	21,320
		47,842	46,739
Current liabilities			
Contract liabilities		**224,119**	-
Amounts due to customers for contract works		**-**	475,397
Trade and other payables	10	**1,590,093**	1,343,323
Taxation payable		**53,819**	64,951
		1,868,031	1,883,671
Total liabilities		**1,915,873**	1,930,410
Total equity and liabilities		**2,687,893**	2,567,760
Net current assets		**332,967**	171,872
Total assets less current liabilities		**819,862**	684,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

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

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

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

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

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

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

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

(a) HKFRS 9 "Financial Instruments"

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

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

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

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

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

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

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

(iii) 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 operation, have been issued but not yet effective for the financial year of the Group beginning on 1 July 2018 and have not been early adopted:

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

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

HKFRS 16 "Leases"

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

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

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

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

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

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

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

2. Changes in Accounting Policies

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

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

Presentation of contract assets and liabilities

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

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

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

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

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

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

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

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

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 service income, environmental management services income and income from trading of building materials and facility service income. An analysis of the Group's revenue is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

	E&M engineering HK$'000	Environmental management services HK$'000	Facility services HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue - External	3,665,794	71,078	1,193,645	-	4,930,517
Revenue - Internal	1,701	3,907	10,009	(15,617)	-
Total revenue	3,667,495	74,985	1,203,654	(15,617)	4,930,517
Timing of revenue recognition					
Over time	3,578,758	71,560	1,203,654	(15,554)	4,838,418
At a point in time	88,737	3,425	-	(63)	92,099
Total revenue	3,667,495	74,985	1,203,654	(15,617)	4,930,517
Operating profit before unallocated corporate expenses	232,489	10,601	53,524	-	296,614
Unallocated corporate expenses					(4,285)
Operating profit					292,329
Finance income					5,163
Finance costs					-
Profit before income tax					297,492
Income tax expenses (Note 6)					(49,980)
Profit for the year attributable to equity holders of the company					247,512
Other items					
Depreciation	25,692	1,882	14,679	-	42,253
Amortisation of land use rights	581	-	-	-	581
Amortisation of intangible assets	370	-	480	-	850

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

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

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

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

	E&M engineering HK$'000	Environmental management services HK$'000	Facility services HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue - External	3,694,258	61,784	1,170,476	-	4,926,518
Revenue - Internal	1,074	2,857	509	(4,440)	-
Total revenue	3,695,332	64,641	1,170,985	(4,440)	4,926,518
Timing of revenue recognition					
Over time	3,604,586	61,771	1,170,985	(4,440)	4,832,902
At a point in time	90,746	2,870	-	-	93,616
Total revenue	3,695,332	64,641	1,170,985	(4,440)	4,926,518
Operating profit before unallocated corporate expenses	204,674	7,697	69,196	-	281,567
Unallocated corporate expenses					(10,395)
Operating profit					271,172
Finance income					18,194
Finance costs					(1,066)
Profit before income tax					288,300
Income tax expenses (Note 6)					(51,516)
Profit for the year attributable to equity holders of the company					236,784
Other items					
Depreciation	25,808	2,247	19,809	-	47,864
Amortisation of land use rights	588	-	-	-	588
Amortisation of intangible assets	370	-	480	-	850

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

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

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

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

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

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

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

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

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

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

4. Other income/gains, net

For the year ended 30 June	**2019** **HK$'000**	2018 HK$'000
Rental income	**2,328**	790
Release of exchange reserve upon dissolution of subsidiaries	**1,905**	-
Ex-gratia payments from the government for retirement of motor vehicles	**489**	295
Loss on disposal of property, plant and equipment, net	**(831)**	(151)
Exchange (loss)/gain, net	**(763)**	6,134
Loss on disposal or maturity of available-for-sale financial assets and fair value changes of financial assets at fair value through profit or loss	**-**	(5,652)
Sundries	**758**	1,920
Total	**3,886**	3,336

5. Operating profit

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

6. Income tax expenses

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

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

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

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

7. Earnings per share

(a) Basic

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

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

(b) Diluted

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

8. Dividends

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

E&M ENGINEERING SEGMENT

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

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

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

As at 30 June 2019, the Group's E&M engineering projects encompassed a wide range of buildings and facilities, including offices, shopping malls, convention and exhibition centres, hotels, integrated resorts, residential properties, universities, hospitals, airport and public transportation facilities buildings, which have a total gross value of contract sum of HK$7,646 million with a total outstanding contract sum of HK$5,453 million. During FY2019, the Group submitted tenders for 733 E&M engineering projects (with a contract sum equal to or exceeding HK$1 million for each project, if awarded) with a total tender sum of HK$31,641 million.

During FY2019, this business segment was awarded new contracts with a total value of HK$3,069 million, which included 149 contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$2,850 million. Among these contracts, 5 of them are major projects (with net contract sum equal to or exceeding HK$100 million for each project), which include Inland Revenue Tower, Kai Tak Sports Park and District Cooling System (Phase III) in the Kai Tak Development Area, Lot No.5 Ningbo New World Plaza and a service apartment's main works at Cotai, Macau.

ENVIRONMENTAL MANAGEMENT SERVICES SEGMENT

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

As at 30 June 2019, this business segment has a total gross value of contract sum of HK$108 million with a total outstanding contract sum of HK$55 million. During FY2019, the Group submitted tenders for 24 environmental management service contracts (with a contract sum equal to or exceeding HK$1 million for each contract, if awarded) with a total tender sum of HK$96 million.

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

FACILITY SERVICES SEGMENT

Cleaning Services

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

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

During FY2019, Waihong submitted tenders for 450 cleaning service contracts (with a contract sum equal to or exceeding HK$1 million for each service contract) with a total tender sum of HK$4,300 million.

During FY2019, Waihong was awarded new service contracts with a total value of HK$861 million, which included 99 service contracts (with a net contract sum equal to or exceeding HK$1 million for each service contract) with a total contract sum of HK$692 million. Among these 99 service contracts, 9 of them were major service contracts (with net contract sum equal to or more than HK$20 million for each service contract), which included 3 residential estates in Quarry Bay, Taikoo Shing and Shatin, 2 contracts awarded by the Hong Kong Government in the New Territories East and Hong Kong Island, a contract for the airport terminal building in Chek Lap Kok, commercial facilities in Kowloon, a premier mixed-use commercial complex in Sheung Wan and a golf and tennis training facility in Sai Kung.

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

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

Laundry

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

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

* Segment revenue does not include inter-segment sales.

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

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

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

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

Gross profit

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

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

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

Other income/gains, net

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

Finance income

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

General and administrative expenses

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

Income tax expenses

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

Profit for the year attributable to equity holders of the Company

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

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

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

Other comprehensive loss

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

Liquidity and financial resources

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

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

Foreign currency exposure

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

As part of the Group's business is carried out in Mainland China, part of its assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in Mainland China operations with net assets of HK$175.3 million (30 June 2018: HK$179.0 million) as at 30 June 2019. The foreign currency translation arising from translation of these Mainland China operations' financial statements from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the Group's presentation currency) does not affect the Group's profit before and after tax, and will be recognised in its other comprehensive income.

During the Year, the fluctuation of RMB against Hong Kong dollars was 5.5% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the Year).

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

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 30 June 2019, the net proceeds of HK$264.5 million received from the Company's Initial Public Offering ("IPO") or Global Offering (referred to the prospectus issued by the Company on 26 November 2015) and the revised use of unutilized proceeds of HK$133.5 million as stated in the Company's announcement dated 26 June 2018 were applied in the manner as shown in the table below:

	Original use of proceeds from Global Offering HK$'M	Utilised amount as at 26 June 2018 HK$'M	Revised use of proceeds as announced pursuant to the Company's announcement dated 26 June 2018 HK$'M	Aggregate utilised amount from 27 June 2018 to 30 June 2019 HK$'M	Unutilised Amount as at 30 June 2019 HK$'M
Investment in/acquisition of companies engaged in the installation and maintenance of ELV system	81.6	5.9	-	-	-
Development of environmental management business	51.0	3.6	20.0	13.0	7.0
Operation of E&M engineering projects on hand and prospective projects	47.4	47.4	88.1	88.1	-
Staff-related additional expenses	20.0	20.0	-	-	-
Development and enhancement of design capability	19.3	18.3	16.0	10.8	5.2
Enhancement of quality testing laboratory	12.2	4.9	7.3	1.8	5.5
Upgrade of corporate information technology system and software	8.0	5.9	2.1	2.1	-
General working capital	25.0	25.0	-	-	-
Total	264.5	131.0	133.5	115.8	17.7

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

Capital commitments

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

Contingent liabilities

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

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

Discussion on environmental policies and performance

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

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

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

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

Account of key relationships with employees, customers and suppliers

Employees

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

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

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

Customers

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

Suppliers and subcontractors

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

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

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

EMPLOYEES AND REMUNERATION POLICY

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

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

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

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

OUTLOOK

E&M Engineering Segment

1. **Installation Services**

   In Hong Kong, according to the construction expenditure forecast provided by the Construction Industry Council, expenditure in E&M construction works will amount to over HK$25 billion for the public sector and over HK$27 billion for the private sector over the next few years.

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

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

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

In addition, the Government has invited the Airport Authority Hong Kong to create in the Lantau Island an Aerotropolis connecting the Greater Bay Area and the world. These include the construction of a three-runway system, the expansion of the existing Terminal 2, the development of a high value-added logistics centre at the South Cargo Precinct, the SKYCITY development projects and the AsiaWorld Expo at the Hong Kong International Airport.

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

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

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

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

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

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

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

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

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

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

2. **Maintenance Services**

Currently, there are over 65% of the existing buildings (approximately 42,000) aged over 20 years in Hong Kong including 1,700 commercial buildings, 1,600 industrial buildings and 24,000 residential buildings. Thus, the maintenance section envisages a growing demand for the term maintenance contracts from different prestigious commercial and residential buildings, hospitals, the public sector and educational institutions seeking the service of quality contractors to assist them in maintaining their properties in the best possible condition. Large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the maintenance section.

Environmental Management Services Segment

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

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

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

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

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

Facility Services Segment

1. Cleaning Services

New Business Opportunity

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

Business Development

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

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

2. Laundry

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

Conclusion

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

FINAL DIVIDEND

The Board has resolved to recommend a final dividend of HK11.9 cents (2018: HK13.3 cents) per share for the year ended 30 June 2019 to the shareholders whose names appear on the register of members of the Company on 16 December 2019. The proposed final dividend, if approved at the forthcoming annual general meeting ("AGM") of the Company, will be paid on or about 23 December 2019. Together with the interim dividend of HK10.1 cents (2018: HK7.8 cents) per share paid in March 2019, total distribution of dividend by the Company for the year ended 30 June 2019 will thus be HK22.0 cents (2018: HK21.1 cents) per share, representing a dividend payout ratio of 40.0% (2018: 40.1%).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed as set out below for the following purposes:

(i) For the purpose of determining shareholders' eligibility to attend and vote at the 2019 AGM:

- Latest time to lodge transfer documents for registration	4:30 pm on 2 December 2019
- Closure of register of members	3 to 6 December 2019 (both dates inclusive)
- Record date	6 December 2019
- AGM date	6 December 2019

(ii) For the purpose of determining shareholders' entitlement to the final dividend:

- Ex-dividend date	11 December 2019
- Latest time to lodge transfer documents for registration	4:30 pm on 12 December 2019
- Closure of register of members	13 to 16 December 2019 (both dates inclusive)
- Record date	16 December 2019
- Dividend payment date	on or about 23 December 2019

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2019 AGM and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the respective 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 its shareholders and enhance the corporate value of the Group. The Company has applied the principles of the corporate governance code (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules to its corporate governance structure and practices. Throughout the Year, the Company had complied with all the code provisions set out in the Corporate Governance Code, with the exception of code provision E.1.2.

Code provision E.1.2 requires the chairman of the board to attend AGM. Dr. Cheng Kar Shun, Henry, the Chairman of the Board, was unable to attend the 2018 AGM of the

Company held on 29 November 2018 due to other important engagement. Mr. Lam Wai Hon, Patrick, the Vice-Chairman of the Board, who took the chair of the 2018 AGM, together with members of the Board who attended the meeting, were of sufficient caliber for answering questions at the 2018 AGM.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The Audit Committee of the Board was established 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 audited consolidated financial statements for the year ended 30 June 2019, including the accounting principles and practices adopted by the Group.

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 30 June 2019 have been agreed by the Group's auditor, PricewaterhouseCoopers ("PwC Hong Kong"), to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by PwC Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PwC Hong Kong on the preliminary announcement.

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

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

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

Hong Kong, 26 September 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.