豐盛服務集團有限公司

# FSE SERVICES GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

**Stock Code: 331**

## Annual Report 2017-2018

# About FSE Services Group Limited

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

## Our Vision

- To be a leading diversified service provider in Hong Kong, covering E&M engineering services, environmental management services and facility services (including cleaning and laundry services), with industry leading position in respective area.

## Our Mission

- To provide comprehensive E&M engineering services, environmental management services and facility services (including cleaning and laundry services) with zenith quality and safety.
- To deliver our services with innovation and professionalism.
- To care for the environment of our stakeholders.

## Our Core Values

- Teamwork
- Cost-effectiveness
- Relentless quest for success
- Entrepreneurship
- Professionalism
- Continuous improvement

# Contents



# Financial Highlights

| | 2018<br>HK$M | 2017<br>(restated)(i)<br>HK$M | % Change |
|---|---|---|---|
| Revenue | **4,926.5** | 4,829.6 | +2.0% |
| Gross profit | **591.0** | 555.6 | +6.4% |
| Profit attributable to equity holders of the Company | **236.8** | 225.4 | +5.1% |
| Basic earnings per share | **HK$0.53** | HK$0.50 | +6.0% |

**The Board recommended the declaration of a final dividend of HK13.3 cents (2017: HK8.1 cents) per share for the year ended 30 June 2018(ii).**

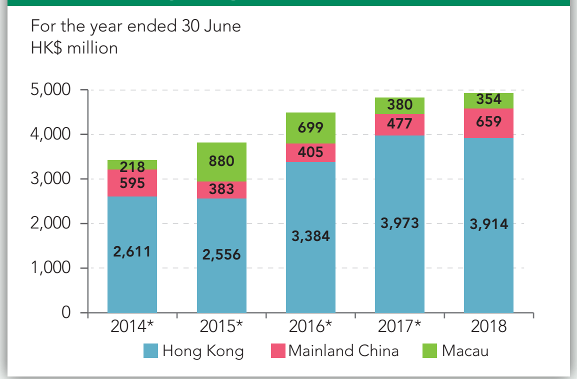
Note (i) Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2.1(iii) to the consolidated financial statements.

Note (ii) Together with the interim dividend of HK7.8 cents (2017: HK7.4 cents) per share paid in March 2018, total distribution of dividends made by the Company for the year ended 30 June 2018 will be HK21.1 cents (2017: HK15.5 cents) per share, representing a dividend payout ratio of 50.2% (2017: 40.1%). 2018's dividend payout ratio is calculated based on the Group's 2018 profit for the year attributable to equity holders of the Company of HK$189.3M, after excluding the profit of HK$47.5M made by the facility services business during the period from 1 July 2017 to 11 April 2018, the day of completion of the Group's acquisition of the facility services business as described in Note 2.1(iii) to the consolidated financial statements (2017: based on the Group's 2017's profit for the year attributable to equity holders of the Company of HK$173.8M as previously reported in the Group's 2017 consolidated financial statements, which does not include the profit of HK$51.6M made by the facility services business during the year ended 30 June 2017).

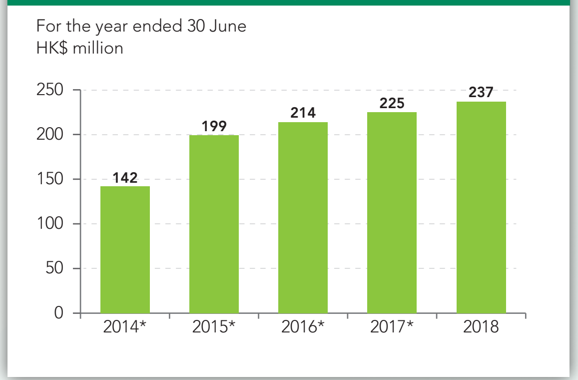
# Financial Highlights

## FSE SERVICES GROUP — CONSOLIDATED

### Revenue by Region

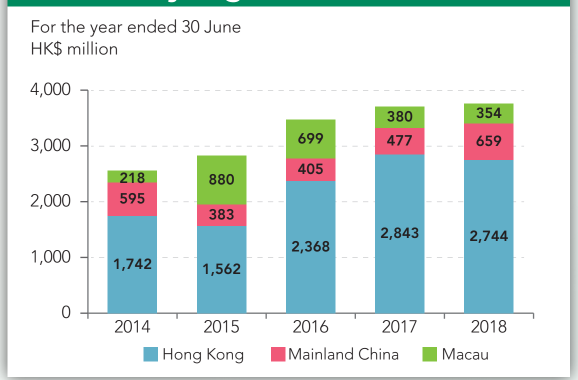



### Profit Attributable to Equity Holders of the Company

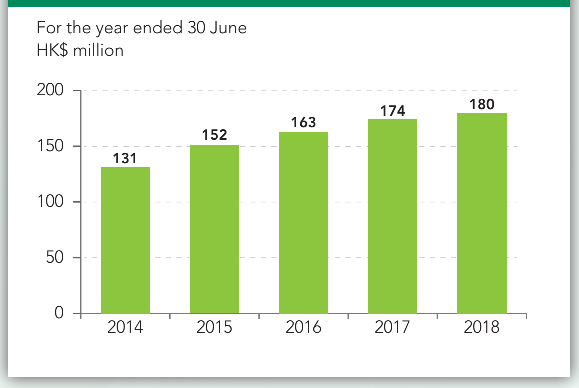



## E&M ENGINEERING AND ENVIRONMENTAL MANAGEMENT SERVICES SEGMENTS

### Revenue by Region

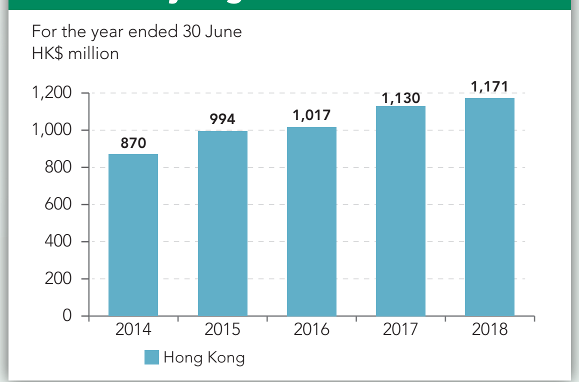



### Profit for the Year

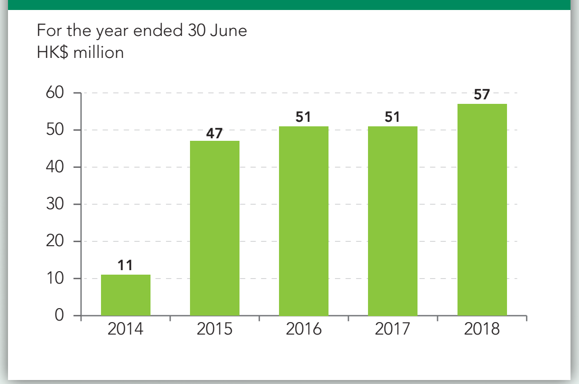



## FACILITY SERVICES SEGMENT

### Revenue by Region




### Profit for the Year




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

# Major Events and Accolades

## SEPTEMBER 2017

- FSE Services Group Limited (the "Company", together with its subsidiaries, the "Group") was honoured as "Good MPF Employer" by the Mandatory Provident Fund Schemes Authority and received the "e-Contribution Award" and "Support for MPF Management Award" at the 2016-17 Award Presentation Ceremony, in recognition of its efforts in building solid foundation for employees' retirement protection and enhancing the retirement benefits by providing assistance in investment management.


## OCTOBER 2017

- The Company received the "Appreciation Certificate of the Commendation" from Evangelical Lutheran Church Social Service — Hong Kong for its unconditional support on their community service projects.


- NCL was recognised as one of the excellent businesses in Asia and was honoured with the "Asia Business Achiever Awards" organized by Asia Business Consultancy Association.

# Major Events and Accolades

## NOVEMBER 2017

- The Company received the "IFAPC Outstanding Listed Company Award 2017" from The Hong Kong Institute of Financial Analysts and Professional Commentators Limited (IFAPC) for the second consecutive year, affirming the Group's dedication in maintaining high level of transparency and delivering sustainable business performance throughout the year.


- Majestic Engineering Company Limited was awarded the "Hong Kong Most Valuable Companies 2018 — Trophy of Excellence" by Mediazone Ltd.

## DECEMBER 2017

- The Company and FSE Engineering Group received two awards under the "Volunteer Team" and "Enterprise" categories and Waihong and NCL received an award under the "Enterprise" category at "The 8th Hong Kong Outstanding Corporate Citizenship Awards Presentation Ceremony" for their outstanding achievements in implementing and promoting corporate social responsibility.


- The Company earned the "Gold Award for Volunteer Service (Organization)" from the Social Welfare Department in appreciation of its contribution of over 1,000 hours of volunteer services to the community in 2017.

# Major Events and Accolades

## JANUARY 2018

- Waihong was awarded the Video Champion of "Airfield and Baggage Hall Safety Campaign" by the Hong Kong International Airport.


## MARCH 2018

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


- NCL received the "Friendly Employment Award" and "Outstanding Inclusive Team Award" of "Talent-Wise Employment Charter and Inclusive Organizations Recognition Scheme" which were jointly organised by the Labour and Welfare Bureau, the Hong Kong Joint Council for People with Disabilities and the Hong Kong Council of Social Service.

# Major Events and Accolades

## MAY 2018

- FSE Engineering Group has been accredited again as the "Manpower Developers 1st" for the 10th consecutive year by the Employees Retaining Board (ERB), in recognition of its outstanding achievements in the aspects of "Leading a learning Culture", "Resources Planning", "Training and Development System", "Performance Management" and "Shouldering Corporate Social Responsibilities". Waihong and NCL have also been accredited as the "Manpower Developers" in recognition of their outstanding accomplishments in manpower training and development.



- Young's Engineering Company Limited was awarded the Merit Award of "Public Works — RMAA Works" by Development Bureau and Construction Industry Council at the 24th Considerate Contractors Site Award Scheme Award Presentation Ceremony on 29 May 2018.

# Chairman's Statement

To Our Shareholders:

On behalf of the board of directors (the "Board") of FSE Services Group Limited (the "Company", together with our subsidiaries, the "Group"), I am pleased to present the annual report of the Company for the year ended 30 June 2018 ("FY2018" or the "Year").

## ACQUISITION OF WAIHONG CLEANING AND NEW CHINA STEAM LAUNDRY

The Company has been exploring opportunities to expand its service scope in order to add momentum to the growth of the Group. This year 2018 marked another important milestone with the successful completion of the acquisition on 11 April 2018 of Waihong Cleaning and New China Steam Laundry, both principally engaged in the provision of facility services including cleaning and laundry services. Waihong Cleaning is one of the top 3 players whilst New China Steam Laundry is one of the largest players in the Hong Kong environmental hygiene service market and laundry service market respectively. The Group believes that the acquisition can expand its business and diversify its revenue stream, increase its profitability and provide higher return to shareholders through better utilisation of its cash-on-hand. In addition, the acquisition can realise cross-selling synergies and better deployment of human resources, and, more importantly, re-position the Group into a leading diversified service provider in Hong Kong. To reflect the status of the enhanced business after completion of the acquisition, and to better promote its corporate image and future business development, the Group has been renamed as FSE Services Group Limited since 11 April 2018.

## MARKET REVIEW

Riding on the benign global economic environment in 2017, it is expected that there could be another broad-based global economic upturn of 3.9% in 2018 supported by solid employment, and a stable situation related to both inflation and financial market performance. Major advanced economies have showed solid expansion buttressed by positive business confidence and sustained investment growth, while the Mainland economy has maintained its momentum spanning from construction to manufacturing, trade and services. However, challenges and uncertainties exist in the global political and economic environments that require close attention, like the ongoing Brexit negotiations, China's economic growth prospects, continued fiscal expansion and interest rate normalisation measures by the US Federal Reserve, and most recently the further escalation in trade tensions between the Mainland and the US. Like other Asian economies, Hong Kong registered moderate economic growth in the second quarter this year after the full-fledged upturn in 2017 and the general operating environment for businesses in the city still warrants caution and enterprises should be well-prepared for any potential impact from industry volatilities. As in previous years, the Group encounters a multitude of challenges, mainly keen competition and a labour shortage of skilled workers in the marketplace, that impact the profit margin. Talent development is also the essential element and pre-requisite for the sustainable growth of the Group. We must invest continuously in nurturing talent; provide diversified and tailor-made learning, and training and development opportunities offering good career prospects for our young people. Amid the threat of these looming challenges, backed by its extensive industry experience, a management team with proven expertise and constant in its guiding efforts, and boasting a reputation well-appreciated by customers, the Group has managed to achieve commendable growth for the Year. Together with the outperformed revenue achieved by the maintenance services business contributed by the increased demand in term contracts, renovation and system upgrading works at the commercial and institution sectors, the Group's profit attributable to equity holders increased by HK$11.4 million, or 5.1%, testimony to its resilience and capability to continuously grow its business. The Board has proposed a final dividend of HK13.3 cents per share for the Year. Including the interim dividend of HK7.8 cents per share for the six months ended 31 December 2017, the total dividend payout for the Year is HK21.1 cents per share, equivalent to a payout ratio of 50.2%.

## E&M ENGINEERING

### Hong Kong

Overall building and construction activity saw modest growth in the second quarter on the back of expansion in public and infrastructure works. The Hong Kong Government has set aside a total of more than HK$75 billion for the housing reserve and is committed to continuing to rezone sites, increasing development intensity as appropriate and conducting reviews with the aim of optimising land use. The public housing supply target for the 10-year period from 2018/19 to 2027/28 has been announced to be 280,000 units including 200,000 public rental housing units and 80,000 subsidised sale flats. Moreover, the average E&M construction works expenditure for the fiscal year 2019/20 is expected to exceed HK$24 billion for the public sector and more than HK$26 billion for the private sector. Presuming there would not be prolonged debates by the HKSAR legislature on infrastructure projects in the short-to-medium term, new public works could kick off as scheduled, and an upswing in infrastructure, public housing and private housing projects could be expected, in turn helping drive stable and healthier growth in the construction and E&M engineering sectors. The Group's E&M engineering business is one of the top 2 dominated players in the Hong Kong market and is engaged in efforts to adequately prepare to take on the various infrastructure projects in the pipeline and for the tenders for the second 10-year plan of in-situ hospital re-development, re-provisioning of the existing government facilities in Kwun Tong and Kowloon Bay, the Kai Tak commercial development and the HK$20 billion improvement and development of cultural facilities. Towards that end, the Group is striving to maintain a stable and professional E&M team complemented by our advanced technological capabilities in areas including Building Information Modelling (BIM) and Modular Integrated Construction (MIC) technology that can enhance engineering designs and both work quality and productivity to meet the requirements of these potential projects. We strongly believe that new technologies will facilitate operational efficiency and foster new innovative products and services that generate economic benefits for the Group. These efforts supported by a strong balance sheet should fortify our presence and leadership in this pillar industry of Hong Kong.

### Mainland China

Under the agenda of the 19th Communist Party Congress, the Mainland economy has been steering towards high quality development and focusing on consumption upgrading and the supply-side structural reform, with the aim to reinforce economic stability. Apart from the escalation of trade tensions between the Mainland and the US that has caused jitters in the economic environment, by implementing a proactive fiscal policy together with the neutral and prudent monetary policy, the Chinese government has continued to strike a good balance between curbing financial risks and maintaining steady economic growth at 6.9% in 2017 and 6.8% in the first quarter of 2018. This strategic shift of emphasis should encourage a rebalancing of the Chinese economy and unleash the enormous demand for housing and related commercial developments, therefore presenting fresh opportunities to the construction and E&M engineering industry. The Guangdong-Hong Kong-Macao Greater Bay Area is another national development priority, knitting together Hong Kong, Macau and 9 prosperous cities in Guangdong province counting an economy with 68 million people and a GDP of some US$1.3 trillion in total. The Greater Bay Area development is of strategic significance with extensive land resources and undoubtedly provides the Group with a key growth impetus. As the Group is one of the few Hong Kong-based E&M general engineering contractors with Class I Qualification in Mainland China, it has an advantage in forging ties with the selected partners to expand its footprint in this crucial market. While we are optimistic about our prospects in the market, we will remain vigilant and keep a close watch on any possible changes in the economic environment and potential risks along with available business opportunities in this region. Leveraging our extensive project experience and advanced information technology application, the Group intends to focus on identifying E&M engineering business opportunities in relation to the country's Belt and Road strategic initiative, and the development of the Greater Bay Area regional co-operation. As in previous years, the Group will work hard at maintaining its presence in Mainland China, adhering to a disciplined approach to its business development.

# Chairman's Statement

### Macau

The Macau economy has continued to show signs of transitioning to a sustainable market recovery. With the opening of additional infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge and the extended train line, together with the ongoing integration of the Greater Bay Area within the expanded Pearl River Delta, it could look forward to significantly increased traffic flow and accessibility and further enhanced medium- to long-term market growth. As revealed in its Five-Year Development Plan (2016-2020), the Macau SAR Government wishes to attain a balance between the gaming and non-gaming sectors, developing a new urban zone, promoting development of integrated tourism and reinforcing non-gaming leisure and entertainment provisions, all of which will facilitate greater diversity in Macau's economy. Coupled with the amendment bill passed by Macao Legislative Assembly which will become effective on 1 January 2019, making all casino areas non-smoking and mandating to upgrade or set up smoking lounges, this will create ample opportunities for the Group.

## ENVIRONMENTAL MANAGEMENT SERVICES

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

## FACILITY SERVICES

Driven by the increasing concern of hygienic environment due to the outbreaks of past diseases, the environmental hygiene services market is expected to further expand at a compound annual growth rate (CAGR) of 5.6% from 2017 to reach HK$15.3 billion in 2021. Benefitting from the growing demand for outsourcing in cleaning and hygiene services, along with those 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, this provides the Group with multi-faceted opportunities. In recent years, the industry has also been gradually evolving into a wider spectrum of technical services coverage such as pest management, exterior wall cleaning and waste collection and disposal, offering great development potential and opportunities in these value-added areas. Furthermore, in light of increasing concerns over environmental issues and land supply, the government has put substantial effort into the implementation of waste management and recycling policies. In the near future, the demand for recycling and waste management services will see a climb, creating opportunities for the Group to expand into those areas catering for customer needs. Last but not least, regarding our laundry business, it is expected that the laundry service market will experience moderate growth and be worth HK$10.5 billion by the end of 2021. We are continuing to invest in advanced and innovative laundry equipment to enhance our operational efficiency and provide value-added services to our clients including international hotel groups and large enterprises.

## CONCLUSION

With our solid and healthy financial position, the Group will continue to dedicate our efforts to consistently seeking business opportunities that can further expand our business and maximise our shareholders' value.

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

**Dr. Cheng Kar Shun, Henry**
*Chairman*

Hong Kong, 26 September 2018

# Board of Directors and Senior Management

## BOARD OF DIRECTORS

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

**Chairman and Non-executive Director**

Dr. Cheng, aged 71, was appointed the Chairman and Non-executive Director of the Company in August 2015. Dr. Cheng assumes an advisory role in respect of the overall strategic planning of the Group. Dr. Cheng has substantial corporate management experiences in a wide range of industries and has been assuming management roles in various listed public companies in Hong Kong, including the Chairman and an executive director of New World Development Company Limited, NWS Holdings Limited and Chow Tai Fook Jewellery Group Limited, the Chairman and a non-executive director of New World Department Store China Limited, the Vice-Chairman and a non-executive director of i-CABLE Communications Limited and a non-executive director of SJM Holdings Limited. Dr. Cheng is also the Chairman and Managing Director of New World China Land Limited, which was a listed public company in Hong Kong until its delisting on 4 August 2016. He was an independent non-executive director of Hang Seng Bank Limited until his retirement on 10 May 2018, the Chairman and a non-executive director of Newton Resources Ltd until his resignation on 9 April 2018, an independent non-executive director of HKR International Limited until his resignation on 31 March 2018 and the Chairman and an executive director of International Entertainment Corporation until his resignation on 10 June 2017, all of the foregoing companies are listed public companies in Hong Kong. Dr. Cheng is the Chairman of the Advisory Council for The Better Hong Kong Foundation. Dr. Cheng was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the Hong Kong Government in 2001 and 2017 respectively. Dr. Cheng is the brother-in-law of Mr. Doo Wai Hoi, William, who is one of the controlling shareholders of the Company. He is also the uncle of Mr. Doo William Junior Guilherme and the cousin of Mr. Poon Lock Kee, Rocky's spouse.

### Mr. Lam Wai Hon, Patrick

**Vice-Chairman and Executive Director**

Mr. Lam, aged 56, was appointed an Executive Director of the Company and a member of the Remuneration Committee of the Board in April 2016, and became the Vice-Chairman of the Company in January 2017. He is on the boards of various companies within the Group, and is responsible for the overall strategic planning of the Group. Mr. Lam is currently an executive director and the Chief Executive Officer of FSE Holdings Limited, a controlling shareholder of the Company. He is also a non-executive director of NWS Holdings Limited, a listed public company in Hong Kong. Mr. Lam was a non-executive director of Road King Infrastructure Limited up to his retirement on 18 May 2017, the Vice Chairman and a non-executive director of Newton Resources Ltd up to his resignation on 2 January 2016, and a non-executive director of Wai Kee Holdings Limited up to his resignation on 30 December 2015, all being public listed companies in Hong Kong. Mr. Lam is a fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales, and a member of the Chartered Professional Accountants of Ontario, Canada. He is a member of the Asia Advisory Board of the Ivey Business School, Western University, Canada.

# Board of Directors and Senior Management

## Mr. Poon Lock Kee, Rocky

**Chief Executive Officer and Executive Director**

Mr. Poon, aged 62, joined the Group in February 1989 and is the Chief Executive Officer and Executive Director of the Company, and a member of each of the Nomination Committee and the Remuneration Committee of the Board. He also sits on the boards of various companies within the Group. He is primarily responsible for overseeing daily operational management and business performance of the Group and leading our E&M engineering business units in Hong Kong, Macau and the PRC. Mr. Poon is a member of the American Society of Mechanical Engineers, a Chartered Engineer of the Engineering Council in the United Kingdom, and a fellow of both the Chartered Institution of Building Services Engineers in the United Kingdom and the Hong Kong Institute of Engineers. He is also the President of the Macau Air-Conditioning & Refrigeration Chamber of Commerce, Past President of the Hong Kong E&M Contractors' Association Limited, appointed Council Member of Construction Industry Council (2018) and the 9th Council — Vice President (2017-2020) of Macau Construction Association. Mr. Poon was appointed as a member of the Appeal Board Panel by the Secretary for the Environment of Hong Kong to hear appeals lodged pursuant to the Electricity Ordinance. Mr. Poon is the Chairman of the Hong Kong Federation of Electrical & Mechanical Contractors Limited, a committee member of the Committee of the Chinese People's Political Consultative Conference in Shaoguan City and the Hubei Province of the People's Republic of China ("PRC"), a Deputy Chairman of the Shaoguan Overseas Friendship Association (Hong Kong & Macau Region) (韶關海外聯誼會理事會副會長(港澳)), and a member of the Trust Committee of the Henry Fok Foundation (澳門霍英東基金會信託委員會委員). Mr. Poon is the cousin-in-law of Dr. Cheng Kar Shun, Henry and Mr. Doo William Junior Guilherme's mother.

## Mr. Doo William Junior Guilherme *JP*

**Executive Director**

Mr. Doo Junior, aged 44, joined the Group in June 2014 and is an Executive Director of the Company and a member of the Nomination Committee of the Board. He also sits on the boards of various companies within the Group, and is primarily responsible for the overall strategic planning, overseeing business development and major management decisions for the Group. Mr. Doo Junior is also an executive director and Deputy Chief Executive Officer of FSE Holdings Limited, a controlling shareholder of the Company. Mr. Doo Junior is a solicitor admitted in Hong Kong and is currently a non-practising solicitor in England and Wales. Mr. Doo Junior is a Standing Committee Member of the Thirteenth Chinese People's Political Consultative Conference in Beijing of the PRC and has been a committee member of the Disciplinary Panel of The Hong Kong Institute of Certified Public Accountants and an adjudicator of The Immigration Tribunal. He was appointed a Justice of Peace by the Chief Executive of Hong Kong in July 2018. Prior to joining the Group, Mr. Doo Junior had legal practice experience in one of the largest global law firms specialising in finance and corporate transactions. Mr. Doo Junior is also a non-executive director of NWS Holdings Limited, a listed public company in Hong Kong and an independent non-executive director of The Bank of East Asia (China) Limited, a subsidiary of The Bank of East Asia, Limited. Mr. Doo Junior is the nephew of Dr. Cheng Kar Shun, Henry and his mother is the cousin of Mr. Poon Lock Kee, Rocky's spouse.

## Mr. Lee Kwok Bong

**Executive Director and Joint Company Secretary**

Mr. Lee, aged 47, joined the Group in July 2010 and is an Executive Director of the Company. He is also on the boards of various companies within the Group. Mr. Lee is primarily responsible for the overall financial management of the Group. He has been the Chief Financial Officer of FSE Holdings Limited, a controlling shareholder of the Company, since August 2010. Mr. Lee also acts as the Joint Company Secretary of the Company and assists in the supervision of corporate secretarial matters for the Group.

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

# Board of Directors and Senior Management

## Mr. Soon Kweong Wah

**Executive Director**

Mr. Soon, aged 59, joined the Group in May 1983 and is an Executive Director and Chairman of the Risk Management Committee of the Board. Mr. Soon also sits on the boards of various companies within the Group, and is primarily responsible for the overall operational management and business performance control of the Group's E&M engineering installation business in Hong Kong, as well as directing the research and analysis on the business opportunities and assessing potential markets and projects for this business unit.

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

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

## Mr. Wong Shu Hung

**Executive Director**

Mr. Wong, aged 67, joined the Group in October 1986 and was appointed as an Executive Director of the Company in December 2017. He is on the boards of certain subsidiaries of the Group. Mr. Wong is mainly responsible for the operation and management of the Group's E&M engineering projects, and supervision of contracts managers, project managers and engineers. Mr. Wong obtained a Bachelor's degree in Mechanical Engineering from National Cheng Kung University, Taiwan and a Master of Science Degree in Heat Transfer Engineering from the Imperial College of Science and Technology, U.K.. He has over 40 years' experience in the E&M engineering business in Hong Kong.

## Mr. Wong Kwok Kin, Andrew

**Non-executive Director**

Mr. Wong, aged 72, joined the Group in January 1998, and was appointed the Vice-Chairman and Executive Director of the Company in August 2015. He was then re-designated as Non-executive Director of the Company in January 2017. He is also an executive director and the Vice Chairman of FSE Holdings Limited, a controlling shareholder of the Company. Mr. Wong has over 30 years of substantial corporate management experiences in the hospitality and the service industries, and has obtained extensive achievements in financial control, human resources administration and business development. He was an executive director of several subsidiaries and affiliates of the New World group of companies, which are principally engaged in the businesses of duty-free liquor and tobacco concessions, E&M engineering, environmental facility services, property management and the provision of communication, cleaning and laundry and security services.

# Board of Directors and Senior Management

### Mr. Kwong Che Keung, Gordon

**Independent Non-executive Director**

Mr. Kwong, aged 69, was appointed an Independent Non-executive Director of the Company and the Chairman of the Audit Committee of the Board in November 2015. Mr. Kwong is also an independent non-executive director of a number of listed public companies in Hong Kong, including Agile Group Holdings Limited, China Power International Development Limited, Chow Tai Fook Jewellery Group Limited, Global Digital Creations Holdings Limited, Henderson Investment Limited, Henderson Land Development Company Limited, NWS Holdings Limited and OP Financial Limited (formerly known as OP Financial Investments Limited). He is also an independent non-executive director of Piraeus Port Authority S.A., a listed public company in Athens, Greece. He was an independent non-executive director of CITIC Telecom International Holdings Limited (up to his retirement on 1 June 2017) and COSCO SHIPPING Holdings Co., Ltd. (up to his retirement on 25 May 2017), both being listed public companies in Hong Kong. Mr. Kwong graduated with a Bachelor of Social Science degree from the University of Hong Kong in 1972 and was qualified as a Chartered Accountant in the Institute of Chartered Accountants in England and Wales. He was a partner of Price Waterhouse (now known as PricewaterhouseCoopers) from 1984 to 1998 and an independent member of the Council of the Stock Exchange from 1992 to 1997, during which he had acted as the convener of both the Compliance Committee and the Listing Committee of the Stock Exchange. Mr. Kwong is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

### Mr. Hui Chiu Chung, Stephen *JP*

**Independent Non-executive Director**

Mr. Hui, aged 71, was appointed an Independent Non-executive Director of the Company, and the Chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Board in November 2015. Mr. Hui has 47 years of experience in the securities and investment industry. He had for years been serving as a member and Second Vice-chairman of Council of the Stock Exchange, a member of the Advisory Committee of the Hong Kong Securities and Futures Commission, a director of the Hong Kong Securities Clearing Company Limited, a member of the Listing Committee and GEM Listing Committee of the Stock Exchange, an appointed member of the Securities and Futures Appeal Tribunal, a member of Standing Committee on Company Law Reform, a member of the Committee on Real Estate Investment Trusts of the Hong Kong Securities and Futures Commission, an appointed member of the Hong Kong Institute of Certified Public Accountants Investigation Panel A and also a government appointed independent non-executive director of Hong Kong Exchanges and Cleaning Limited. Mr. Hui is a member of Hengqin New Area Development Advisory Committee, and Hong Kong and Macao Legal Issues Expert Group of The Administrative Committee of Hengqin New Area, Zhuhai. He was also an appointed member of Zhuhai Municipal Committee of the Chinese People's Political Consultative Conference from 2006 to 2016. Mr. Hui is also an independent non-executive director of a number of listed public companies in Hong Kong, including Agile Group Holdings Limited, China South City Holdings Limited, Gemdale Properties and Investment Corporation Limited, Lifestyle International Holdings Limited, SINOPEC Engineering (Group) Co., Ltd and Zhuhai Holdings Investment Group Limited. He is also a non-executive director of Luk Fook Holdings (International) Limited, also a listed public company in Hong Kong. Mr. Hui is a fellow of The Hong Kong Institute of Directors and a senior fellow of the Hong Kong Securities and Investment Institute.

# Board of Directors and Senior Management

### Mr. Lee Kwan Hung

**Independent Non-executive Director**

Mr. Lee, aged 53, was appointed an Independent Non-executive Director of the Company, and the Chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Board in November 2015. Mr. Lee is also an independent non-executive director of a number of listed public companies in Hong Kong, including China BlueChemical Ltd., China Goldjoy Group Limited, Embry Holdings Limited, Landsea Green Group Co., Ltd. (formerly known as Landsea Green Properties Co., Ltd.), NetDragon Websoft Holdings Limited, Newton Resources Ltd, Red Star Macalline Group Corporation Ltd., Ten Pao Group Holdings Limited and Tenfu (Cayman) Holdings Company Limited. He was an independent non-executive director of Asia Cassava Resources Holdings Limited (up to his resignation on 13 May 2018), Futong Technology Development Holdings Limited (up to his resignation on 18 November 2017) and Walker Group Holdings Limited (now known as Vestate Group Holdings Limited) (up to his resignation on 1 April 2016), all being listed public companies in Hong Kong. He obtained a Bachelor of Laws (Honours) degree from the University of Hong Kong in 1988 and was admitted as a solicitor in Hong Kong in 1991 and in the United Kingdom in 1997. He was a partner of Woo, Kwan, Lee & Lo and is currently a consultant of Howse Williams Bowers. Mr. Lee was successively a manager and a senior manager of the Listing Division of the Stock Exchange from December 1992 to April 1994.

### Dr. Tong Yuk Lun, Paul

**Independent Non-executive Director**

Dr. Tong, aged 77, was appointed an Independent Non-executive Director of the Company and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board in April 2016. Dr. Tong holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering from the University of Hong Kong, and a Doctor of Philosophy degree from the Victoria University of Manchester. Dr. Tong is a member of the Institute of Civil Engineers, London and the Hong Kong Institution of Engineers, and has solid and extensive experience in the construction industry. Dr. Tong is a director of BTS Group Holdings Public Co. Ltd., a company listed on the Stock Exchange of Thailand.

## SENIOR MANAGEMENT

### Mr. Chan Ju Wai

**Chief Financial Officer and Joint Company Secretary**

Mr. Chan, aged 50, is the Chief Financial Officer and Joint Company Secretary of the Company. Mr. Chan is also a director of two subsidiaries of the Company established in the Mainland China. Mr. Chan is principally responsible for overseeing the Group's financial management, treasury, information technology, legal and corporate governance functions.

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

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

# Board of Directors and Senior Management

### Mr. Tsang Tin Ngai

**General Manager — Internal Audit**

Mr. Tsang, aged 49, joined the Group in August 2015 and is the General Manager of the Internal Audit Department of the Company. He is responsible for internal audit and overall risk assurance of the Group.

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

### Mr. Chan Tat Chi

**General Manager — Tender and Subletting**
**FSE Engineering Group**

Mr. Chan, aged 60, is the General Manager of the Tender and Subletting Department and a director of a subsidiary of the Company. He has been actively involved in the tendering, procurement and subletting. He joined the Group in June 1983 and has over 35 years' experience in the E&M engineering business in Hong Kong.

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

### Mr. Cheung Chi Wai

**General Manager — E&M Maintenance**
**FSE Engineering Group**

Mr. Cheung, aged 54, joined the Group in 1989 and is the Director & General Manager of the E&M maintenance section and also a director of certain subsidiaries of the Company. He is mainly responsible for the overall management and business performance control of the E&M maintenance business in both Hong Kong and Macau, as well as operating the research and analysis on the business opportunities and assessing potential markets and projects for the business units. Mr. Cheung has over 34 years' experience in the E&M engineering business in Hong Kong.

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

# Board of Directors and Senior Management

### Mr. Cheung Kwok Heng

**General Manager — Building Material**

**FSE Engineering Group**

Mr. Cheung, aged 58, joined the Group in September 1987 and is the General Manager of the building material and retail business section, taking charge of the trading of building material businesses. Mr. Cheung has over 30 years' experience in the E&M engineering business in Hong Kong.

Mr. Cheung holds a Higher Diploma in Electrical Engineering from The Hong Kong Polytechnic University and a Master Degree in Business Administrative (Executive) from the City University of Hong Kong, and has been admitted as Member of the Hong Kong Institution of Engineers. He is registered with the Electrical and Mechanical Services Department of Hong Kong as a registered electrical worker. He is also a registered professional engineer (Building Services) in the Engineers Registration Board of Hong Kong, a chartered engineer of The Engineering Council in the United Kingdom, a corporate member of the Chartered Institution of Building Services Engineers from the United Kingdom and was the Chair for the committee of the Chartered Institution of Building Services Engineers Hong Kong Branch in the session 2013/2014.

### Ms. Cheung Lut Yi, Connie

**General Manager — Human Resources**

**FSE Engineering Group**

Ms. Cheung, aged 55, joined the Group in April 1991 and is the General Manager of the Human Resources Department. Ms. Cheung is mainly responsible for the human resources management and administration affairs in Hong Kong, Macau and PRC regions.

Ms. Cheung holds a Diploma in Business Management from The Hong Kong Polytechnic University and a Bachelor's degree in Business Administration from the Royal Melbourne Institute of Technology University in Australia. She has over 28 years' experience in human resources management and administration. Ms. Cheung is a professional member of the Hong Kong Institute of Human Resources Management.

### Ms. Leung Kit Ping, Teresa

**General Manager — Finance**

**FSE Engineering Group**

Ms. Leung, aged 62, joined the Group in August 1995 and is the General Manager of the Finance Department. She has over 35 years' experience in accounting and financial management, treasury and working capital management of E&M engineering businesses. Prior to joining the Group, she had worked in an international accounting firm.

### Mr. Wong Po Shing

**General Manager — E&M Engineering (Mainland China)**

**FSE Engineering Group**

Mr. Wong, aged 68, joined the Group in April 1979 and is a director of certain major subsidiaries of the Company. He is responsible for the overall project administration and business marketing for Mainland China projects.

Mr. Wong holds a Bachelor's degree in Science with major in mechanical engineering from the National Taiwan University. He has over 40 years' experience in the E&M engineering business in Hong Kong. Mr. Wong was also a member of the American Society of Heating, Refrigerating and Air-conditioning Engineers, Inc. and The Australian Institute of Refrigeration, Air Conditioning and Heating respectively.

# Board of Directors and Senior Management

### Mr. Ko Ngai Chun

**Assistant General Manager**

**FSE Environmental Technologies Group**

Mr. Ko, aged 33, joined the Group in July 2016 and is the Assistant General Manager of the FSE Environmental Technologies Group. He is responsible for the overall management and business development of the environmental business in both Hong Kong and Macau.

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

### Mr. Yuen Wai Sang, Wilson

**General Manager — Operations**

**New China Laundry Group**

Mr. Yuen, aged 54, is the General Manager — Operations of NCL. He is responsible for the overall operations of NCL specifically in the areas of production, logistics and facility management utilizing innovative solutions and automation technologies. Mr. Yuen joined NCL in 2005 which has become a member of the Group since April 2018. Mr. Yuen has over 25 years of professional experience in customer service, business management, marketing and research and development.

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

### Ms. Lee Kin Ming

**Assistant General Manager — Finance & Administration**

**New China Laundry Group**

Ms. Lee, aged 51, is the Assistant General Manager — Finance & Administration of NCL and a director of a subsidiary of the Company. Ms. Lee has over 20 years of professional experiences in accounting, finance, human resources and administration areas. She is responsible for the overall operations of NCL specifically in the areas of accounting & finance, human resources & administration, sales & marketing and procurement.

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

# Board of Directors and Senior Management

## Mr. Chung Wai Man

**General Manager — Operations**

**Waihong Environmental Service Group**

Mr. Chung, aged 60, is the General Manager of Waihong and a director of certain subsidiaries of the Company. Mr. Chung joined Waihong in 1978 which has become a member of the Group since April 2018 and he has accumulated over 40 years' experience in the cleaning and environmental industry. He is responsible for the stipulation of business directions, management control and operation systems enhancement as well as new market development activities of the sanitation, cleaning and environmental services businesses.

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

## Ms. Sze Kut

**Assistant General Manager — Finance & Procurement**

**Waihong Environmental Service Group**

Ms. Sze, aged 45, is the Assistant General Manager of Waihong. Ms. Sze is primarily responsible for the finance, procurement and administrative functions.

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

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICE

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

Code provision E.1.2 requires the chairman of the board to attend annual general meeting. Dr. Cheng Kar Shun, Henry, the Chairman of the board of directors of the Company (the "Board"), was unable to attend the annual general meeting of the Company (the "2017 AGM") held on 29 November 2017 due to other important engagement. Mr. Lam Wai Hon, Patrick, the Vice-Chairman of the Board, who took the chair of the 2017 AGM, together with members of the Board who attended the 2017 AGM, were of sufficient caliber for answering questions at the 2017 AGM.

## DIRECTORS' SECURITIES TRANSACTIONS

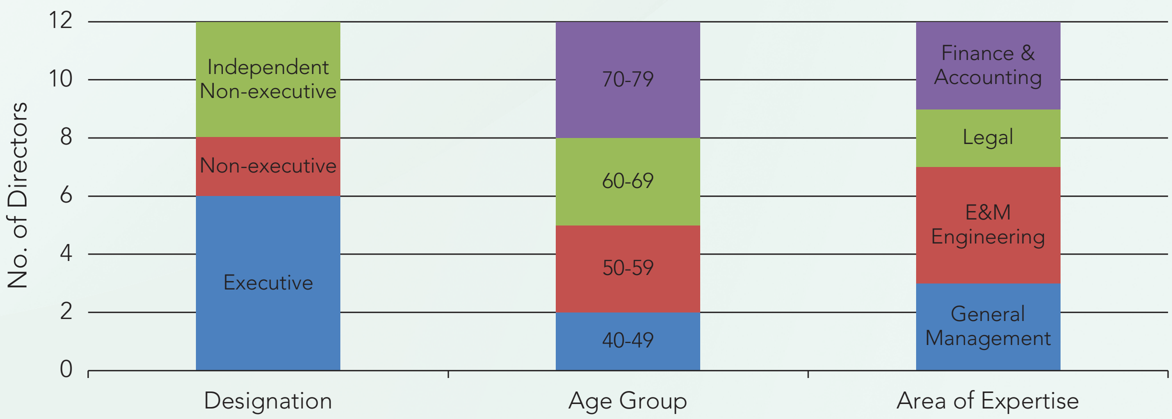
The Company has adopted its own Securities Dealing Code, with terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, as the code for dealing in securities of the Company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

## BOARD OF DIRECTORS

### Composition and responsibilities

The Board has adopted a policy which recognises and embraces the benefits of a Board that possess a balance of skills, knowledge, professional experience, expertise and diversity of perspectives appropriate to the requirement of the businesses of the Group. All Board appointments are based on meritocracy and considered with due regard for the benefits of diversity on the Board.

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




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

# Corporate Governance Report

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

## Corporate governance functions

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

## Independence of Independent Non-executive Directors

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

## Directors' continuous professional development

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

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

# Corporate Governance Report

## ROLES OF CHAIRMAN, VICE-CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

## NON-EXECUTIVE DIRECTORS

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

## BOARD COMMITTEES

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

### Executive Committee

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

### Audit Committee

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

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

During the Year, the Audit Committee held two meetings and reviewed, amongst other matters, the Company's audit plans, internal control procedure, financial reporting system, continuing connected transactions, risk management policy and the adequacy of resources, qualifications and experience of staff in the Group's accounting, financial reporting and internal audit functions. The Committee also reviewed the interim results for the six months ended 31 December 2017 and the annual results for the Year and submitted recommendations to the Board for its approval, and discussed the Reports to the Audit Committee prepared by external auditors relating to accounting issues and major findings in the course of review and audit.

### Risk Management Committee

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

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

### Remuneration Committee

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

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

During the Year, the Remuneration Committee held one meeting and reviewed the Company's remuneration policy and structure, including that for the Directors and senior management of the Company. The Committee also reviewed and approved the yearly salary adjustments effective 1 January 2018 and the bonus payment for FY2017.

### Nomination Committee

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

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

During the Year, the Nomination Committee held two meetings and reviewed the structure, size, composition of the Board with due consideration to the appropriate balance of skill and experience required by the Company. It also assessed and confirmed the independence of all the four Independent Non-executive Directors having regard to the criteria as set out in Rule 3.13 of the Listing Rules, and recommended to the Board the nomination of Dr. Cheng Kar Shun, Henry, Mr. Poon Lock Kee, Rocky, Mr. Soon Kweong Wah and Mr. Lee Kwan Hung for reappointment as Directors by the shareholders at the 2017 AGM. The Committee also discussed and approved to recommend to the Board the appointment of Mr. Wong Shu Hung as an Executive Director after taking into consideration the diversity policy adopted by the Company and the background and experience of Mr. Wong Shu Hung.

# Corporate Governance Report

## Attendance of meetings

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

| | Number of meetings attended/eligible to attend | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Board Meeting | Executive Committee Meeting | Audit Committee Meeting | Risk Management Committee Meeting | Remuneration Committee Meeting | Nomination Committee Meeting | 2017 AGM | Extraordinary General Meeting |
| **Non-executive Directors** | | | | | | | | |
| Dr. Cheng Kar Shun, Henry | 0/4 | – | – | – | – | – | 0/1 | 0/1 |
| Mr. Wong Kwok Kin, Andrew | 4/4 | – | – | – | – | – | 1/1 | 1/1 |
| **Executive Directors** | | | | | | | | |
| Mr. Lam Wai Hon, Patrick | 4/4 | 12/12 | – | – | 1/1 | – | 1/1 | 1/1 |
| Mr. Poon Lock Kee, Rocky | 4/4 | 12/12 | – | – | 1/1 | 2/2 | 1/1 | 1/1 |
| Mr. Doo William Junior Guilherme | 4/4 | 12/12 | – | – | – | 2/2 | 1/1 | 1/1 |
| Mr. Lee Kwok Bong | 4/4 | 12/12 | – | – | – | – | 1/1 | 1/1 |
| Mr. Soon Kweong Wah | 4/4 | 12/12 | – | 4/4 | – | – | 1/1 | 1/1 |
| Mr. Wong Shu Hung (Note) | 2/2 | 6/6 | – | – | – | – | – | 1/1 |
| **Independent Non-executive Directors** | | | | | | | | |
| Mr. Kwong Che Keung, Gordon | 4/4 | – | 2/2 | – | – | – | 1/1 | 1/1 |
| Mr. Hui Chiu Chung, Stephen | 4/4 | – | 2/2 | – | 1/1 | 2/2 | 1/1 | 1/1 |
| Mr. Lee Kwan Hung | 4/4 | – | 2/2 | – | 1/1 | 2/2 | 1/1 | 1/1 |
| Dr. Tong Yuk Lun, Paul | 4/4 | – | 2/2 | – | 1/1 | 2/2 | 1/1 | 1/1 |

Note: Mr. Wong Shu Hung was appointed as an Executive Director on 18 December 2017.

## AUDITOR'S REMUNERATION

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

| | Fees paid/payable for the year ended 30 June | |
|---|---|---|
| **Type of services** | **2018** **HK$'000** | 2017 (restated) HK$'000 |
| Audit services | **4,307** | 4,665 |
| Non-audit services* | **1,887** | 913 |
| Total | **6,194** | 5,578 |

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

# Corporate Governance Report

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

### Annual report and financial statements

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

### Accounting policies

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

### Accounting records

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

### Safeguarding assets

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

### Going concern

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

The reporting responsibilities of PricewaterhouseCoopers, the Company's external auditor, are stated in the Independent Auditor's Report on pages 72 to 76 of this annual report.

# Corporate Governance Report

## RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

### Internal audit

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

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

### Risk management

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

# Corporate Governance Report

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

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

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

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

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

# Corporate Governance Report

## Risk factors

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

### Global economy and government policy

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

### Labour shortage

Due to aging workforce and less young people joining the construction market, Hong Kong construction industry is facing severe labour shortage which is expected to continue for years. This may affect the Group's ability to sustain a stable workforce to complete the projects in time. As a result, labour costs have been increasing in the past few years; and may keep in the rising trend. Similarly, the Group's facility services business may also be impacted by labour shortage or the consequential increase in labour costs. Labour shortage may therefore affect the Group's business and results of operations.

### Currency fluctuations

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

### Material fluctuations

The Group's major business is in the E&M engineering segment of the construction market. The Group requires to procure a vast amount of building materials into the works. These building materials are subject to a high volatility of price in raw materials, particularly steel and copper. The Group's business and results may be affected by the price fluctuation in the building materials.

### Safety and personal injuries

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

### Delays and latent defects

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

**Contracts' renewals**

The Group's maintenance and facility services businesses are subject to the risks associated with tendering process. The business contracts of the Group's maintenance and facility services businesses are normally awarded through competitive tendering process on a project by project basis and they may face keen competition. There is no assurance that the Group's maintenance and facility services businesses will be successful in securing or renewing its business contracts during the tendering process. If the Group's maintenance and facility services businesses fail to secure engagement for new projects on favourable terms or at all, their businesses and results of operation could be materially affected.

**Environmental concerns**

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

## JOINT COMPANY SECRETARIES

An Executive Director and the Chief Financial Officer of the Group act as the joint company secretaries of the Company. Each of them has confirmed that he had taken no less than 15 hours of relevant professional training.

## SHAREHOLDER AND INVESTOR RELATIONS

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

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

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

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

# Corporate Governance Report

## SHAREHOLDERS' RIGHTS

### Procedures for shareholders to convene an extraordinary general meeting

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

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

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

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

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

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

### Procedures for raising enquiries

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to Tricor Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or through email at is-enquiries@hk.tricorglobal.com.

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

### Procedures for putting forward proposals at shareholders' meetings

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

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

## AMENDMENT TO THE COMPANY'S CONSTITUTIONAL DOCUMENTS

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

# Management Discussion and Analysis

## BUSINESS REVIEW

Following the completion of the Group's acquisition of the facility services (cleaning and laundry services) business on 11 April 2018 (refer to the section of "Major transaction" on page 46), the Group has expanded its business scale and diversified its revenue stream from the businesses of E&M engineering and environmental management services to the areas of cleaning and laundry services as well.

In FY2018, the Group recorded revenue amounting to HK$4,926.5 million for the Year, representing an increase of HK$96.9 million or 2.0%, as compared with HK$4,829.6 million (restated) in FY2017. Profit attributable to equity holders for the Year was HK$236.8 million, representing an increase of HK$11.4 million or 5.1% against HK$225.4 million (restated) in FY2017.

## 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 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), 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.

### Financial performance

Leveraging on its competitive strengths as described above, the Group's E&M engineering business delivered a solid performance and recorded revenue amounting to HK$3,694.2 million for the Year, representing an increase of HK$48.8 million or 1.3%, as compared with HK$3,645.4 million (restated) in FY2017. Its profit contribution for the Year was HK$173.3 million, representing an increase of HK$4.2 million or 2.5% against HK$169.1 million in FY2017.

As at 30 June 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$9,040 million with a total outstanding contract sum of HK$5,422 million. During FY2018, the Group submitted tenders for 597 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$22,985 million.

# Management Discussion and Analysis

## New contracts awarded

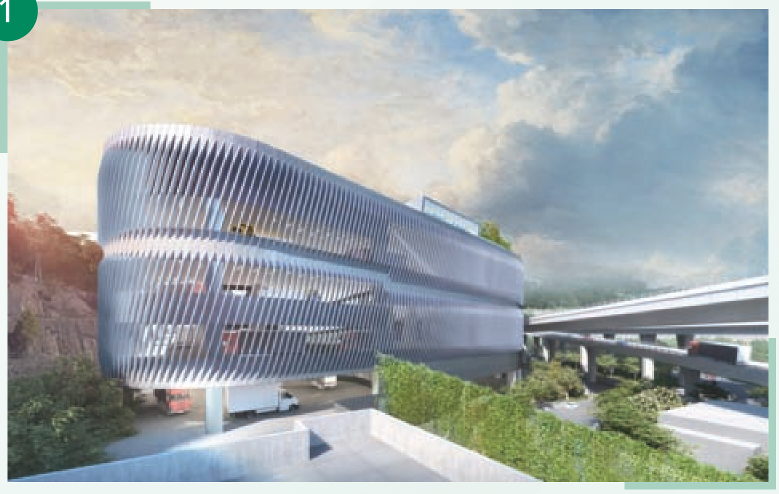
During FY2018, this business segment was awarded new contracts with a total value of HK$2,969 million, which include 142 contracts (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$2,770 million. Among these 142 contracts, 7 of them are major projects (with net contract sum equal to or more than HK$100 million for each project) as listed below:

**Hong Kong:**

1. E&M installation for Transport Department's Vehicle Examination Centre at Sai Tso Wan Road, Tsing Yi;

2. Electrical installation for construction of subsidised sale flats development at Queen's Hill site 1 phase 3 and portion of phase 6, Fanling;

1



3

3. Electrical and Mechanical, Ventilation and Air-conditioning ("MVAC") installation for HKSH Eastern District Advanced Medical Centre at No. 3 A Kung Ngam Village Road, S.I.L. 778, Shau Kei Wan;

4. Electrical and Extra Low Voltage ("ELV") installation for LOHAS Park Package 7 at TKOTL No. 70, Site C1, New Territories;

# Management Discussion and Analysis

5. Fire Services and MVAC installation for Tai Wai Station Property Development in STTL No. 520 (Podium Portion);

6. Plumbing and Drainage installation for Tai Wai Station Property Development in STTL No. 520 (Residential Portion);

5
6


**Mainland China:**

7


7. Heating, Ventilation and Air-conditioning ("HVAC") for Tianjin Chow Tai Fook Finance Center, Tianjin.

# Management Discussion and Analysis

## Completed projects

The Group completed several prestigious projects during the Year, including:

### Hong Kong:

1. Electrical and ELV installation for residential development at TMTL 423, Area 48, Castle Peak Road, So Kwun Wat, Tuen Mun, New Territories;

1

2

2. Electrical and ELV installation for residential development at TMTL 427, So Kwun Wat Road, Tuen Mun, New Territories;

3. Plumbing and Drainage installation for residential development at R.B.L.1190, 8-12 Deep Water Bay Drive, Hong Kong;

3

4. Electrical, Fire Services, MVAC & Central Driller Plant installation for Victoria Dockside in Tsim Sha Tsui, Kowloon;

4

**Macau:**

5

5. Electrical installation for Morpheus Hotel at City of Dreams, Cotai.

# Management Discussion and Analysis

## Projects on hand

As at 30 June 2018, major outstanding contracts with remaining works valued at more than HK$100 million including:

**Hong Kong:**

1

1. Design, supply and installation of E&M services for the West Kowloon Government Office in Yau Ma Tei, Kowloon;

2. E&M installation for Hong Kong Airlines Aviation Training Centre at Chek Lap Kok, Lantau Island, New Territories;

3. Plumbing and Drainage installation for a proposed residential development at Site N, TKOTL No. 70 Remaining Portion, LOHAS Park Package 6, Tseung Kwan O, New Territories;

2

4

4. Electrical and MVAC installation for the Hong Kong International Airport Contract P568 Midfield Apron Development Works at Chek Lap Kok, Lantau Island, New Territories;

5. Electrical and Fire Services installation for a public rental housing at Pak Tin Estate Phase 7 & 8, Sham Shui Po, Kowloon;

6. Fire Services installation for a public housing at North West Kowloon Reclamation Site 6 and Fat Tseung Street West, Kowloon;

7. Electrical and ELV installation for LOHAS Park Package 7 at TKOTL No. 70, Site C1, New Territories;

8. Fire Services and MVAC installation for Tai Wai Station Property Development in STTL No. 520 (Podium Portion);

9. Plumbing and Drainage installation for Tai Wai Station property development in STTL No. 520 (Residential Portion);

10. Electrical and MVAC installation for HKSH Eastern District Advanced Medical Centre at No. 3 A Kung Ngam Village Road, S.I.L. 778, Shau Kei Wan;

11. E&M installation for Transport Department's Vehicle Examination Centre at Sai Tso Wan Road, Tsing Yi;

12. Electrical installation for construction of subsidised sale flats development at Queen's Hill site 1 phase 3 and portion of phase 6, Fanling;

**Mainland China:**

13. HVAC and Electrical installation for the podium of Spring City 66 — a commercial complex development at 15 Dongfeng Dong Road/433 Beijing Road, Panlong District, Kunming;

14. HVAC installation for Tianjin Chow Tai Fook Finance Center, Tianjin, China.

# Management Discussion and Analysis

## ENVIRONMENTAL MANAGEMENT SERVICES SEGMENT

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

### Financial performance

In FY2018, the Group's environmental management services business recorded revenue amounting to HK$61.8 million for the Year, representing an increase of HK$7.8 million or 14.4%, as compared with HK$54.0 million (restated) in FY2017. Its profit contribution to the Group for the Year was HK$6.3 million, representing an increase of HK$1.6 million or 34.0% against HK$4.7 million in FY2017.

As at 30 June 2018, this business segment has a total gross value of contract sum of HK$76 million with a total outstanding contract sum of HK$51 million. During FY2018, the Group submitted tenders for 38 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$150 million.

### New contracts awarded

During FY2018, this business segment was awarded new contracts with a total value of HK$63 million, which include 8 projects (with a net contract sum equal to or exceeding HK$1 million for each project) with a total net contract sum of HK$18 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, 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, housekeeping, waste management and integrated pest management services. Waihong became a member of FSE Services Group since 11 April 2018.

Since the establishment in 1965, Waihong has experienced the development of cleaning service industry in different stages. It also witnessed the economic growth of Hong Kong over the past decades. Regarding its cleaning service business, growing public awareness for better environmental hygiene with premier life style is boosting the demand of quality service providers, it will focus on providing efficient, effective and the highest professional standard services to meet different kinds of customer needs.

During FY2018, the Group submitted tenders for 317 cleaning service projects (with a contract sum equal to or exceeding HK$1 million for each project) with a total tender sum of HK$3,848 million.

# Management Discussion and Analysis

## 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 FY2018, NCL started a specialised production line with modern equipment that was designed to cater for the needs of airlines clients. NCL's quick delivery service and the comprehensive coverage of logistics network supported the ongoing expansion of a Hong Kong based airline partner.

The total tourist arrivals and hotel occupancy rate remained steady in 2018. NCL continues promoting self-upgrading to satisfy the demanding hospitality industry. In FY2018, NCL completed a replacement of hotel-related machineries such as the Continuous Batch Washer and Flat Ironer, to effectively maintain operational efficiency as well as ensure the service quality.

NCL makes use of advanced Customer Relationship Management system to effectively manage our clientele base. NCL's customer oriented employees focus on raising its customer satisfaction which leads to a long term partnership.

## Financial performance

In FY2018, the Group's facility services business recorded revenue amounting to HK$1,170.5 million for the Year, representing an increase of HK$40.3 million or 3.6%, as compared with HK$1,130.2 million in FY2017. Its profit contribution to the Group was HK$57.2 million, which includes HK$9.7 million made for the period from 12 April 2018 to 30 June 2018 following the completion of Group's acquisition of it on 11 April 2018, representing an increase of HK$5.6 million or 10.9% against HK$51.6 million in FY2017. As at 30 June 2018, this business segment has a total gross value of contract sum of HK$2,744 million with a total outstanding contract sum of HK$1,048 million for the cleaning services business.

## New contracts awarded

During FY2018, the Group's cleaning services business was awarded new service contracts with a total value of HK$514 million, which include 67 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$495 million. Among these 67 service contracts, 11 of them are major service contracts (with net contract sum equal to or more than HK$10 million for each service contract) with a total contract sum of HK$294 million, which include large-scale service facilities for public transportations, premier office buildings, a premier mixed-use commercial complex, a private luxury real estate, a heritage project managed by a world-class racing club, a government-funded dental hospital and a public housing estate.

During FY2018, the Group's laundry business was awarded new contracts with a total value of HK$121 million, which include 20 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$116 million. Among these 20 service contracts, 4 of them are major service contracts (with net contract sum equal to or more than HK$5 million for each service contract) with a total contract sum of HK$99 million, which include a leading services provider for airlines catering and relevant services, a world-class racing club, a mega convention and exhibition centre and a famous restaurant chain.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

In FY2018, the Group's revenue increased by HK$96.9 million or 2.0% to HK$4,926.5 million from HK$4,829.6 million (restated), attributable mostly to the higher revenue derived from our E&M engineering segment and facility services segment amounting to HK$48.8 million and HK$40.3 million, respectively.

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

| | For the year ended 30 June | | | |
|---|---|---|---|---|
| | **2018 HK$'M** | **% of total revenue** | 2017 (restated) HK$'M | % of total revenue |
| E&M engineering* | **3,694.2** | **75.0%** | 3,645.4 | 75.5% |
| Environmental management services* | **61.8** | **1.3%** | 54.0 | 1.1% |
| Facility services* | **1,170.5** | **23.7%** | 1,130.2 | 23.4% |
| Total | **4,926.5** | **100.0%** | 4,829.6 | 100.0% |

* Segment revenue does not include inter-segment sales.

- *E&M (electrical and mechanical) engineering:* This segment continued to be the key turnover driver of the Group and contributed 75.0% of the Group's total revenue (2017: 75.5% (restated)). Segment revenue recorded mild increment of 1.3% from HK$3,645.4 million (restated) to HK$3,694.2 million for the Year, owing mainly to the increased revenue contribution from a number of E&M projects in Mainland China which had significant progress. The increase was partly offset by the reduction in contribution from Hong Kong and Macau with E&M installation for Gleneagles Hong Kong Hospital in Wong Chuk Hang and Central Chiller Plant and Sitewide Building Management System, dry fire sitewide and hotel tower HVAC installation for Wynn Palace Cotai Resort ("Wynn Palace") which had been substantially completed in FY2017.

- *Environmental management services:* Revenue contribution of this business segment increased from HK$54.0 million (restated) to HK$61.8 million, representing a growth of 14.4% as compared with last year. The increase was mainly attributable to the increase in revenue from environmentally-related contracting and maintenance services, primarily water treatment services.

- *Facility services:* This new segment contributed 23.7% of the Group's total revenue (2017: 23.4%). The revenue of HK$1,170.5 million for the Year composed of revenue from provision of cleaning and laundry services amounting to HK$1,003.9 million and HK$166.6 million, respectively. Segment revenue recorded a growth of HK$40.3 million or 3.6% to HK$1,170.5 million in FY2018 from HK$1,130.2 million, mainly contributed by the revenue contribution from a number of new cleaning service contracts, including Victoria Dockside in Tsim Sha Tsui, an academic institution in Kowloon Tong and various commercial buildings in Central, Wan Chai and Mongkok.

# Management Discussion and Analysis

The following table presents a breakdown of the Group's revenue geographically:

| | For the year ended 30 June | | | |
|---|---|---|---|---|
| | **2018**<br>**HK$'M** | 2017 (restated)<br>HK$'M | Change<br>HK$'M | % change |
| Hong Kong | **3,913.8** | 3,972.6 | (58.8) | (1.5%) |
| Mainland China | **658.8** | 476.8 | 182.0 | 38.2% |
| Macau | **353.9** | 380.2 | (26.3) | (6.9%) |
| Total | **4,926.5** | 4,829.6 | 96.9 | 2.0% |

Hong Kong: Revenue from Hong Kong decreased by HK$58.8 million or 1.5% to HK$3,913.8 million in FY2018. The decline mainly resulted from the reduced revenue contribution from Gleneagles Hong Kong Hospital in Wong Chuk Hang and Victoria Dockside in Tsim Sha Tsui which had been substantially completed and made significant progress in last year. The decrease was partly mitigated by the revenue contribution from a sizeable installation project West Kowloon Government Office in Yau Ma Tei as well as the increase in revenue from provision of cleaning services. Also, works in relation to a number of sizeable installation projects, including design and construction of Transport Department's Vehicle Examination Centre in Tsing Yi and a residential development at Tai Wai Station, were at an early stage and yet to contribute significant revenue.

Mainland China: Revenue from Mainland China increased by 38.2% from HK$476.8 million to HK$658.8 million in FY2018. The increase of HK$182.0 million was primarily the substantial revenue contribution from Tianjin Chow Tai Fook Financial Centre which made significant progress during the Year and lifted Mainland China's contribution to the Group's total revenue from 9.9% (restated) to 13.4%.

Macau: Revenue from Macau dropped by 6.9% from HK$380.2 million to HK$353.9 million in FY2018 with its geographical contribution of the region slightly declined from 7.9% (restated) to 7.2% in FY2018. The decrease was mainly resulted from the reduced revenue contribution from Wynn Palace which had substantial completion in last year. The decrease was partly mitigated by the revenue contribution from Morpheus Hotel at City of Dreams which made significant progress during the Year.

# Management Discussion and Analysis

## Gross profit

The Group's overall gross profit increased by HK$35.4 million or 6.4% from HK$555.6 million (restated) in FY2017 to HK$591.0 million in FY2018, whereas overall gross profit margin remained relatively stable at 12.0% (2017: 11.5% (restated)). The increase in gross profit was driven by the E&M engineering business recording an increase in gross profit during the Year with segment gross profit margin improved from 10.7% to 11.4%. The gross profit margin of the environmental management services segment remained stable at 28.8% (2017: 28.3%) with gross profit rose by 16.3% from HK$15.3 million to HK$17.8 million in FY2018, mainly attributable to the contribution from biological deodorizing system installation and maintenance works. The gross profit margin of the facility services segment slightly decreased from 13.2% to 12.9% mainly resulted from the increase in fuel costs for provision of laundry service.

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

| | For the year ended 30 June | | | |
|---|---|---|---|---|
| | **2018** | | 2017 (restated) | |
| | **Gross profit HK$'M** | **Gross profit margin %** | Gross profit HK$'M | Gross profit margin % |
| E&M engineering | **421.9** | **11.4** | 391.6 | 10.7 |
| Environmental management services | **17.8** | **28.8** | 15.3 | 28.3 |
| Facility services | **151.3** | **12.9** | 148.7 | 13.2 |
| Total | **591.0** | **12.0** | 555.6 | 11.5 |

## Other income/gains, net

Other income/net gains in FY2018, which amounted to HK$3.3 million (2017: HK$4.6 million (restated)), mainly included net foreign exchange gain.

## Finance income

The Group recorded finance income of HK$18.2 million (2017: HK$14.6 million (restated)). The increase was mainly due to the interest income from investment in available-for-sale financial assets and financial assets at fair value through profit or loss.

## Finance costs

The Groups recorded interest expenses of HK$1.1 million (2017: HK$0.4 million (restated)) on short-term bank borrowings of the facility services group for working capital purpose and the bank borrowings were fully repaid as at 30 June 2018.

## General and administrative expenses

In FY2018, the general and administrative expenses of the Group increased by 9.0% to HK$323.2 million, compared to HK$296.6 million (restated) in FY2017. The increase of HK$26.6 million was mainly attributable to the staff costs from annual salary increment and employment of additional staff to cope with business expansion, higher rental expenses for the laundry plant in Fanling for the new lease contracted upon completion of the acquisition of the facility services business and the one-off legal and professional fees for the acquisition of the facility services segment. In addition, there was one-off non-recurring write-back of bonus provision in last year.

# Management Discussion and Analysis

### Taxation

As compared with last year, the effective tax rate of the Group slightly declined from 18.9% (restated) to 17.9% mainly resulted from the utilization of unrecognised tax loss for a PRC subsidiary and a lower profit contribution from PRC for the Year which has a relatively higher applicable corporate income tax rate.

### Profit attributable to equity holders of the Company

As a result of the foregoing, the Group's profit attributable to equity holders for the Year increased by 5.1% or HK$11.4 million from HK$225.4 million (restated) in FY2017 to HK$236.8 million in FY2018. The increase was mainly the combined result of a higher gross profit contribution mostly from the Group's core business segment and the increase in finance income, partly offset by the increase in general and administrative expenses primarily due to higher staff costs and the one-off non-recurring legal and professional fees for acquisition. The net profit margin of the Group remained stable at 4.8% for the Year (2017: 4.7% (restated)).

### Other comprehensive income

The Group recorded other comprehensive income of HK$12.5 million in FY2018, reflective of the increase in exchange reserve from the appreciation of the RMB for conversion of the net investments in Mainland China operations and net-tax remeasurement gains on 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 2018, the Group had total cash and bank balances of HK$407.6 million, of which 48%, 28% and 24% (30 June 2017: 60%, 29% and 11% (restated)) were denominated in Hong Kong dollars, RMB and other currencies, respectively. As compared to HK$1,114.1 million (restated) as at 30 June 2017, the Group's cash and bank balances decreased by HK$706.5 million to HK$407.6 million, which was primarily due to payments for acquisition of facility services group of HK$515.8 million, dividend payments and settlements to the original shareholder's of the facility services group before completion of the acquisition in sum of HK$131.1 million, the distribution of final dividend of HK$36.5 million for FY2017, interim dividends of HK$35.1 million for FY2018, net repayment of bank loans of HK$30.0 million and the increase in net cash outflow from operating activities, partly mitigated by the net proceeds from the purchase and disposal of available-for-sale financial assets and financial assets at fair value through profit or loss of HK$93.2 million.

Adopting a prudent financial management approach in implementing its treasury policies, the Group maintained a healthy liquidity position with no bank and other borrowings outstanding as at 30 June 2018 (30 June 2017: HK$30.0 million of bank borrowings (restated)). Its net gearing ratio was maintained at zero as at 30 June 2018 (30 June 2017: zero). This ratio is calculated as net debts divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents. As at 30 June 2018, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$1,537.5 million (30 June 2017: HK$1,349.4 million (restated)) (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 30 June 2018, HK$242.1 million (30 June 2017: HK$258.4 million) were guaranteed by FMC. As at 30 June 2018, HK$263.5 million (30 June 2017: HK$419.4 million (restated)) 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.

# Management Discussion and Analysis

## Foreign currency exposure

The Group operates primarily in Hong Kong, Macau and Mainland China 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$179.0 million (30 June 2017: HK$167.8 million) as at 30 June 2018. 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 9.0% (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 2018, if the Hong Kong dollars had strengthened/weakened by another 9.0% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$16.1 million lower/higher.

## Use of net proceeds from listing

The Directors had evaluated the Group's business development plan and resolved to adjust the use of the unutilised initial public offering ("IPO") proceeds in remaining sum of HK$133.5 million as stated in the announcement of the Company dated 26 June 2018 in the manner as shown and summarised 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 | Utilised amount as from 27 June 2018 after the adjustment of the use of IPO proceeds | Unutilised as at 30 June 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 | – | 20.0 |
| 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 | 0.6 | 15.4 |
| Enhancement of quality testing laboratory | 12.2 | 4.9 | 7.3 | – | 7.3 |
| 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 | 0.6 | 132.9 |

**Reasons for the adjustment of use of the unutilised IPO proceeds**

As disclosed in the Company's Prospectus, the Group intended to apply part of the IPO proceeds for possible investment in and/or acquisition of companies engaged in the installation and maintenance of ELV system (the "ELV Acquisition"). Despite efforts of the Group, no suitable investment or acquisition opportunities have been identified. Given the Group has recently been admitted on the list of approved specialist contractors of the Works Branch Development Bureau for public works in relation to ELV services (which is one of the major eligibility requirements for carrying out ELV business), the Group is fully capable of providing ELV services and implementing the numerous ELV projects that have been awarded to the Group without resorting to any ELV Acquisition to enhance its capability and competitiveness. As such, the amount of the unutilised IPO proceeds originally allocated for use in ELV Acquisition is no longer required by the Group.

As regards the Company's original intention to develop its environmental management business through possible investment or cooperation with strategic alliances operating in the area of bio technology of microalgae in waste-water treatment and the development of web-based building energy management business as disclosed in the Company's Prospectus, the Group has not been able to identify suitable partner with sufficient technical capability and there is uncertainty in the practical feasibility of bio-technology of microalgae in waste-water treatment. The Company is therefore cautious about its further pursuit or investment in this particular area of environmental management business. In the premises, the Board considers it more commercially sensible to (i) expand the use of IPO proceeds for development into other more promising areas of its environmental management business to cover technological development of waste treatment (including but not limited to air, water, solid waste treatment) and energy saving/management solutions, as well as for enhancement of the existing business and operation of the environmental management business and (ii) reallocate more unutilised IPO proceeds for other existing business and operation of the Group (such as the operation of the E&M engineering projects and the development and enhancement of its engineering design capability).

The Group has utilised HK$131.6 million of the net proceeds from Global offering, of which HK$22.5 million was utilised during FY2018 and expected that the remaining balance of the IPO proceeds would be utilised within 5 years. 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$1.3 million (30 June 2017: HK$3.2 million (restated)) as at 30 June 2018 in relation to the purchase of property, plant and equipment.

## Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2018 and 30 June 2017.

# Management Discussion and Analysis

### Major transaction

On 27 February 2018, a conditional sale and purchase agreement (the "S&P Agreement") was entered into between FMC (the "Vendor", a direct wholly-owned subsidiary of FSE Holdings Limited which is a controlling shareholder of the Company) and FSE Facility Services Group Limited (the "Purchaser", a direct wholly-owned subsidiary of the Company) whereby the Purchaser agreed to purchase and the Vendor agreed to sell the entire issued share capital of Crystal Brilliant Limited (together with its subsidiaries as at the completion of the S&P Agreement, the "Target Group") at a consideration (the "Consideration") of HK$502.0 million subject to adjustment. The Target Group is principally engaged in the provision of facility services including cleaning and laundry services.

The acquisition under the S&P Agreement was approved by the independent shareholders at the extraordinary general meeting of the Company held on 10 April 2018. Completion of the S&P Agreement took place on 11 April 2018 (the "Completion Date") upon which the initial sum of the Consideration of HK$502.0 million was paid in cash. A final cash payment of the Consideration of HK$13.8 million was made on 19 June 2018 with reference to the unaudited net tangible asset value of the Target Group as at the Completion Date.

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

## 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"). 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 2018.

### 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" and the "4Ts 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 organised a technical visit to T-Park and a guided tour to the Zero Carbon Building and the Construction Innovation and Technology Application Centre, which enabled our employees to gain insights from low carbon building design and technologies 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 establish their own set of guidelines to ensure accountability in quality assurance. Regular audits are carried out to identify potential risks and defect issues in the production line, 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 cases 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.

# Management Discussion and Analysis

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had a total of 7,402 employees (2017: 7,933 (restated)), including 972 casual workers (2017: 600). Staff cost for the Year, including salaries and benefits, was HK$1,397.3 million (2017: HK$1,344.3 million (restated)). The decrease in the Group's total headcount is mainly due to a reduction in the number of employees in the facility services segment following the expiry of certain contracts for providing cleaning services, partly offset by an increase in the headcount in the E&M engineering segment reflected increased number of projects awarded to it during the Year.

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 during the Year, 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. Details of the share option scheme are set out under the "Report of the Directors" section on pages 60 and 61.

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

Leveraged on 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, enhance its corporate image as well as its position in the E&M engineering 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 the core business of the Group. 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 health and hygiene awareness in Hong Kong, the Group's facility services business, together with its environmental management services business, being one of the top ranked players in the industry in terms of revenue, is expected to have considerable growth potential in the years to come.

# Management Discussion and Analysis

## E&M Engineering Segment

### 1. Hong Kong

As the Hong Kong Government has unveiled a series of new policies and initiatives in the public and infrastructure projects, the construction industry accounted for 4.9% and 5.1% of Hong Kong's total gross domestic profit in 2017 and in first quarter 2018 respectively. According to the construction expenditure forecast provided by the Construction Industry Council, E&M construction works expenditure will amount to over HK$24 billion for the public sector and over HK$26 billion for the private sector over the next few years. Projects in these two sectors will together create a large number of jobs, particularly crucial for Hong Kong in times of economic uncertainty.

*Long-term Housing Strategy*

The long-term housing strategy of the Hong Kong Government, as stated in the 2017 Policy Address, aims at continuing its ongoing efforts in increasing the land and housing supply. According to the government projection, 460,000 residential flats will be provided in the next decade including 200,000 public housing units, 80,000 subsidised-sale units, and 180,000 private housing units.

Up to 2017, the proposed major public housing developments include those developments at Lin Cheung Road in Sham Shui Po, Queen's Hill in Fanling, and Tuen Mun Area 54. The proposed major subsidised-sale housing developments include those developments at Ping Shan in Yuen Long and Sham Shui Po. In addition, the Hong Kong Government has proposed the affordable "Starter Homes", and planned to launch a pilot scheme by the end of 2018 to provide about 1,000 residential units.

For private residential developments, according to the preliminary assessment of known to have or soon to be started on disposed sites up to June 2017, it is projected that the private sector will provide a historically high record of about 98,000 units in the coming three to four years. The proposed major private housing developments include those developments at Kai Tak development area, Cha Kwo Ling, Pak Shek in Ma On Shan, Pak Shek Kok in Taipo and Ap Lei Chau, together with railway property developments including LOHAS Park Station, Wong Chuk Hang Station, Ho Man Tin Station, Kam Sheung Road Station, etc.

*New Development Frontiers*

In addition, the Hong Kong Government is pushing full steam ahead with the new development areas and the extension of new towns, including Kwu Tung North, Fanling North, Tung Chung, Hung Shui Kiu and Yuen Long South, which are expected to provide, all together, about 198,100 residential flats. The Hong Kong Government will also examine the development of Tseung Kwan O Area 137 for residential and commercial development and other relevant purposes.

*Other Public Facilities & Infrastructure Developments*

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, 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. The above projects will together provide 5,000 additional public hospital beds and 94 new surgical theatres in the next ten years. On top of the HK$200 billion invested in the first 10-year plan, the Government has committed to an extra HK$300 billion capital works programme to support the second 10-year hospital development plan, improve the clinic facilities of the Department of Health, and upgrade and increase healthcare training facilities. In addition, the Hong Kong Government has decided to finance the construction of a Chinese medicine hospital in Tseung Kwan O in 2019.

# Management Discussion and Analysis

To promote sport in the community and maintain Hong Kong as a centre for major international sporting events, the Hong Kong Government will spend a total of HK$20 billion in the coming five years to launch 26 projects to develop new or improve existing sports and recreation facilities. Besides, the Kai Tak Sports Park, the largest sport project with an investment over HK$31 billion, is expected to be commenced in end of 2018 and to be completed in 2022/2023.

Apart from the above, construction of the Shatin to Central Link, investment in the West Kowloon Cultural District, urban renewal redevelopment projects, residential, commercial and hotel developments in the Kai Tak Development Area, expansion of convention and exhibition venues in Wanchai, HK$12 billion University hostel development, construction of a third runway system, expansion of the existing Terminal 2 in 2019 and the SKYCITY development projects at the Hong Kong International Airport, the Lantau development projects associated with the Hong Kong-Zhuhai-Macao Bridge, and the "Energising Kowloon East" Initiative as a smart city pilot area (including Kwun Tong redevelopment and the revitalisation of industrial buildings) will definitely help boost the construction industry in Hong Kong in the coming decade.

*Looming Challenges*

Of course, the construction engineering sectors in Hong Kong are also facing a multitude of problems and serious challenges. According to the forecast, 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.

*Extra low voltage ("ELV") Business*

Regarding the 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. In early 2016, the Group set up an ELV division which complements the work of the E&M engineering segment and provide valued customers in the property development one-stop ELV service solutions — from concept development to design and to commissioning.

Holding the Security Company Licence (Type III) governed by the Security and Guarding Services Industry Authority (SGSIA) under the Security Bureau, the Group is carrying out Installation, Maintenance, Repairing and Design of Security Systems. The Group is also qualified on the Development Bureau's List of Approved Suppliers of Materials and Specialist Contractors for Broadcast Reception Installation (BRI), Burglar Alarm and Security Installation (BAS), and Audio Electronics Installation (AEI) for public works.

Since the establishment of the new ELV division, the Group has been awarded several ELV projects including two residential projects on Sai Yuen Lane and Sheung Heung 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 and an Aviation Training Centre at Chek Lap Kok.

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.

*Maintenance Services*

As reflected in the statistics available, there are currently over 65% of the existing buildings (approximately 42,000) in Hong Kong including 1,700 commercial buildings, 1,600 industrial buildings and 24,000 residential buildings aged over 20 years. 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 shape. 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.

More than 55% of Hong Kong's total annual energy end-use is in the form of electricity consumption and buildings take up about 90% of our total electricity consumption. It is imperative to reduce the use of electricity in buildings to help us combat climate change and global warming. Following the implementation of the Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) in September 2012, Electrical and Mechanical Services Department (EMSD) is also actively pursuing the cost-effective program of "Retro-commissioning" to develop a scientific based optimisation scheme and make continuous improvement to further encourage energy conservation works in existing buildings. The Group expects favourable returns from the system upgrade and replacement works to improve energy saving for building owners and the industry.

*Building Material Trading*

The Group's building material trading section has also generated stable income. The Group offers a wide variety of tiles imported from Europe to its customers at four retail stores in Hong Kong and one in Macau. It also supplies E&M engineering equipment and products including cast iron and stainless steel pipes and fittings, various gauges, building automation systems, heating elements, ventilation and air-conditioning parts, heat exchangers, filters, smoke and gas sensors, cables and busduct system etc. All of these supplied building materials are sourced from a large number of suppliers in the US, Europe, South East Asia and Mainland China in accordance with the related distribution agreements or purchase orders that the Group has entered into with the suppliers.

*Way Forward*

Moving forward, the Group will continue to focus on capturing large-scale projects including design and construction contracts from the government, public infrastructure works, hospital development projects, public rental and subsidised housing projects, private commercial and residential building projects. The Group also targets to secure more term maintenance contracts and alteration and addition works in the maintenance service market.

**2. Macau**

At the end of 2017, there were 40 casinos, of which 22 were run by Sociedade de Jogos de Macau, 6 by Galaxy Casino, 5 by Venetian Macau, 4 by Melco Crown (Macau), 2 by Wynn Resorts (Macau) and 1 by MGM Grand Paradise with a total of 6,419 gambling tables and 15,622 slot machines. The Macau gaming market has generated total gross revenues of MOP 265 billion in 2017, about five times that of Las Vegas. As a result, the construction and E&M engineering sectors in Macau performed very well in the past few years. However, with substantial sizable casino projects completed in 2017 and the flagging tourism and the gaming industry, the construction and engineering sectors in Macau are expected to go through a stage of consolidation.

Nevertheless, 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 3 and 4 (HK$43 billion investment), Londoner Macao (HK$8 billion investment) and Studio City expansion, the construction of the Islands District Medical Complex (invested over HK$10 billion), 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.

# Management Discussion and Analysis

*Ongoing Housing and Tourism Development*

The Macau SAR Government has launched its first Five-year Development Plan and initiated the reclamation project for New Urban Zone Area A and the Zhuhai-Macao man-made islands in association with the Hong Kong- Zhuhai-Macao Bridge, which are expected to provide land for 28,000 public housing units and 4,000 private housing units. Conductive to the growth of its tourism industry, the city projected that it will be able to offer 44,000 hotel rooms by 2019 versus 38,700 hotel rooms (115 hotels) in March 2018.

*Reinforcing Leadership in Gaming and Tourism*

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 SAR 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.

**3. Mainland China**

For this 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.

*"One Belt, One Road" Initiative*

In the 1990s and 2000s, the Group completed several projects in Southeast Asia including Singapore, Thailand, Malaysia, Vietnam and the Philippines. In the advent of China's "One Belt, One Road" initiative elaborated in her 13th Five-Year Plan, the Group is actively seeking to participate in related construction and infrastructure projects backed by the Asian Infrastructure Investment Bank (AIIB) in ten member states of Association of Southeast Asia Nations (ASEAN).

*Guangdong Pilot Free Trade Zones*

In addition, the three rapidly developing Guangdong Pilot Free Trade Zones — Hengqin, Qianhai and Nansha will bring in new business opportunities to the Group.

*Project Management Services*

In recent years, the Group has been providing project management services in 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, the Group will be a preferred partner of foreign and Hong Kong-based developers of high-end projects in Mainland China. Leveraging its abundant E&M installation experience in Mainland China, the Group plans to extend our E&M project management services to cover high-end projects in Mainland China so as to generate an additional stable source of income.

## 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 our environmental consultancy services. Our seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively bring steady growth to our environmental engineering segment.

### Laboratory Services

With the growing public demand for better water quality, strict water control drives the market demand for water quality testing services of our laboratory. Our 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 Group continues to invest in state-of-the-art instruments and offers clients reliable analytical testing services including physical, non-metallic, trace metals and microbiological analyses. For instance, to address the enhancement measures launched by the Water Supplies Department including the latest stagnation water sampling protocol and testing for heavy metals in drinking water prompted by the earlier incident of excessive lead found in drinking water, our laboratory uses a highly sensitive ICP-MS system to detect trace levels of heavy metals in tap water samples. The laboratory service thus complements the work of the E&M engineering and environmental engineering segments.

### Waste Management

Public attention is also drawn to waste management and disposal as it has been announced that municipal solid waste charging will be launched in Hong Kong in the second half of 2019 at the earliest with the aim to alleviate the tremendous pressure on landfills. Meanwhile food waste represents the major constituent of municipal solid waste used for landfill in Hong Kong, therefore reducing food waste disposal is essential for effective waste management. The Group has an automated odour-free food waste processor available in a wide range of sizes to provide a total solution in converting food waste into environmentally-safe water effluent.

### Technology Development

The Group is actively working with strategic partners and vendors to invest in strengthening our technological capabilities with a focus on air, water and waste treatment. At present, the Group had collaborated with NAMI to invest and develop nano-bubble technology which converts ordinary air and water into a strong oxidising fluid and solid waste technology.

# Management Discussion and Analysis

## Facility Services Segment

1. **Cleaning Services**

   *New Business Opportunity*

   Market players currently aim at seeking the business opportunity for food waste management and disposal service as the Organic Resources Recovery Centre (ORRC) which located at Siu Ho Wan of North Lantau will be opened to operations in September 2018. The Group is one of registered food waste collectors approved by Environmental Protection Department to transport food or organic wastes to this ORRC. To comply with EPD recycling policy, government or semi-government organisations, public utilities and private enterprises will launch more outsourcing services in food waste collection services for their properties. Through our professional and well equipped fleet, our waste management team is actively participating in this service market segment bringing in a new business opportunity to the Group.

   *Business Development*

   According to the practices of cleaning service industry, thousands of tenders and quotations are released to the market year to year generated billions of contract sums from private and public clients to various cleaning service providers. Under the fierce competitive service market, the Group strives to maintain the existing service contracts in a higher ratio and explore more new businesses from different market segments with its competitive advantages. Moving forward, the Group will focus on high-end market including premier office towers and hotel facilities. We definitely have competitive advantage in gaining these kinds of contracts resulting for good reputation with higher returns to the Group.

2. **Laundry**

   In FY2019, we continue to intensify our focus on key accounts, ensuring the customer satisfaction and the sustainable growth in our business.

   The international theme park client has announced a multi-year development plan from Year 2018 to 2023, including new shows and theme areas expansion. Our 40-year technical expertise and large scale facility can fulfill their increase in number of staff, newly designed costumes and theme attractions. It is notable for us to forecast continuous increment for this scope, and service revenues will steady increase in coming years.

   In addition, NCL has invested in advanced packing machinery and innovative garment tracking technology for certain key clients. These value-added equipments not only enhance our operational efficiency, but also boost the asset management ability for our clients.

   NCL also stays alert to new trends and fully heads into Green Laundry. NCL uses biodegradable detergents and recycled exhaust air and water, recyclable packaging material in its operation. All machines are high efficiency. With the ISO 50001 Energy Management certification, NCL is committed to building a sustainable environment as well as achieving the highest energy efficiency. As the green awareness is increasing, we foresee a growth in our new business with the environmentally conscious international hotels and large corporations.

   The industry is currently facing the challenge of labor shortage. NCL provides training programs and succession plans to keep the expertise.

## Conclusion

As the Group can provide a comprehensive range of E&M engineering, environmental management services and facility 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 different above-mentioned infrastructure and large-scale projects are expected to bring. We shall endeavour to maintain a strong financial position to stay poised for new investment as well as exploring for alternative business opportunities as and when they arise.

# Report of the Directors

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

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries of the Company are set out in Note 35 to the consolidated financial statements.

## BUSINESS REVIEW

A fair review of the business of the Group as required under Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) comprising analysis of the Group's performance during the Year, particulars of important events affecting the Group that have occurred since the end of the Year, as well as indication of likely future development in the business of the Group are set out in the sections headed "Chairman's Statement" on pages 8 to 10 and "Management Discussion and Analysis" on pages 31 to 54. Description of the principal risks and uncertainties facing the Group are set out in the "Corporate Governance Report" under the paragraphs headed "Risk Management and Internal Control" on pages 26 to 29. Discussions on the environmental policies and performance, compliance by the Group with the relevant laws and regulations that have a significant impact on the Group and the account of the key relationships of the Group with its stakeholders are contained in the "Management and Discussion and Analysis" on pages 46 and 47 of this annual report.

## RESULTS AND APPROPRIATION

The results of the Group for the Year and the state of affairs of the Company and of the Group as at 30 June 2018 are set out in the consolidated financial statements on pages 77 to 153.

The Directors have resolved to recommend a final dividend of HK13.3 cents (2017: HK8.1 cents) per share for the Year to the shareholders whose names appear on the register of members of the Company on 7 December 2018. The proposed final dividend, if approved at the forthcoming annual general meeting of the Company, will be paid on or about 14 December 2018. Together with the interim dividend of HK7.8 cents (2017: HK7.4 cents) per share paid in March 2018, total distribution of dividend by the Company for the Year will thus be HK21.1 cents (2017: HK15.5 cents) per share, representing a dividend payout ratio of 50.2%[i] (2017: 40.1%[ii]).

Note (i) Based on the Group's 2018's profit for the year attributable to equity holders of the Company of HK$189.3 million, after excluding the profit of HK$47.5 million made by the Facility Services business during the period from 1 July 2017 to 11 April 2018, the day of completion of the Group's acquisition of the facility services business, instead of the Group's 2018 profit for the year attributable to equity holders of the Company of HK$236.8 million as reported in the Group's 2018 consolidated financial statements, which includes the full year profit of the facility services business of HK$57.2 million from 1 July 2017 to 30 June 2018 following the Group's application of merger accounting as described in Note 2.1 (iii) to the consolidated financial statements.

Note (ii) Based on the Group's 2017's profit for the year attributable to equity holders of the Company of HK$173.8 million as previously reported in the Group's 2017 consolidated financial statements, which does not include the profit of HK$51.6 million made by the facility services business during the year ended 30 June 2017, instead of the Group's restated 2017 profit for the year attributable to equity holders of the Company of HK$225.4 million following the Group's application of merger accounting as described in Note 2.1 (iii) to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in Note 27 to the consolidated financial statements.

# Report of the Directors

## DISTRIBUTABLE RESERVES

At 30 June 2018, the Company's reserves available for distribution amounted to HK$531.3 million (2017: HK$613.3 million).

## DONATIONS

During the Year, the Group made charitable and other donations amounting to HK$3,314,000 (2017: HK$4,675,000 (restated)).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the Year are set out in Note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in Note 26 to the consolidated financial statements.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 154 and 155.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the five largest customers of the Group accounted for 50.2% of the Group's turnover and the percentage of turnover attributable to the Group's largest customer amounted to 27.1%. The percentage of purchases attributable to the Group's five largest suppliers accounted for 9.4% of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier amounted to 2.5%.

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

## MANAGEMENT CONTRACTS

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

# Report of the Directors

## DIRECTORS

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

### Non-executive Directors

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

### Executive Directors

Mr. Lam Wai Hon, Patrick *(Vice-Chairman)*
Mr. Poon Lock Kee, Rocky *(Chief Executive Officer)*
Mr. Doo William Junior Guilherme
Mr. Lee Kwok Bong
Mr. Soon Kweong Wah
Mr. Wong Shu Hung (appointed on 18 December 2017)

### Independent Non-executive Directors

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

In accordance with article 109 of the Company's articles of association, Mr. Wong Shu Hung shall retire as Director at the forthcoming annual general meeting and, being eligible, offers himself for re-election as Director.

In accordance with article 105 of the Company's articles of association, Mr. Lee Kwok Bong, Mr. Wong Kwok Kin, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Hui Chiu Chung, Stephen shall retire as Directors by rotation at the forthcoming annual general meeting and, all being eligible, offer themselves for re-election as Directors.

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

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

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Details of the connected transactions and material related party transactions are set out on pages 62 to 70 and Note 33 to the consolidated financial statements respectively.

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## PERMITTED INDEMNITY PROVISION

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

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules were as follows:

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

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

Notes:

1. The shares are held by Chow Tai Fook Nominee Limited ("CTF Nominee") for Dr. Cheng Kar Shun, Henry.
2. The shares are held by Equal Merit Holdings Limited ("Equal Merit"), the entire issued share capital of which is solely and beneficially owned by Mr. Lam Wai Hon, Patrick.
3. The shares are held by Master Empire Group Limited ("Master Empire") as to 25,000,000 shares and Supreme Win Enterprises Limited ("Supreme Win Enterprises") as to 20,000,000 shares, the entire issued share capital of each of which is solely and beneficially owned by Mr. Doo William Junior Guilherme.
4. The shares are held by Lagoon Treasure Limited ("Lagoon Treasure"), the entire issued share capital of which is solely and beneficially owned by Mr. Lee Kwok Bong.
5. The shares are held by Frontier Star Limited ("Frontier Star"), the entire issued share capital of which is solely and beneficially owned by Mr. Wong Kwok Kin, Andrew.
6. The percentage of shareholding is calculated on the basis of 500,000,000 shares in issue as at 30 June 2018.

Save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2018.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2018, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

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

| Name | Capacity/nature of interest | Number of shares | Percentage of shareholding[4] |
|---|---|---|---|
| FSE Holdings Limited | Beneficial interest | 337,500,000[1] | 75% |
| Sino Spring Global Limited ("Sino Spring") | Interest of controlled corporation | 337,500,000[1&2] | 75% |
| Mr. Doo Wai Hoi, William ("Mr. Doo") | Interest of controlled corporation | 337,500,000[1&2] | 75% |
| Mrs. Doo Cheng Sau Ha, Amy ("Mrs. Doo") | Interest of spouse | 337,500,000[1&2&3] | 75% |
| Value Partners Group Limited | Interest of controlled corporations | 27,499,000 | 6.11% |
| Value Partners High-Dividend Stocks Fund | Beneficial interest | 23,133,000 | 5.14% |

Notes:

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

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

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

4. The percentage of shareholding is calculated on the basis of 450,000,000 Shares in issue as at 30 June 2018.

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest or short position in the shares or underlying shares of the Company as at 30 June 2018.

## SHARE OPTION SCHEME

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

### (i) Purposes of the Scheme

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

### (ii) Who may join

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

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

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

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

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

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

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

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

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

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

### (iii) Maximum number of Shares available for issue

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

## SHARE OPTION SCHEME *(Continued)*

### (iv) Maximum entitlement of each participant

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

### (v) Time of acceptance

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

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

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

### (vii) Consideration for the option

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

### (viii) Subscription price for the Shares

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

### (ix) Period of the Scheme

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

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

## CONNECTED TRANSACTIONS

### Connected persons of the Company

Dr. Cheng Kar Shun, Henry, the Chairman and Non-executive Director of the Company, is our connected person. The NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group (as respectively defined below), our long standing customers, are the family businesses of Dr. Cheng Kar Shun, Henry. To echo the policy of the Stock Exchange to enhance minority shareholders' protection, we have treated members of each of these groups of companies as our connected persons under Chapter 14A of the Listing Rules.

In the above paragraph and as appeared in this section:

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

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

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

## CONNECTED TRANSACTIONS *(Continued)*

### Connected transaction and continuing connected transactions ("CCTs")

The Company has entered into the following transactions during the Year and up to the date of this report with one or more the above connected persons which constituted connected transaction (paragraph (2) below) or continuing connected transactions (paragraphs (1) and (3) below) of the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## CONNECTED TRANSACTIONS *(Continued)*

### Connected transaction and continuing connected transactions ("CCTs") *(Continued)*

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

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

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

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

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

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

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

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

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

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

## CONNECTED TRANSACTIONS *(Continued)*

### Connected transaction and continuing connected transactions ("CCTs") *(Continued)*

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

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

**The 2017 NWD Master Services Agreement**

| Categories | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | 376,707 | 660,833 |
| Paid/payable by the Group | 98 | 1,591 |

**The 2017 NWS Master Services Agreement**

| Categories | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | 1,273,945 | 1,834,149 |
| Paid/payable by the Group | – | 20,000 |

**The 2017 NWDS Master Services Agreement**

| Categories | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | 9,551 | 79,535 |
| Paid/payable by the Group | 172 | 334 |

**The 2017 CTFJ Master Services Agreement**

| Category | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | 45,867 | 157,351 |

**The 2017 Doo's Associates Master Services Agreement**

| Categories | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | 93,230 | 188,440 |
| Paid/payable by the Group | 8,598 | 13,034 |

## CONNECTED TRANSACTIONS *(Continued)*

### Connected transaction and continuing connected transactions ("CCTs") *(Continued)*

**(2) Acquisition of entities carrying out facility services**

On 27 February 2018, a conditional sale and purchase agreement (the "S&P Agreement") was entered into between FMC (the "Vendor", a direct wholly-owned subsidiary of FSE Holdings Limited) and FSE Facility Services Group Limited (the "Purchaser", a direct wholly-owned subsidiary of the Company) whereby the Purchaser agreed to purchase and the Vendor agreed to sell the entire issued share capital of Crystal Brilliant Limited (together with its subsidiaries as at the completion of the S&P Agreement, the "Target Group"). The Target Group is principally engaged in the provision of facility services including cleaning and laundry services. For details of the transaction, please refer to "Major transaction" in the Management Discussion and Analysis section set out on page 46.

**(3) The 2018 master facility services agreements**

In their ordinary and usual course of business, members of the Target Group regularly entered into continuing transactions in relation to:

- the provision and receipt of the Services (as defined herebelow) to and from the Doo's Associates Group and the NWS Group; and

- the provision of the Cleaning and Laundry Services (as defined herebelow) to members of each of the NWD Group, the NWDS Group, the CTFE Group and the CTFJ Group.

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

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

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

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

## CONNECTED TRANSACTIONS *(Continued)*

### Connected transaction and continuing connected transactions ("CCTs") *(Continued)*

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

On 11 April 2018, being the completion date of the S&P Agreement upon which each member of the Target Group became a wholly-owned subsidiary of the Company, six master facility services agreements were entered into by the Company with details as follows:

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

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

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

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

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

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

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

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

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

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

## CONNECTED TRANSACTIONS *(Continued)*

### Connected transaction and continuing connected transactions ("CCTs") *(Continued)*

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

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

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

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

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

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

During the period from the Completion Date to 30 June 2018, the transaction amounts under the 2018 Master Facility Services Agreements are summarised as follows:

**The 2018 NWD Master Facility Services Agreement**

| **Category** | **Approximate total transaction amounts** HK$'000 | **Annual cap** HK$'000 |
|---|---|---|
| Paid/payable to the Group | 12,839 | 13,483 |

## CONNECTED TRANSACTIONS *(Continued)*

### Connected transaction and continuing connected transactions ("CCTs") *(Continued)*

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

**The 2018 NWS Master Facility Services Agreement**

| Categories | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | 4,663 | 4,732 |
| Paid/payable by the Group | 27 | 116 |

**The 2018 NWDS Master Facility Services Agreement**

| Category | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | Nil | Nil |

**The 2018 CTFE Master Facility Services Agreement**

| Category | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | 22 | 1,683 |

**The 2018 CTFJ Master Facility Services Agreement**

| Category | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | 44 | 65 |

**The 2018 Doo's Associates Master Facility Services Agreement**

| Categories | Approximate total transaction amounts HK$'000 | Annual cap HK$'000 |
|---|---|---|
| Paid/payable to the Group | 36,099 | 41,849 |
| Paid/payable by the Group | 3,452 | 4,801 |

## CONNECTED TRANSACTIONS *(Continued)*

### Annual review of CCTs

The CCTs mentioned in paragraphs (1) and (3) above have been reviewed by the Independent Non-executive Directors who have confirmed that the transactions have been entered into:

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

(b) on normal commercial terms;

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

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

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

Save as disclosed above, a summary of significant related party transactions made during the Year is disclosed in Note 33 to the consolidated financial statements. To the extent that the Group's related party transactions constituted connected transactions or continuing connected transactions as defined in the Listing Rules, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the Year.

## NON-COMPETE UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

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

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

## PRE-EMPTIVE RIGHTS

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

# Report of the Directors

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

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## AUDITOR

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

On behalf of the Board

**Dr. Cheng Kar Shun, Henry**
*Chairman*

Hong Kong, 26 September 2018

# Independent Auditor's Report

羅兵咸永道

**To the Shareholders of FSE Services Group Limited**
**(Formerly known as FSE Engineering Holdings Limited)**
*(incorporated in Cayman Islands with limited liability)*

## OPINION

### *What we have audited*

The consolidated financial statements of FSE Services Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 77 to 153, which comprise:

- the consolidated statement of financial position as at 30 June 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

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

### *Independence*

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

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

# Independent Auditor's Report

## KEY AUDIT MATTERS

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

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| Revenue recognition of the contracting work<br><br>Refer to Note 4.1 in the critical accounting estimates and judgements in the consolidated financial statements.<br><br>The Group recognises its contracting revenue according to the percentage of completion of individual contracting work. The Group has recognised HK$3,533 million contracting revenue in relation to contracting work for the year ended 30 June 2018.<br><br>Because of the nature of the activity undertaken in contracts, the date at which the contract activity entered into and the date when the activity is completed usually fall into different financial periods. Management is required to exercise significant judgement in their review and revision of the estimates of the completeness and accuracy of the total contract revenue, total contract costs and actual costs incurred for each contract as the contract progresses, based on past experience and market circumstances, especially in relation to change in estimates of revenue and costs arising from variation orders, litigation and claims with the customers and sub-contractors.<br><br>The eventual realisation of these estimates are inherently uncertain, subject to the outcome of negotiations with the customers and sub-contractors. Any revision of the total contract revenue, total contract costs and actual costs incurred, which determined the percentage of completion, would affect the contracting revenue recognition and may result in material adjustments to margin, which can be positive or negative. | Our audit procedures in relation to revenue recognition of the contracting work included the following:<br><br>— Tested the operating effectiveness of key controls operated by the Group about the estimation of the total contract revenue, total contract costs and actual costs incurred;<br><br>— Checked, on a sample basis, the contractual terms of the work and variation orders in order to understand their work nature and contractual relationships with the customers; checked correspondences with the customers, including the agreed documents or communication evidence to evaluate the reasonableness of management's estimates on the budgeted total contract revenue, especially the estimates of revenue arising from variation orders and claims;<br><br>— Checked, on a sample basis, to correspondences, such as agreed documents or communication evidence, with the sub-contractors, and legal advice obtained from internal or external legal counsel to evaluate the reasonableness of management's assessment of budgeted total contract costs and actual costs incurred, especially the estimates of costs relating to variation orders, litigation and claims; and<br><br>— Selected contracts, on a sample basis, to perform interview with the project directors and assessed whether or not these estimates showed any evidence of management bias.<br><br>We found the management's estimations and judgements on the revenue recognition in respect of contracting work to be supportable based on the available evidence. |

## OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

# Independent Auditor's Report

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

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

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

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

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

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

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

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

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

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

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

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

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 26 September 2018

# Consolidated Income Statement

**For the year ended 30 June 2018**

| | Notes | 2018 HK$'000 | 2017 (restated)* HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **4,926,518** | 4,829,618 |
| Cost of services and sales | | **(4,335,497)** | (4,274,018) |
| **Gross profit** | | **591,021** | 555,600 |
| Other income/gains, net | 6 | **3,336** | 4,596 |
| General and administrative expenses | | **(323,185)** | (296,556) |
| **Operating profit** | 7 | **271,172** | 263,640 |
| Finance income | 10 | **18,194** | 14,632 |
| Finance costs | 10 | **(1,066)** | (373) |
| **Profit before income tax** | | **288,300** | 277,899 |
| Income tax expenses | 11 | **(51,516)** | (52,503) |
| **Profit for the year attributable to equity holders of the Company** | | **236,784** | 225,396 |
| **Earnings per share for profit attributable to equity holders of the Company (expressed in HK$ per share)** | | | |
| — Basic and diluted | 12 | **0.53** | 0.50 |

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2.1(iii) to the consolidated financial statements.

The notes on pages 83 to 153 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

**For the year ended 30 June 2018**

| | 2018<br>HK$'000 | 2017<br>(restated)*<br>HK$'000 |
|---|---|---|
| **Profit for the year attributable to equity holders of the Company** | **236,784** | 225,396 |
| **Other comprehensive income:** | | |
| ***Items that may be subsequently reclassified to consolidated income statement:*** | | |
| Currency translation differences | **6,225** | (9,027) |
| 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)** | 498 |
| ***Item that will not be subsequently reclassified to consolidated income statement:*** | | |
| Remeasurement gains on long service payment liabilities, net of tax | **6,750** | – |
| **Other comprehensive income, net of tax** | **12,474** | (8,529) |
| **Total comprehensive income for the year attributable to equity holders of the Company** | **249,258** | 216,867 |

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2.1(iii) to the consolidated financial statements.

The notes on pages 83 to 153 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

**As at 30 June 2018**

| | Notes | 2018<br>HK$'000 | 2017<br>(restated)*<br>HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **412,242** | 495,867 |
| Land use rights | 15 | **21,230** | 21,655 |
| Investment property | 16 | **11,620** | – |
| Intangible assets | 17 | **52,796** | 51,507 |
| Deposits | | **–** | 2,038 |
| Deferred income tax assets | 18 | **14,329** | 11,752 |
| Available-for-sale financial assets | 19 | **–** | 47,654 |
| | | **512,217** | 630,473 |
| **Current assets** | | | |
| Inventories | 20 | **26,006** | 25,632 |
| Amounts due from customers for contract works | 21 | **343,029** | 141,678 |
| Trade and other receivables | 22 | **1,278,947** | 1,051,136 |
| Financial assets at fair value through profit or loss | 23 | **–** | 31,489 |
| Amount due from a related company | 24 | **–** | 1,500 |
| Available-for-sale financial assets | 19 | **–** | 20,327 |
| Cash and bank balances | 25 | **407,561** | 1,114,052 |
| | | **2,055,543** | 2,385,814 |
| **Total assets** | | **2,567,760** | 3,016,287 |
| **EQUITY** | | | |
| Share capital | 26 | **45,000** | 45,000 |
| Reserves | 27 | **592,350** | 1,025,718 |
| **Total equity** | | **637,350** | 1,070,718 |

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2.1(iii) to the consolidated financial statements.

The notes on pages 83 to 153 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position *(Continued)*

**As at 30 June 2018**

| | Notes | 2018 HK$'000 | 2017 (restated)* HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 18 | **25,419** | 28,437 |
| Long service payment liabilities | 29 | **21,320** | 34,479 |
| | | **46,739** | 62,916 |
| **Current liabilities** | | | |
| Amounts due to customers for contract works | 21 | **475,397** | 417,597 |
| Amount due to a related company | 24 | **–** | 90,845 |
| Borrowings | 30 | **–** | 30,000 |
| Trade and other payables | 28 | **1,343,323** | 1,279,516 |
| Taxation payable | | **64,951** | 64,695 |
| | | **1,883,671** | 1,882,653 |
| **Total liabilities** | | **1,930,410** | 1,945,569 |
| **Total equity and liabilities** | | **2,567,760** | 3,016,287 |
| **Net current assets** | | **171,872** | 503,161 |
| **Total assets less current liabilities** | | **684,089** | 1,133,634 |

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2.1(iii) to the consolidated financial statements.

The notes on pages 83 to 153 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 77 to 153 were approved by the Board of Directors on 26 September 2018 and were signed on its behalf.

| | |
|---|---|
| **Lam Wai Hon, Patrick** | **Poon Lock Kee, Rocky** |
| *Director* | *Director* |

# Consolidated Statement of Changes in Equity

**For the year ended 30 June 2018**

| | Share capital HK$'000 | Reserves (Note 27) (restated)* HK$'000 | Total (restated)* HK$'000 |
|---|---|---|---|
| **At 1 July 2016, as previously reported** | 45,000 | 777,841 | 822,841 |
| Acquisition of the Acquired Group (Note 2.1(iii)) | – | 156,610 | 156,610 |
| As restated | 45,000 | 934,451 | 979,451 |
| **Profit for the year attributable to equity holders of the Company, as restated** | – | 225,396 | 225,396 |
| **Other comprehensive income:** | | | |
| Currency translation differences | – | (9,027) | (9,027) |
| Fair value change of available-for-sale financial assets, net of tax | – | 498 | 498 |
| **Total comprehensive income attributable to equity holders of the Company, as restated** | – | 216,867 | 216,867 |
| **Transactions with owners:** | | | |
| Dividends (Note 13) | – | (75,600) | (75,600) |
| Dividends to the original shareholder of subsidiaries of the Acquired Group, as restated | – | (50,000) | (50,000) |
| | – | (125,600) | (125,600) |
| **At 30 June 2017, as restated** | 45,000 | 1,025,718 | 1,070,718 |
| **At 1 July 2017, as previously reported** | **45,000** | **867,508** | **912,508** |
| Acquisition of the Acquired Group (Note 2.1(iii)) | **–** | **158,210** | **158,210** |
| As restated | **45,000** | **1,025,718** | **1,070,718** |
| **Profit for the year attributable to equity holders of the Company** | **–** | **236,784** | **236,784** |
| **Other comprehensive income:** | | | |
| Reclassification of revaluation reserve to profit or loss upon maturity or disposal of available-for-sale financial assets, net of tax | **–** | **754** | **754** |
| Currency translation differences | **–** | **6,225** | **6,225** |
| Fair value change of available-for-sale financial assets, net of tax | **–** | **(1,255)** | **(1,255)** |
| Remeasurement gains on long service payment liabilities, net of tax | **–** | **6,750** | **6,750** |
| **Total comprehensive income attributable to equity holders of the Company** | **–** | **249,258** | **249,258** |
| **Transactions with owners:** | | | |
| Dividends (Note 13) | **–** | **(71,550)** | **(71,550)** |
| Dividends to the original shareholder of subsidiaries of the Acquired Group | **–** | **(85,000)** | **(85,000)** |
| Deemed distribution (Note 2.1(iii)) | **–** | **(10,262)** | **(10,262)** |
| Acquisition of the Acquired Group (Note 2.1(iii)) | **–** | **(515,814)** | **(515,814)** |
| **At 30 June 2018** | **45,000** | **592,350** | **637,350** |

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2.1(iii) to the consolidated financial statements.

The notes on pages 83 to 153 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

**For the year ended 30 June 2018**

| | Notes | 2018<br>HK$'000 | 2017<br>(restated)*<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 32(a) | **11,153** | 228,888 |
| Interest paid | | **(1,066)** | (373) |
| Hong Kong profits tax paid | | **(25,341)** | (19,566) |
| Mainland China and Macau income tax paid | | **(28,375)** | (16,667) |
| Net cash (used in)/generated from operating activities | | **(43,629)** | 192,282 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(34,634)** | (52,284) |
| Addition to intangible assets | | **(2,139)** | – |
| Proceeds from disposal of property, plant and equipment | | **739** | 3,062 |
| Decrease in time deposits with original maturities over three months | | **10,000** | 42,000 |
| Purchase of available-for-sale financial assets | | **(47,000)** | (95,372) |
| Proceeds from maturity or disposal of available-for-sale financial assets | | **113,478** | 28,492 |
| Purchase of financial assets at fair value through profit or loss | | **(63,722)** | (31,112) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **90,462** | – |
| Business combination under common control/acquisition of subsidiaries | 32(b) | **(515,814)** | (282,011) |
| Disposal of subsidiaries | 32(c) | **(444)** | – |
| Interest received | | **18,194** | 14,632 |
| Net cash used in investing activities | | **(430,880)** | (372,593) |
| **Cash flows from financing activities** | | | |
| Proceeds from new bank borrowings | | **130,000** | – |
| Repayment of bank loans | | **(160,000)** | – |
| Dividends paid | | **(71,550)** | (75,600) |
| Dividends paid to the original shareholder of subsidiaries of the Acquired Group | | **(85,000)** | (50,000) |
| (Decrease)/increase in amount due to a related company | 32(e) | **(46,061)** | 9,487 |
| Net cash used in financing activities | | **(232,611)** | (116,113) |
| **Net decrease in cash and cash equivalents during the year** | | **(707,120)** | (296,424) |
| **Cash and cash equivalents at the beginning of the year** | | **1,104,052** | 1,406,271 |
| Exchange differences | 32(f) | **10,629** | (5,795) |
| **Cash and cash equivalents at the end of the year** | | **407,561** | 1,104,052 |
| **Analysis of balances of cash and cash equivalents** | | | |
| **Representing** | | | |
| Cash and bank balances as stated in the consolidated statement of financial position | | **407,561** | 1,114,052 |
| Time deposits with original maturities over three months | | **–** | (10,000) |
| **Cash and cash equivalents at the end of the year** | | **407,561** | 1,104,052 |

* Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 2.1(iii) to the consolidated financial statements.

The notes on pages 83 to 153 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION

### 1.1 General information

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

Pursuant to a special resolution passed by the shareholders of the Company on 10 April 2018 and the issue of Certificate of Incorporation on Change of Name on 11 April 2018, the English name of the Company was changed from "FSE Engineering Holdings Limited" to "FSE Services Group Limited" and the Chinese name of the Company was changed from "豐盛機電控股有限公司" to "豐盛服務集團有限公司" with effect from 11 April 2018. The Company name was changed for the purposes of reflecting the status of the enlarged Group after completion of the acquisition of the facility services business as described in Note 2.1(iii) to the consolidated financial statements and better promoting the corporate image and future business development of the Group.

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

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

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

These consolidated financial statements have been approved for issue by the board of directors of the Company (the "Board") on 26 September 2018.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to the consolidated financial statement.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.1 Basis of preparation *(Continued)*

**(i) Amendments to existing standards that are effective for the Group's financial year beginning on 1 July 2017**

The following amendments to existing standards, that are relevant to the Group's operation, are mandatory for the financial year of the Group beginning on 1 July 2017:

| | |
|---|---|
| HKAS 7 Amendments | Disclosure initiative |
| HKAS 12 Amendments | Recognition of deferred tax assets for unrealised losses |
| HKFRS 12 Amendments | Disclosure of interests in other entities |

The adoption of the above amendments to existing standards does not have significant impact on the Group's consolidated results and financial position nor any substantial changes in the Group's accounting policies and the presentation of the consolidated financial statements.

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

The following new standards and amendments 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 2017 and have not been early adopted:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKAS 40 Amendments | Transfers of investment property | 1 January 2018 |
| HKFRS 2 Amendments | Classification and measurement of share-based payment transactions | 1 January 2018 |
| HKFRS 9 | Financial instruments | 1 January 2018 |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2018 |
| HKFRS 15 Amendments | Clarifications to HKFRS 15 | 1 January 2018 |
| HK (IFRIC) - Int 22 | Foreign currency transactions and advance consideration | 1 January 2018 |
| Annual Improvements | 2014 – 2016 cycle | 1 January 2018 |
| 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 Amendments | Prepayment features with negative compensation and modification 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 |
| HKFRS17 | 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 |

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

### 2.1 Basis of preparation *(Continued)*

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

The Group has already commenced an assessment of the related impact to the Group and considered that there will not be any substantial changes to the Group's significant accounting policies and presentation of consolidated financial statements, except for the following set out below:

*HKFRS 9, "Financial instruments"*

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The Group has decided not to adopt HKFRS 9 until it becomes effective for its annual reporting period beginning on 1 July 2018.

The Group does not expect the new guidance will have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from Hong Kong Accounting Standard ("HKAS") 39 "Financial instruments: recognition and measurement" and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 "Revenue from contracts with customers", lease receivables, loan commitments and certain financial guarantee contracts. The Group expects there will not be any material effect on the results and financial positions in the impairment provision of financial assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments in the year of adoption of the new standard.

*HKFRS 15, "Revenue from contracts with customers"*

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 "Revenue" which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 "Construction contracts" which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim period within annual reporting period beginning on or after 1 January 2018. The Group will adopt the new standard using the modified retrospective approach from the Group's annual reporting period beginning on 1 July 2018.

Based on preliminary assessment conducted, the Group does not expect the adoption of HKFRS 15 would have a material impact other than presenting more disclosures.

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

### 2.1 Basis of preparation *(Continued)*

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

*HKFRS 16, "Leases"*

HKFRS 16 results in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$87.4 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.

**(iii) Application of business combinations under common control**

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

The acquisition was considered as a business combination under common control as FSGL and the Target Group are both ultimately controlled by FSE Holdings Limited. Under HKFRS, 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 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 2017 comparative amounts of the consolidated income statement and consolidated statement of comprehensive income by including 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, i.e. 1 July 2016. The consolidated statement of financial position of the Group as at 30 June 2017 was restated to include the assets and liabilities of the Target Group.

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

### 2.1 Basis of preparation *(Continued)*

**(iii) Application of business combination under common control** *(Continued)*

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, consolidated statements of comprehensive income and consolidated statements of financial position in connection with the Target Group as at/for the years ended 30 June 2018 and 2017:

(a) Effect on the consolidated income statement for the year ended 30 June 2018:

| | 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** | 3,757,158 | 1,170,985 | (1,625) | 4,926,518 |
| Cost of services and sales | (3,317,430) | (1,019,200) | 1,133 | (4,335,497) |
| **Gross profit** | 439,728 | 151,785 | (492) | 591,021 |
| Other income/gains, net | 1,454 | 1,882 | – | 3,336 |
| General and administrative expenses | (239,206) | (84,471) | 492 | (323,185) |
| **Operating profit** | 201,976 | 69,196 | – | 271,172 |
| Finance income | 18,163 | 31 | – | 18,194 |
| Finance costs | – | (1,066) | – | (1,066) |
| **Profit before income tax** | 220,139 | 68,161 | – | 288,300 |
| Income tax expenses | (40,590) | (10,926) | – | (51,516) |
| **Profit for the year attributable to equity holders of the Company** | 179,549 | 57,235 | – | 236,784 |
| **Earnings per share for profit attributable to equity holders of the Company (expressed in HK$ per share)** | | | | |
| — Basic and diluted | 0.40 | 0.13 | – | 0.53 |

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

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

### 2.1 Basis of preparation *(Continued)*

**(iii) Application of business combination under common control** *(Continued)*

(b) Effect on the consolidated statement of comprehensive income for the year ended 30 June 2018:

| | 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 year attributable to equity holders of the Company** | 179,549 | 57,235 | 236,784 |
| **Other comprehensive income:** | | | |
| ***Items that may be subsequently reclassified to consolidated income statement:*** | | | |
| Currency translation differences | 6,225 | – | 6,225 |
| Reclassification of revaluation reserve to profit or loss upon maturity or disposal of available-for-sale financial assets, net of tax | 754 | – | 754 |
| Fair value change of available-for-sale financial assets, net of tax | (1,255) | – | (1,255) |
| ***Item that will not be subsequently reclassified to consolidated income statement:*** | | | |
| Remeasurement gains on long service payment liabilities, net of tax | – | 6,750 | 6,750 |
| **Other comprehensive income, net of tax** | 5,724 | 6,750 | 12,474 |
| **Total comprehensive income for the year attributable to equity holders of the Company** | 185,273 | 63,985 | 249,258 |

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

### 2.1 Basis of preparation *(Continued)*

**(iii) Application of business combination under common control** *(Continued)*

(c) Effect on the consolidated statement of financial position as at 30 June 2018:

| | The Group (before business combination under common control) HK$'000 | Effect of business combination under common control of the Acquired Group HK$'000 | Adjustments (Note) HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 357,929 | 54,313 | – | 412,242 |
| Land use rights | 21,230 | – | – | 21,230 |
| Investment property | 11,620 | – | – | 11,620 |
| Intangible assets | 36,720 | 16,076 | – | 52,796 |
| Deferred income tax assets | 14,299 | 30 | – | 14,329 |
| | 441,798 | 70,419 | – | 512,217 |
| **Current assets** | | | | |
| Inventories | 22,832 | 3,174 | – | 26,006 |
| Amounts due from customers for contract works | 343,029 | – | – | 343,029 |
| Trade and other receivables | 1,037,575 | 241,518 | (146) | 1,278,947 |
| Amount due from a related company | 115,002 | – | (115,002) | – |
| Cash and bank balances | 301,154 | 106,407 | – | 407,561 |
| | 1,819,592 | 351,099 | (115,148) | 2,055,543 |
| **Total assets** | 2,261,390 | 421,518 | (115,148) | 2,567,760 |
| **EQUITY** | | | | |
| Share capital | 45,000 | – | – | 45,000 |
| Reserves | 465,417 | 126,933 | – | 592,350 |
| **Total equity** | 510,417 | 126,933 | – | 637,350 |

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

# Notes to the Consolidated Financial Statements

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

### 2.1 Basis of preparation *(Continued)*

**(iii) Application of business combination under common control** *(Continued)*

(c) Effect on the consolidated statement of financial position as at 30 June 2018 (Continued):

| | The Group (before business combination under common control) HK$'000 | Effect of business combination under common control of the Acquired Group HK$'000 | Adjustments (Note) HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Deferred income tax liabilities | 18,124 | 7,295 | – | 25,419 |
| Long service payment liabilities | – | 21,320 | – | 21,320 |
| | 18,124 | 28,615 | – | 46,739 |
| **Current liabilities** | | | | |
| Amounts due to customers for contract works | 475,397 | – | – | 475,397 |
| Amount due to a related company | – | 115,002 | (115,002) | – |
| Trade and other payables | 1,203,761 | 139,708 | (146) | 1,343,323 |
| Taxation payable | 53,691 | 11,260 | – | 64,951 |
| | 1,732,849 | 265,970 | (115,148) | 1,883,671 |
| **Total liabilities** | 1,750,973 | 294,585 | (115,148) | 1,930,410 |
| **Total equity and liabilities** | 2,261,390 | 421,518 | (115,148) | 2,567,760 |
| **Net current assets** | 86,743 | 85,129 | – | 171,872 |
| **Total assets less current liabilities** | 528,541 | 155,548 | – | 684,089 |

Note: The adjustments represent the elimination of trade and other receivables of the Group owed by the Acquired Group.

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

### 2.1 Basis of preparation *(Continued)*

**(iii) Application of business combination under common control** *(Continued)*

(d) Effect on the consolidated income statement for the year ended 30 June 2017:

| | 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** | 3,700,133 | 1,130,443 | (958) | 4,829,618 |
| Cost of services and sales | (3,293,192) | (981,784) | 958 | (4,274,018) |
| **Gross profit** | 406,941 | 148,659 | – | 555,600 |
| Other income/gains, net | 3,577 | 1,019 | – | 4,596 |
| General and administrative expenses | (208,483) | (88,073) | – | (296,556) |
| **Operating profit** | 202,035 | 61,605 | – | 263,640 |
| Finance income | 14,501 | 131 | – | 14,632 |
| Finance costs | – | (373) | – | (373) |
| **Profit before income tax** | 216,536 | 61,363 | – | 277,899 |
| Income tax expenses | (42,740) | (9,763) | – | (52,503) |
| **Profit for the year attributable to equity holders of the Company** | 173,796 | 51,600 | – | 225,396 |
| **Earnings per share for profit attributable to equity holders of the Company (expressed in HK$ per share)** | | | | |
| — Basic and diluted | 0.39 | 0.11 | – | 0.50 |

Note: The adjustment represents the elimination of revenue charged between the Group and the Acquired Group.

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

### 2.1 Basis of preparation *(Continued)*

**(iii) Application of business combination under common control** *(Continued)*

(e) Effect on the consolidated statement of comprehensive income for the year ended 30 June 2017:

| | 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 year attributable to equity holders of the Company** | 173,796 | 51,600 | 225,396 |
| **Other comprehensive income:** | | | |
| ***Items that may be subsequently reclassified to consolidated income statement:*** | | | |
| Currency translation differences | (9,027) | – | (9,027) |
| Fair value change of available-for-sale financial assets, net of tax | 498 | – | 498 |
| **Other comprehensive income, net of tax** | (8,529) | – | (8,529) |
| **Total comprehensive income for the year attributable to equity holders of the Company** | 165,267 | 51,600 | 216,867 |

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

### 2.1 Basis of preparation *(Continued)*

**(iii) Application of business combination under common control** *(Continued)*

(f) Effect on the consolidated statement of financial position as at 30 June 2017:

| | The Group (before business combination under common control) HK$'000 | Effect of business combination under common control of the Acquired Group HK$'000 | Adjustment (Note) HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 382,754 | 113,113 | – | 495,867 |
| Land use rights | 21,655 | – | – | 21,655 |
| Intangible assets | 34,951 | 16,556 | – | 51,507 |
| Deposits | – | 2,038 | – | 2,038 |
| Deferred income tax assets | 11,725 | 27 | – | 11,752 |
| Available-for-sale financial assets | 47,654 | – | – | 47,654 |
| | 498,739 | 131,734 | – | 630,473 |
| **Current assets** | | | | |
| Inventories | 23,034 | 2,598 | – | 25,632 |
| Amounts due from customers for contract works | 141,678 | – | – | 141,678 |
| Trade and other receivables | 830,792 | 220,591 | (247) | 1,051,136 |
| Financial assets at fair value through profit or loss | 31,489 | – | – | 31,489 |
| Amount due from a related company | – | 1,500 | – | 1,500 |
| Available-for-sale financial assets | 20,327 | – | – | 20,327 |
| Cash and bank balances | 978,322 | 135,730 | – | 1,114,052 |
| | 2,025,642 | 360,419 | (247) | 2,385,814 |
| **Total assets** | 2,524,381 | 492,153 | (247) | 3,016,287 |
| **EQUITY** | | | | |
| Share capital | 45,000 | – | – | 45,000 |
| Reserves | 867,508 | 158,210 | – | 1,025,718 |
| **Total equity** | 912,508 | 158,210 | – | 1,070,718 |

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.1 Basis of preparation *(Continued)*

**(iii) Application of business combination under common control** *(Continued)*

(f) Effect on the consolidated statement of financial position as at 30 June 2017 (Continued):

| | The Group (before business combination under common control) HK$'000 | Effect of business combination under common control of the Acquired Group HK$'000 | Adjustment (Note) HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Deferred income tax liabilities | 17,493 | 10,944 | – | 28,437 |
| Long service payment liabilities | – | 34,479 | – | 34,479 |
| | 17,493 | 45,423 | – | 62,916 |
| **Current liabilities** | | | | |
| Amounts due to customers for contract works | 417,597 | – | – | 417,597 |
| Amount due to a related company | – | 90,845 | – | 90,845 |
| Borrowings | – | 30,000 | – | 30,000 |
| Trade and other payables | 1,125,626 | 154,137 | (247) | 1,279,516 |
| Taxation payable | 51,157 | 13,538 | – | 64,695 |
| | 1,594,380 | 288,520 | (247) | 1,882,653 |
| **Total liabilities** | 1,611,873 | 333,943 | (247) | 1,945,569 |
| **Total equity and liabilities** | 2,524,381 | 492,153 | (247) | 3,016,287 |
| **Net current assets** | 431,262 | 71,899 | – | 503,161 |
| **Total assets less current liabilities** | 930,001 | 203,633 | – | 1,133,634 |

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

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.2 Consolidation

#### (i) Subsidiaries

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

#### (ii) Business combinations under common control

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

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

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

#### (iii) Business combinations not under common control

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

Acquisition-related costs are expenses as incurred.

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

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

### 2.2 Consolidation *(Continued)*

**(iii) Business combinations not under common control** *(Continued)*

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

**(iv) Disposal of subsidiaries**

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

**(v) Separate financial statements**

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

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

### 2.3 Segment reporting

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.4 Foreign currencies

**(i) Functional and presentation currency**

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

**(ii) Transactions and balances**

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

**(iii) Group companies**

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

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

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

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

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

**(iv) Disposal of foreign operation and partial disposal**

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

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.5 Intangible assets

**(i) Goodwill**

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

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

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

**(ii) Trademarks and brand names**

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

**(iii) Internally generated environmental technology**

*(1) Environmental technology*

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

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

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

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

### 2.5 Intangible assets *(Continued)*

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

*(2) Research and development*

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

*(3) Amortisation method and period*

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

| | |
|---|---|
| Internally generated environmental technology | 10 years |

### 2.6 Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

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

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.14 to the consolidated financial statements).

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.7 Investment property

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

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

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

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

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

### 2.8 Inventories

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

### 2.9 Contracts in progress

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

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

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.10 Financial assets

**Classification**

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

(i) *Financial assets at fair value through profit or loss*

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

(ii) *Loans and receivables*

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

(iii) *Available-for-sale financial assets*

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

**Recognition and measurement**

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

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

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

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.11 Impairment of financial assets

**(a) Assets carried at amortised cost**

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

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

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

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

**(b) Assets classified as available-for-sale**

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

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

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the provision is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivable. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement. See Note 2.11 to the consolidated financial statements for a description of Group's impairment policies.

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

### 2.13 Cash and cash equivalents

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

### 2.14 Impairment of non-financial assets

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

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

### 2.15 Trade and other payables

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.16 Provisions

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

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

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

### 2.17 Contingent liabilities and contingent assets

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

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

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

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

### 2.18 Borrowings

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

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.19 Borrowing costs

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

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

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

### 2.20 Current and deferred income tax

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

**(i) Current income tax**

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

**(ii) Deferred income tax**

*Inside basis differences*

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

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

*Outside basis differences*

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

**(iii) Offsetting**

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.21 Revenue recognition

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

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

**(i) Engineering contracts**

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

**(ii) Service fee income**

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

**(iii) Sales of goods**

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

**(iv) Interest income**

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

**(v) Dividend income**

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

**(vi) Linen management services**

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

**(vii) Rental income of investment property**

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.22 Employee benefits

**(i) Employee leave entitlements**

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

**(ii) Bonus plan**

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

**(iii) Defined contribution schemes**

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

**(iv) Long service payment liabilities**

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

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

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

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

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

### 2.23 Operating leases

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(Continued)*

### 2.24 Land use rights

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

### 2.25 Dividend distribution

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

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

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

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

**(i) Credit risk**

The credit risk of the Group mainly arises from trade and other receivables and deposits with banks and financial institutions.

Management regularly assess credit risk for amounts receivable from related companies by reviewing financial statements of related companies on a regular basis to minimise credit risk.

Deposits are mainly placed with high-credit-quality financial institutions. In respect of credit exposures to customers, the Group has policies in place to assess credit history of customers and carries out follow-up actions on overdue amounts to minimise the credit risk exposure. The Group and the Company have no significant concentrations of credit risk as they have a large number of customers.

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

**(ii) Liquidity risk**

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

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

| For the year ended 30 June | Less than 1 year | |
|---|---|---|
| | **2018** | 2017 (restated) |
| | **HK$'000** | HK$'000 |
| Trade and other payables, excluding accrued employee benefits | **1,160,535** | 1,103,436 |
| Amount due to a related company | – | 90,845 |
| Borrowings | – | 30,000 |

**(iii) Foreign exchange risk**

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

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

As at 30 June 2018 and 2017, if Hong Kong dollars had strengthened/weakened by 5% against Renminbi with all other variables unchanged, there would have insignificant impact on the Group's profit for the year before income tax.

At 30 June 2018, the Group had net monetary assets denominated in United States dollar of HK$82.0 million (2017: HK$190.6 million). Under the Linked Exchange Rate System in Hong Kong, Hong Kong dollar is pegged to the United States dollar, management therefore considers that there is no significant foreign exchange risk with respect to the United States dollar.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Fair value estimation

The table below analyses the Group's financial instruments carried at fair values by level of inputs to valuation techniques to measure fair values. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities that are measured at fair values:

| | Level 1 | |
|---|---|---|
| **As at 30 June** | **2018 HK$'000** | 2017 HK$'000 |
| Assets | | |
| Financial assets at fair value through profit or loss | – | 31,489 |
| Available-for-sale financial assets | – | 67,981 |
| | – | 99,470 |

The Group uses quoted market prices for financial assets included in level 1. The quoted price which is used, is the price within the bid-ask spread that is most representative of the fair value.

There were no transfers of financial instruments between levels in the hierarchy for the year ended 30 June 2018.

### 3.3 Capital risk management

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

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

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### 4.1 Estimation of revenue, costs and foreseeable losses of contracting work

The Group recognises its contract revenue according to the percentage of completion of the individual contract of contracting work. The management estimates the percentage of completion of contracting work based on total costs incurred over total budgeted cost. Because of the nature of the activity undertaken in contracts, the date at which the contract activity entered into and the date when the activity is completed usually fall into different financial periods. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue. Any revision of these costs and revenue will impact the result for the subsequent financial periods.

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

### 4.2 Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment according to their recoverable amounts determined by the CGUs based on value in use calculations. These calculations require the use of estimates which are subject to change of economic environment in future. Details are set out in Note 17 to the consolidated financial statements.

### 4.3 Long service payment liabilities

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

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

Other key assumptions for long service payment liabilities are based in part on current market conditions. Additional information is disclosed in Note 29 to the consolidated financial statements.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 4.4 Income taxes

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

### 4.5 Depreciation of property, plant and equipment

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

## 5 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 | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Contracting services | **3,532,839** | 3,470,516 |
| Maintenance services | **129,587** | 113,539 |
| Sales of goods | **93,616** | 115,332 |
| Facility services | **1,170,476** | 1,130,231 |
| | **4,926,518** | 4,829,618 |

## 5 REVENUE AND SEGMENT INFORMATION *(Continued)*

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;

(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 costs.

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, land use rights, investment property, intangible assets, deferred income tax assets, inventories, 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 2018, unallocated assets and unallocated liabilities represented the assets and liabilities not arising from the operation of the operating segments.

Prior year corresponding segment information that is presented for comparative purposes has been restated to conform to changes adopted in the current year.

Capital expenditure comprises mainly additions to property, plant and equipment (Note 14).

## 5 REVENUE AND SEGMENT INFORMATION *(Continued)*

### (a) 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** | | | | | 4,926,518 |
| Operating profit before unallocated corporate expenses | 204,674 | 7,697 | 69,196 | – | 281,567 |
| Unallocated corporate expenses | | | | | (10,395) |
| Operating profit | | | | | 271,172 |
| Finance income (Note 10) | | | | | 18,194 |
| Finance costs (Note 10) | | | | | (1,066) |
| **Profit before income tax** | | | | | 288,300 |
| Income tax expenses | | | | | (51,516) |
| **Profit for the year attributable to equity holders of the company** | | | | | 236,784 |
| **Other items** | | | | | |
| Depreciation (Notes 14 and 16) | 25,808 | 2,247 | 19,809 | – | 47,864 |
| Amortisation of land use rights (Note 15) | 588 | – | – | – | 588 |
| Amortisation of intangible assets (Note 17) | 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 | 1,950,752 | 40,999 | 306,154 | 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) |
| Capital expenditure | 14,358 | 473 | 19,803 | 34,634 |
| Unallocated capital expenditure | | | | – |
| **Total capital expenditure** | | | | 34,634 |

## 5 REVENUE AND SEGMENT INFORMATION *(Continued)*

### (b) As at and for the year ended 30 June 2017 (restated)

The segment results for the year ended 30 June 2017, as restated, 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, as restated | 3,645,410 | 53,977 | 1,130,231 | – | 4,829,618 |
| Revenue — Internal, as restated | 639 | 12,082 | 212 | (12,933) | – |
| **Total revenue** | | | | | 4,829,618 |
| Operating profit before unallocated corporate expenses, as restated | 202,284 | 5,302 | 61,605 | – | 269,191 |
| Unallocated corporate expenses | | | | | (5,551) |
| Operating profit, as restated | | | | | 263,640 |
| Finance income, as restated (Note 10) | | | | | 14,632 |
| Finance costs, as restated (Note 10) | | | | | (373) |
| **Profit before income tax, as restated** | | | | | 277,899 |
| Income tax expenses, as restated | | | | | (52,503) |
| **Profit for the year attributable to equity holders of the Company, as restated** | | | | | 225,396 |
| **Other items** | | | | | |
| Depreciation, as restated (Note 14) | 23,939 | 2,124 | 21,274 | – | 47,337 |
| Amortisation of land use rights (Note 15) | 582 | – | – | – | 582 |
| Amortisation of intangible assets, as restated (Note 17) | 370 | – | 480 | – | 850 |

## 5 REVENUE AND SEGMENT INFORMATION *(Continued)*

### (b) As at and for the year ended 30 June 2017 (restated) *(Continued)*

The segment assets and liabilities as at 30 June 2017 and capital expenditure, as restated, 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, as restated | 2,092,333 | 35,950 | 492,153 | 2,620,436 |
| Unallocated assets | | | | 395,851 |
| **Total assets, as restated** | | | | 3,016,287 |
| Segment liabilities, as restated | 1,596,093 | 12,877 | 333,696 | 1,942,666 |
| Unallocated liabilities | | | | 2,903 |
| **Total liabilities, as restated** | | | | 1,945,569 |
| Capital expenditure, as restated | 32,408 | 1,025 | 18,851 | 52,284 |
| Unallocated capital expenditure | | | | – |
| **Total capital expenditure, as restated** | | | | 52,284 |

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** | **2018 HK$'000** | 2017 (restated) HK$'000 |
|---|---|---|
| **Revenue** | | |
| Hong Kong | **3,913,818** | 3,972,561 |
| Mainland China | **658,832** | 476,794 |
| Macau | **353,868** | 380,263 |
| | **4,926,518** | 4,829,618 |

## 5 REVENUE AND SEGMENT INFORMATION *(Continued)*

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 | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Customer A | **1,335,275** | 1,470,119 |

The revenues contributed by the above major customer are mainly attributable to the 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 | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| **Non-current assets, other than deferred tax assets** | | |
| Hong Kong | **441,781** | 562,188 |
| Mainland China | **25,756** | 25,572 |
| Macau | **30,351** | 30,961 |
| | **497,888** | 618,721 |

## 6 OTHER INCOME/GAINS, NET

| | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Exchange gain, net | **6,134** | 2,361 |
| Rental income | **790** | – |
| (Loss)/gain on disposal of property, plant and equipment and land use rights, net | **(151)** | 529 |
| (Loss)/gain on disposal or maturity of financial assets at fair value through profit or loss and available-for-sale financial assets | **(5,652)** | 445 |
| Ex-gratia payment from the government for retirement of motor vehicles | **295** | 726 |
| Sundries | **1,920** | 535 |
| | **3,336** | 4,596 |

# Notes to the Consolidated Financial Statements

## 7 OPERATING PROFIT

| For the year ended 30 June | Notes | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|---|
| Operating profit is stated after charging/(crediting): | | | |
| Cost of inventories sold | | **49,802** | 64,951 |
| Raw materials and consumables used | | **987,718** | 968,310 |
| Subcontracting fees | | **1,895,954** | 1,816,101 |
| Provision for inventories | | **245** | 2,230 |
| Staff costs (including Directors' emoluments) | 8, 9 | | |
| Salaries and allowances | | **1,342,235** | 1,292,200 |
| Pension cost on defined contribution schemes | | **55,062** | 52,054 |
| Add/(less): Staff costs released/(capitalised) under contracts in progress | | **3,529** | (17,974) |
| Depreciation of property, plant and equipment | 14 | **47,768** | 47,337 |
| Depreciation of investment property | 16 | **96** | – |
| Amortisation of land use rights | 15 | **588** | 582 |
| Amortisation of intangible assets | 17 | **850** | 850 |
| Operating lease rental for land and buildings | | **41,028** | 37,119 |
| Less: Operating lease rental capitalised under contracts in progress | | **(5,711)** | (3,610) |
| Reversal of impairment loss on trade receivables | 22 | **(727)** | (45) |
| Impairment loss on trade and other receivables | 22 | **1,463** | 436 |
| Auditors' remuneration | | | |
| Audit services | | **4,607** | 4,953 |
| Non-audit services | | **2,030** | 1,065 |

## 8 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

| For the year ended 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Salaries, wages and bonuses | **1,342,235** | 1,292,200 |
| Contributions to defined contribution schemes | **55,062** | 52,054 |
| Add/(less): Staff costs released/(capitalised) under contracts in progress | **3,529** | (17,974) |
| | **1,400,826** | 1,326,280 |

## 9 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

| For the year ended 30 June | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Fees | 1,440 | 1,281 |
| Salaries and other emoluments | 16,868 | 14,183 |
| Contributions to defined contribution schemes | 970 | 957 |
| | 19,278 | 16,421 |

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

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

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

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

### (a) Directors' emoluments *(Continued)*

(ii) The remuneration of each Director for the year ended 30 June 2017 is set out below:

| | Fees HK$'000 | Salaries HK$'000 | Bonuses HK$'000 | Other benefits HK$'000 | Employer's contribution to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Lam Wai Hon, Patrick | – | 1,651 | – | – | 203 | 1,854 |
| Poon Lock Kee, Rocky | – | 3,313 | 1,161 | – | 331 | 4,805 |
| Doo William Junior Guilherme | – | 1,471 | – | – | 73 | 1,544 |
| Lee Kwok Bong | – | 1,224 | – | – | 92 | 1,316 |
| Soon Kweong Wah | – | 2,577 | 886 | – | 258 | 3,721 |
| Cheng Kar Shun, Henry | 308 | – | – | – | – | 308 |
| Wong Kwok Kin, Andrew | 105 | 900 | 1,000 | – | – | 2,005 |
| Kwong Che Keung, Gordon | 256 | – | – | – | – | 256 |
| Hui Chiu Chung, Stephen | 204 | – | – | – | – | 204 |
| Lee Kwan Hung | 204 | – | – | – | – | 204 |
| Tong Yuk Lun, Paul | 204 | – | – | – | – | 204 |
| | 1,281 | 11,136 | 3,047 | – | 957 | 16,421 |

Notes:

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

(b) During the year ended 30 June 2018, no directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil).

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

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

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

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

### (c) Five highest paid individuals' emoluments

The five individuals whose emoluments were the highest in the Group during the years ended 30 June 2018 include two directors (2017: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2017: two) individuals during the years are as follows:

| **For the year ended 30 June** | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits in kind and bonuses | **7,584** | 5,165 |
| Contributions to pension scheme | **277** | 178 |
| | **7,861** | 5,343 |

The emoluments fell within the following bands:

| | **2018 Number of individuals** | 2017 Number of individuals |
|---|---|---|
| Emolument bands | | |
| HK$2,000,001 – HK$2,500,000 | **1** | – |
| HK$2,500,001 – HK$3,000,000 | **2** | 2 |

During the year ended 30 June 2018, no emoluments were paid by the Group to any of the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil).

## 10 FINANCE INCOME AND COSTS

| **For the year ended 30 June** | **2018 HK$'000** | 2017 (restated) HK$'000 |
|---|---|---|
| *Finance income* | | |
| Interest from bank deposits | **11,982** | 13,540 |
| Interest from available-for-sale financial assets | **2,845** | 960 |
| Interest from financial assets at fair value through profit or loss | **3,367** | 132 |
| Finance income | **18,194** | 14,632 |
| *Finance costs* | | |
| Interest on short-term bank borrowings | **(1,066)** | (373) |
| Net finance income | **17,128** | 14,259 |

## 11 INCOME TAX EXPENSES

| For the year ended 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Current income tax | | |
| Hong Kong profits tax | **31,952** | 28,108 |
| Mainland China taxation | | |
| Income tax | **12,913** | 13,959 |
| Withholding tax | **1,745** | 4,025 |
| Macau taxation | **7,567** | 26,723 |
| Over-provision in prior years | **(68)** | (595) |
| Deferred income tax (credit)/expense (Note 18) | | |
| Income tax | **(2,977)** | (21,211) |
| Withholding tax | **384** | 1,494 |
| | **51,516** | 52,503 |

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 2018 (2017: 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 | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Profit before income tax | **288,300** | 277,899 |
| Calculated at a tax rate of 16.5% (2017: 16.5%) | **47,570** | 45,853 |
| Effect of different taxation rates in other regions | **2,664** | 2,039 |
| Income not subject to taxation | **(2,227)** | (1,953) |
| Expenses not deductible for taxation purposes | **2,716** | 3,233 |
| Temporary difference not recognised | **306** | (161) |
| Utilisation of previously unrecognised tax losses | **(2,409)** | (1,612) |
| Tax losses not recognised | **835** | 180 |
| Withholding tax on undistributed earnings from subsidiaries in Mainland China | **2,129** | 5,519 |
| Over-provision in prior years | **(68)** | (595) |
| Income tax expenses | **51,516** | 52,503 |

## 12 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 30 June 2018 and 2017.

| For the year ended 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Profit attributable to equity holders of the Company | 236,784 | 225,396 |
| Weighted average number of ordinary shares in issue (shares in thousands) | 450,000 | 450,000 |
| Basic earnings per share (HK$) | 0.53 | 0.50 |

### (b) Diluted

As the Company did not have any dilutive potential ordinary shares during the years ended 30 June 2018 and 2017, the diluted earnings per share equals the basic earnings per share.

## 13 DIVIDENDS

| For the year ended 30 June | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Interim dividend paid of HK7.8 cents (2017: HK7.4 cents) per share | 35,100 | 33,300 |
| Final dividend proposed of HK13.3 cents (2017: HK8.1 cents) per share | 59,850 | 36,450 |
| | 94,950 | 69,750 |

Note:

At a meeting held on 26 September 2018, the Board recommended a final dividend of 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 profits for the year ending 30 June 2019.

# Notes to the Consolidated Financial Statements

## 14 PROPERTY, PLANT AND EQUIPMENT

| | Freehold land HK$'000 | Leasehold land and buildings HK$'000 | Leasehold improve-ment HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures, equipment and others HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2017** | | | | | | | |
| Opening net book amount, as previously reported | 24,935 | 42,022 | 16,594 | 1,537 | 7,992 | 1,334 | 94,414 |
| Acquisition of the Acquired Group (Note 2.1(iii)) | – | 61,340 | 745 | 34,546 | 2,836 | 16,353 | 115,820 |
| As restated | 24,935 | 103,362 | 17,339 | 36,083 | 10,828 | 17,687 | 210,234 |
| Additions | – | – | 25,344 | 14,034 | 10,590 | 2,316 | 52,284 |
| Disposals | – | (251) | (1,108) | (283) | (62) | (65) | (1,769) |
| Currency translation differences | – | (33) | (5) | – | (29) | (11) | (78) |
| Depreciation charge | – | (12,492) | (10,156) | (11,716) | (6,956) | (6,017) | (47,337) |
| Acquisition of subsidiaries (Note 32(b)) | – | 282,533 | – | – | – | – | 282,533 |
| **Closing net book value, as restated** | 24,935 | 373,119 | 31,414 | 38,118 | 14,371 | 13,910 | 495,867 |
| **At 30 June 2017** | | | | | | | |
| Cost, as restated | 24,935 | 426,679 | 56,715 | 137,648 | 71,196 | 41,134 | 758,307 |
| Accumulated depreciation, as restated | – | (53,560) | (25,301) | (99,530) | (56,825) | (27,224) | (262,440) |
| **Net book value, as restated** | 24,935 | 373,119 | 31,414 | 38,118 | 14,371 | 13,910 | 495,867 |
| **Year ended 30 June 2018** | | | | | | | |
| Opening net book amount, as previously reported | **24,935** | **313,758** | **30,372** | **1,583** | **11,094** | **1,012** | **382,754** |
| Acquisition of the Acquired Group (Note 2.1(iii)) | **–** | **59,361** | **1,042** | **36,535** | **3,277** | **12,898** | **113,113** |
| As restated | **24,935** | **373,119** | **31,414** | **38,118** | **14,371** | **13,910** | **495,867** |
| Additions | **–** | **–** | **14,375** | **11,457** | **6,623** | **2,179** | **34,634** |
| Disposals | **–** | **–** | **(13)** | **(534)** | **(55)** | **(288)** | **(890)** |
| Currency translation differences | **–** | **90** | **14** | **–** | **44** | **21** | **169** |
| Depreciation charge | **–** | **(11,729)** | **(11,150)** | **(11,793)** | **(7,112)** | **(5,984)** | **(47,768)** |
| Disposal of subsidiaries (Note 32(c)) | **–** | **(58,054)** | **–** | **–** | **–** | **–** | **(58,054)** |
| Reclassification to investment property (Note 16) | **–** | **(11,716)** | **–** | **–** | **–** | **–** | **(11,716)** |
| **Closing net book value** | **24,935** | **291,710** | **34,640** | **37,248** | **13,871** | **9,838** | **412,242** |
| **At 30 June 2018** | | | | | | | |
| Cost | **24,935** | **318,047** | **68,289** | **138,366** | **75,438** | **42,900** | **667,975** |
| Accumulated depreciation | **–** | **(26,337)** | **(33,649)** | **(101,118)** | **(61,567)** | **(33,062)** | **(255,733)** |
| **Net book value** | **24,935** | **291,710** | **34,640** | **37,248** | **13,871** | **9,838** | **412,242** |

Note:

(a) None of the above property, plant and equipment was pledged as security as at 30 June 2018 (2017: None).

## 15 LAND USE RIGHTS

| | HK$'000 |
|---|---|
| **Year ended 30 June 2017** | |
| Opening net book value | 23,087 |
| Currency translation differences | (86) |
| Amortisation | (582) |
| Disposal | (764) |
| **Closing net book value** | 21,655 |
| **At 30 June 2017** | |
| Cost | 23,537 |
| Accumulated amortisation | (1,882) |
| **Net book value** | 21,655 |
| **Year ended 30 June 2018** | |
| Opening net book value | **21,655** |
| Currency translation differences | **163** |
| Amortisation | **(588)** |
| **Closing net book value** | **21,230** |
| **At 30 June 2018** | |
| Cost | **23,728** |
| Accumulated amortisation | **(2,498)** |
| **Net book value** | **21,230** |

## 16 INVESTMENT PROPERTY

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

Notes:

(a) The fair value of the Group's investment property is determined based on direct comparison method and it is within level 3 of the fair value hierarchy. Based on management's estimation, the fair value of the property is approximately HK$46.5 million as at 30 June 2018 (2017: Nil).

(b) For the year ended 30 June 2018, the Group's investment property generated rental income of HK$419,000 (2017: Nil) and incurred direct operating expenses of HK$388,000 (2017: Nil).

## 17 INTANGIBLE ASSETS

| | Goodwill HK$'000 | Trademarks and brand names HK$'000 | Development costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Year ended 30 June 2017** | | | | |
| Opening net book value, as previously reported | 33,841 | 1,480 | – | 35,321 |
| Acquisition of the Acquired Group (Note 2.1(iii)) | 7,916 | 9,120 | – | 17,036 |
| As restated | 41,757 | 10,600 | – | 52,357 |
| Amortisation | – | (850) | – | (850) |
| **Closing net book value, as restated** | 41,757 | 9,750 | – | 51,507 |
| **At 30 June 2017** | | | | |
| Cost, as restated | 46,428 | 26,660 | – | 73,088 |
| Accumulated amortisation, as restated | – | (9,630) | – | (9,630) |
| Accumulated impairment | (4,671) | (7,280) | – | (11,951) |
| **Net book value, as restated** | 41,757 | 9,750 | – | 51,507 |
| **Year ended 30 June 2018** | | | | |
| Opening net book value, as previously reported | **33,841** | **1,110** | **–** | **34,951** |
| Acquisition of the Acquired Group (Note 2.1(iii)) | **7,916** | **8,640** | **–** | **16,556** |
| As restated | **41,757** | **9,750** | **–** | **51,507** |
| Additions | **–** | **–** | **2,139** | **2,139** |
| Amortisation | **–** | **(850)** | **–** | **(850)** |
| **Closing net book value** | **41,757** | **8,900** | **2,139** | **52,796** |
| **At 30 June 2018** | | | | |
| Cost | **46,428** | **26,660** | **2,139** | **75,227** |
| Accumulated amortisation | **–** | **(10,480)** | **–** | **(10,480)** |
| Accumulated impairment | **(4,671)** | **(7,280)** | **–** | **(11,951)** |
| **Net book value** | **41,757** | **8,900** | **2,139** | **52,796** |

## 17 INTANGIBLE ASSETS *(Continued)*

### (a) Impairment tests for goodwill

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

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

| As at 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| E&M engineering | 33,841 | 33,841 |
| Cleaning services | 7,916 | 7,916 |
| | 41,757 | 41,757 |

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | E&M engineering | Cleaning services | E&M engineering | Cleaning services |
| **Cash flows in the first five years** | | | | |
| Gross margin | 9.5% – 9.7% | 10.5% – 11.7% | 9.5% – 9.7% | 10.5% – 11.7% |
| Growth rate | 5% | 2% – 3% | 5% | 2% – 3% |
| Pre-tax discount rate | 14% | 9.5% | 14% | 9.5% |
| **Cash flows beyond five-year period** | | | | |
| Terminal growth rate | 0% | 1% | 0% | 1% |
| Pre-tax discount rate | 14% | 9.5% | 14% | 9.5% |

These assumptions have been used for the analysis of the group of CGUs within the operating segment.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments and business life-cycle. On the basis of these reviews, management concluded that no impairment was required for goodwill as at 30 June 2018 (2017: Nil).

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

## 18 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

| As at 30 June | 2018 HK$'000 | 2017 (restated) HK$'000 |
|---|---|---|
| Deferred income tax assets | **14,329** | 11,752 |
| Deferred income tax liabilities | **(25,419)** | (28,437) |
| | **(11,090)** | (16,685) |

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

### Deferred income tax assets

| | Accelerated accounting depreciation HK$'000 | Tax losses HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **At 1 July 2016, as previously reported** | 275 | 4,061 | 245 | 4,581 |
| Acquisition of the Acquired Group (Note 2.1(iii)) | 21 | 872 | – | 893 |
| As restated | 296 | 4,933 | 245 | 5,474 |
| Credited/(charged) to consolidated income statement, as restated (Note 11) | 197 | (463) | 8,466 | 8,200 |
| Acquisition of subsidiaries (Note 32(b)) | – | 122 | – | 122 |
| **At 30 June 2017, as restated** | 493 | 4,592 | 8,711 | 13,796 |
| **At 1 July 2017, as previously reported** | **466** | **3,962** | **8,711** | **13,139** |
| Acquisition of the Acquired Group (Note 2.1(iii)) | **27** | **630** | **–** | **657** |
| As restated | **493** | **4,592** | **8,711** | **13,796** |
| Credited/(charged) to consolidated income statement (Note 11) | **800** | **(654)** | **1,440** | **1,586** |
| **At 30 June 2018** | **1,293** | **3,938** | **10,151** | **15,382** |

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Total deferred income tax assets before offsetting | **15,382** | 13,796 |
| Less: Amount offset against deferred tax liabilities | **(1,053)** | (2,044) |
| Net deferred income tax assets after offsetting | **14,329** | 11,752 |

## 18 DEFERRED INCOME TAX ASSETS/(LIABILITIES) *(Continued)*

### Deferred income tax liabilities

| | Accelerated deprecation allowance HK$'000 | Fair value adjustment on trademarks and brand names HK$'000 | Fair value adjustment on property, plant and equipment arising from business combinations HK$'000 | Remeasurement of long service payment liabilities HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1 July 2016, as previously reported** | (642) | (244) | (15,326) | – | (13,605) | (29,817) |
| Acquisition of the Acquired Group (Note 2.1(iii)) | (8,578) | (1,506) | (1,998) | – | – | (12,082) |
| As restated | (9,220) | (1,750) | (17,324) | – | (13,605) | (41,899) |
| Charged to other comprehensive income | – | – | – | – | (98) | (98) |
| Currency translation differences | – | – | – | – | (1) | (1) |
| (Charged)/credited to consolidated income statement (Note 11) | (98) | 140 | 901 | – | 10,574 | 11,517 |
| **At 30 June 2017, as restated** | (9,318) | (1,610) | (16,423) | – | (3,130) | (30,481) |
| **At 1 July 2017, as previously reported** | **(1,053)** | **(183)** | **(14,541)** | **–** | **(3,130)** | **(18,907)** |
| Acquisition of the Acquired Group (Note 2(iii)) | **(8,265)** | **(1,427)** | **(1,882)** | **–** | **–** | **(11,574)** |
| As restated | **(9,318)** | **(1,610)** | **(16,423)** | **–** | **(3,130)** | **(30,481)** |
| (Charged)/credited to other comprehensive income | **–** | **–** | **–** | **(1,334)** | **99** | **(1,235)** |
| Credited to consolidated income statement (Note 11) | **335** | **140** | **351** | **–** | **181** | **1,007** |
| Disposal of subsidiaries (Note 32(c)) | **2,432** | **–** | **1,805** | **–** | **–** | **4,237** |
| **At 30 June 2018** | **(6,551)** | **(1,470)** | **(14,267)** | **(1,334)** | **(2,850)** | **(26,472)** |

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Total deferred income tax liabilities before offsetting | **(26,472)** | (30,481) |
| Less: Amount offset against deferred tax assets | **1,053** | 2,044 |
| Net deferred income tax liabilities after offsetting | **(25,419)** | (28,437) |

As at 30 June 2018, the Group did not recognise deferred income tax assets of HK$15 million (2017: HK$14 million), arising from unused tax losses of HK$87 million (2017: HK$85 million). Except for tax losses of HK$0.6 million as at 30 June 2018 (2017: HK$0.4 million) which will expire within three years and except for tax losses of HK$3 million as at 30 June 2018 (2017: HK$3 million) which will expire within five years, the remaining tax losses have no expiry date.

# Notes to the Consolidated Financial Statements

## 19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| As at 30 June | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Non-current | | |
| Listed securities, at market value | – | 47,654 |
| Current | | |
| Listed securities, at market value | – | 20,327 |
| | – | 67,981 |

The available-for-sale financial assets at 30 June 2017 are denominated in United States dollars.

## 20 INVENTORIES

| As at 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Raw materials | 731 | 1,509 |
| Finished goods | 22,101 | 21,525 |
| Spare parts and consumables | 3,174 | 2,598 |
| | 26,006 | 25,632 |

## 21 CONTRACTS IN PROGRESS

| As at 30 June | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Contract costs incurred plus attributable profits less foreseeable losses | 3,929,339 | 3,633,301 |
| Progress payments received and receivable | (4,061,707) | (3,909,220) |
| | (132,368) | (275,919) |
| Representing | | |
| Amounts due from customers for contract works | 343,029 | 141,678 |
| Amounts due to customers for contract works | (475,397) | (417,597) |
| | (132,368) | (275,919) |

## 22 TRADE AND OTHER RECEIVABLES

| As at 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Trade receivables | | |
| Third parties | 328,571 | 288,218 |
| Related companies (Note 33(c)) | 116,195 | 100,451 |
| | 444,766 | 388,669 |
| Less: Provision for impairment | | |
| Third parties | (4,899) | (4,609) |
| | 439,867 | 384,060 |
| Retention receivables | | |
| Third parties | 125,263 | 143,322 |
| Related companies (Note 33(c)) | 251,208 | 216,398 |
| | 376,471 | 359,720 |
| Accrued contract revenue | 378,197 | 251,343 |
| Other receivables and prepayments | 84,412 | 56,013 |
| | 1,278,947 | 1,051,136 |

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

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, and net of provision for impairment, is as follows:

| As at 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Current – 90 days | 400,576 | 356,020 |
| 91 – 180 days | 28,300 | 18,505 |
| Over 180 days | 10,991 | 9,535 |
| | 439,867 | 384,060 |

An allowance for impairment of trade debtors is made based on the estimated irrecoverable amount determined by reference to past default experience and where there are indicators that the debtor is impaired.

## 22 TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables can be further analysed as follows:

The ageing analysis of the Group's trade receivables that are past due but not impaired is set out in the table below. These relate to a number of independent customers for whom there is no recent history of default.

| **As at 30 June** | **2018**<br>**HK$'000** | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| 1 – 90 days | **268,271** | 163,615 |
| 91 – 180 days | **28,300** | 18,505 |
| Over 180 days | **10,991** | 9,535 |
| | **307,562** | 191,655 |

At 30 June 2018, the Group's trade receivables of HK$4,899,000 (2017: HK$4,609,000, as restated) were impaired.

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

| **As at 30 June** | **2018**<br>**HK$'000** | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Hong Kong dollars | **1,087,104** | 866,635 |
| Renminbi | **183,673** | 162,295 |
| Macau patacas | **8,131** | 21,089 |
| United States dollars | **39** | 1,117 |
| | **1,278,947** | 1,051,136 |

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

| **As at 30 June** | **2018**<br>**HK$'000** | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| At beginning of year | **4,609** | 6,903 |
| Exchange differences | **(1)** | (1) |
| Receivables written off during the year | **(445)** | (2,684) |
| Provision for the year | **1,463** | 436 |
| Reversal of provision during the year | **(727)** | (45) |
| At end of year | **4,899** | 4,609 |

Retention receivables in respect of contracting services are settled in accordance with the terms of respective contracts.

Other classes within trade and other receivables do not contain material impaired assets.

## 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| As at 30 June | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Current | | |
| Listed securities, at fair value | – | 31,489 |

The financial assets at fair value through profit or loss at 30 June 2017 are denominated in United States Dollars.

## 24 AMOUNT DUE FROM/(TO) A RELATED COMPANY

The balances are unsecured, interest free and have no fixed terms of repayment.

The carrying amounts of these balances approximate to their fair value and they are denominated in Hong Kong dollars.

## 25 CASH AND BANK BALANCES

| As at 30 June | 2018 HK$'000 | 2017 (restated) HK$'000 |
|---|---|---|
| Time deposits — original maturities within three months | 78,474 | 808,705 |
| Time deposits — original maturities over three months | – | 10,000 |
| Other cash at banks and in hand | 329,087 | 295,347 |
| | 407,561 | 1,114,052 |

At 30 June 2018, the effective interest rate on bank deposits is 2.00% per annum (2017: 1.12% per annum).

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

| As at 30 June | 2018 HK$'000 | 2017 (restated) HK$'000 |
|---|---|---|
| Hong Kong dollars | 197,432 | 673,932 |
| Renminbi | 115,598 | 319,882 |
| Macau patacas | 6,691 | 17,350 |
| United States dollars | 81,994 | 93,049 |
| Euros | 2,954 | 7,825 |
| Others | 2,892 | 2,014 |
| | 407,561 | 1,114,052 |

# Notes to the Consolidated Financial Statements

## 26 SHARE CAPITAL

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

| | Number of shares | HK$'000 |
|---|---|---|
| Ordinary shares, authorised: | | |
| As at 30 June 2017 and 2018 | 1,000,000,000 | 100,000 |
| Ordinary shares, issued and fully paid: | | |
| As at 30 June 2017 and 2018 | 450,000,000 | 45,000 |

## 27 RESERVES

| | Investment revaluation reserve HK$'000 | Share premium HK$'000 | Merger reserve (Note a) HK$'000 | Exchange reserve HK$'000 | Statutory reserves (Note b) HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 1 July 2016, as previously reported** | – | 743,204 | (146,414) | (16,941) | 21,044 | 176,948 | 777,841 |
| Acquisition of the Acquired Group (Note 2.1(iii)) | – | – | 137,014 | – | – | 19,596 | 156,610 |
| As restated | – | 743,204 | (9,400) | (16,941) | 21,044 | 196,544 | 934,451 |
| Profit for the year, as restated | – | – | – | – | – | 225,396 | 225,396 |
| Fair value changes of available-for-sale financial assets, net of tax | 498 | – | – | – | – | – | 498 |
| Dividends | – | – | – | – | – | (75,600) | (75,600) |
| Dividends to the original shareholder of subsidiaries of the Acquired Group, as restated | – | – | – | – | – | (50,000) | (50,000) |
| Currency translation differences | – | – | – | (9,027) | – | – | (9,027) |
| Appropriation to statutory reserves | – | – | – | – | 713 | (713) | – |
| **At 30 June 2017, as restated** | 498 | 743,204 | (9,400) | (25,968) | 21,757 | 295,627 | 1,025,718 |
| **At 1 July 2017, as previously reported** | 498 | 743,204 | (146,414) | (25,968) | 21,757 | 274,431 | 867,508 |
| Acquisition of the Acquired Group (Note 2.1(iii)) | – | – | 137,014 | – | – | 21,196 | 158,210 |
| As restated | 498 | 743,204 | (9,400) | (25,968) | 21,757 | 295,627 | 1,025,718 |
| Profit for the year | – | – | – | – | – | 236,784 | 236,784 |
| Reclassification of revaluation reserve to profit or loss upon maturity or disposal of available-for-sale financial assets, net of tax | 754 | – | – | – | – | – | 754 |
| Fair value changes of available-for-sale financial assets, net of tax | (1,255) | – | – | – | – | – | (1,255) |
| Dividends | – | – | – | – | – | (71,550) | (71,550) |
| Dividends to the original shareholder of subsidiaries of the Acquired Group | – | – | – | – | – | (85,000) | (85,000) |
| Acquisition of the Acquired Group | – | – | (515,814) | – | – | – | (515,814) |
| Deemed distribution | – | – | – | – | – | (10,262) | (10,262) |
| Remeasurement gains on long service payment liabilities | – | – | – | – | – | 8,084 | 8,084 |
| Deferred tax on remeasurement gains on long service payment liabilities | – | – | – | – | – | (1,334) | (1,334) |
| Currency translation differences | 3 | – | – | 6,222 | – | – | 6,225 |
| Appropriation to statutory reserves | – | – | – | – | 441 | (441) | – |
| **At 30 June 2018** | – | 743,204 | (525,214) | (19,746) | 22,198 | 371,908 | 592,350 |

## 27 RESERVES *(Continued)*

Notes:

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

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

(c) During the year ended 30 June 2018, the board of directors of the PRC companies resolved to appropriate HK$441,000 (2017: HK$713,000) from retained earnings to statutory reserves.

## 28 TRADE AND OTHER PAYABLES

| **As at 30 June** | **2018**<br>**HK$'000** | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Trade payables | | |
| Third parties | **277,258** | 91,404 |
| Related companies (Note 33(c)) | **147** | 3,087 |
| | **277,405** | 94,491 |
| Bills payable | | |
| Third parties | **–** | 9,355 |
| Retention payables | | |
| Third parties | **237,290** | 207,815 |
| Accrued expenses | **198,882** | 204,300 |
| Provision for contracting costs | **578,139** | 660,915 |
| Other creditors and accruals | **51,607** | 102,640 |
| | **1,343,323** | 1,279,516 |

The carrying amounts of the balances approximate their fair values.

## 28 TRADE AND OTHER PAYABLES *(Continued)*

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

| As at 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Hong Kong dollars | 932,248 | 1,007,812 |
| Renminbi | 280,332 | 168,734 |
| Macau patacas | 130,594 | 93,882 |
| United States dollars | 103 | 5,152 |
| Malaysian ringgits | 16 | 16 |
| Euros | 4 | 3,912 |
| Others | 26 | 8 |
| | 1,343,323 | 1,279,516 |

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 | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| 1 – 90 days | 274,934 | 86,874 |
| 91 – 180 days | 1,232 | 6,227 |
| Over 180 days | 1,239 | 1,390 |
| | 277,405 | 94,491 |

## 29 LONG SERVICE PAYMENT LIABILITIES

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

The liability recognised in the combined statement of financial position is the present value of unfunded obligations and its movements are as follows:

| As at 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Beginning of the year | 34,479 | 33,305 |
| Expenses recognised in the consolidated income statement | 3,068 | 2,010 |
| Remeasurement gains recognised in other comprehensive income | (8,084) | – |
| Benefits paid | (8,143) | (836) |
| End of the year | 21,320 | 34,479 |

## 29 LONG SERVICE PAYMENT LIABILITIES *(Continued)*

Significant actuarial assumptions adopted for the purpose of the actuarial valuation are as follows:

| **As at 30 June** | **2018** | 2017 (restated) |
|---|---|---|
| Discount rate | **1.30%** | 1.30% |
| Long term rate of salary increases | **3.80% – 4.80%** | 3.80% – 4.80% |
| Long term rate of increase of maximum salary and amount of long service payment and MPF Relevant Income limit | **3.0%** | 3.0% |
| Long term average expected return on MPF and ORSO balances | **3.75% – 4.25%** | 3.75% – 4.25% |

The below analysis shows how the long service payment liability as at each year end date would have increased/(decreased) as a result of 0.25% change in significant actuarial assumptions:

| **As at 30 June** | **2018** | | 2017 | |
|---|---|---|---|---|
| Assumptions | **Increase in 0.25% HK$'000** | **Decrease in 0.25% HK$'000** | Increase in 0.25% HK$'000 (restated) | Decrease in 0.25% HK$'000 (restated) |
| Long term rate of salary increases | **1,328** | **(1,347)** | 2,096 | (2,110) |
| Long term average expected return on MPF and ORSO balances | **(1,019)** | **1,049** | (1,439) | 1,419 |

The above sensitivity analyses are based on change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the long service payment liability to significant actuarial assumptions, the same actuarial valuation method has been applied as when calculating the long service payment liability recognised within the consolidated statement of financial position.

## 30 BORROWINGS

| **As at 30 June** | **2018 HK$'000** | 2017 (restated) HK$'000 |
|---|---|---|
| Current | | |
| Bank borrowings — Secured | **–** | 30,000 |

Borrowings at 30 June 2017 are interest bearing at effective interest rates of 1.2% per annum. The carrying amounts of the borrowings approximate its fair values and are denominated in Hong Kong dollar.

Borrowings are secured by a corporate guarantee provided by a related company of the Group.

## 31 COMMITMENTS

### Operating lease commitments

**(a) The Group as lessees**

The Group has future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| As at 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| No later than one year | 40,725 | 30,371 |
| Later than one year and no later than five years | 41,253 | 20,909 |
| Over five years | 5,376 | – |
| | 87,354 | 51,280 |

**(b) The Group as a lessor**

The Group's investment property is leased to a tenant under a long-term operating lease with rentals payable monthly. Minimum lease payments receivable on the lease of the Group's investment property are as follows:

| As at 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| No later than one year | 1,936 | 371 |
| Later than one year and no later than five years | 7,420 | 265 |
| More than five years | 8,804 | – |
| | 18,160 | 636 |

## 32 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

| For the year ended 30 June | Notes | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|---|
| Profit before income tax | | **288,300** | 277,899 |
| Finance income | | **(18,194)** | (14,632) |
| Finance costs | | **1,066** | 373 |
| Amortisation of land use rights | 15 | **588** | 582 |
| Amortisation of intangible assets | 17 | **850** | 850 |
| Depreciation of property, plant and equipment | 14 | **47,768** | 47,337 |
| Depreciation of investment property | 16 | **96** | – |
| Provision for inventories | 7 | **245** | 2,230 |
| Reversal of impairment loss on trade receivables | 7 | **(727)** | (45) |
| Impairment loss on trade and other receivables | 7 | **1,463** | 436 |
| Loss/(gain) on disposal of land use right and property, plant and equipment, net | 6 | **151** | (529) |
| Loss/(gain) on disposal or maturity of financial assets at fair value through profit or loss and available-for-sale financial assets | 6 | **5,652** | (445) |
| Long service payment liabilities | | | |
| Expenses recognised in the consolidated income statement | 29 | **3,068** | 2,010 |
| Benefit paid | 29 | **(8,143)** | (836) |
| Unrealised exchange differences | | **(2,502)** | (4,612) |
| Operating cash flows before changes in working capital | | **319,681** | 310,618 |
| Changes in working capital: | | | |
| Inventories | | **(619)** | (7,041) |
| Net amounts due to customers for contract works | | **(145,575)** | (545,880) |
| Trade and other receivables | | **(221,498)** | (11,858) |
| Trade and other payables | | **59,164** | 483,049 |
| Cash generated from operations | | **11,153** | 228,888 |

### (b) Business combination under common control/acquisition of subsidiaries

On 11 April 2018, the Group acquired the Acquired Group at a total consideration of HK$515.8 million. Details of the transaction are set out in Note 2.1(iii) to the consolidated financial statements.

On 9 January 2017, the Group acquired a property holding group in Hong Kong from Catchy Investments Limited, a wholly-owned subsidiary of New World Development Company Limited and a related company of the Group, at a consideration of HK$282.3 million which composed of the 100% equity interest in Optimum Result Holdings Limited and its wholly-owned subsidiary called Ocean Front Investments Limited in order to acquire additional premises for office use by members of the Group as well as reducing the Group's costs in leasing of office premises in the long run.

## 32 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

### (b) Business combination under common control/acquisition of subsidiaries *(Continued)*

The following table summarises the consideration paid, the fair value of assets acquired and liabilities assumed at the acquisition date:

| | HK$'000 |
|---|---|
| **Net assets acquired** | |
| Property, plant and equipment (Note 14) | 282,533 |
| Deferred income tax assets (Note 18) | 122 |
| Trade and other receivables | 281 |
| Cash and bank balances | 289 |
| Trade and other payables | (860) |
| Taxation payable | (65) |
| Consideration | 282,300 |

Analysis of net outflow of cash and cash equivalents in respect of the above acquisition of subsidiaries:

| | HK$'000 |
|---|---|
| Cash paid | (282,300) |
| Cash and cash equivalents acquired | 289 |
| | (282,011) |

### (c) Disposal of subsidiaries

In February 2018, New China Steam Laundry Limited, a wholly-owned subsidiary of the Acquired Group, disposed of its 100% equity interest in Marco Brilliant Limited and its subsidiary with a net asset value of HK$53.5 million for HK$43.3 million to FMC and settled it through its current account with FMC (Note 32(d)). Details of the transaction were set out in Note 2.1(iii).

The total net assets of the disposed subsidiary at the date of disposal were as follows:

| | **HK$'000** |
|---|---|
| Property, plant and equipment (Note 14) | 58,054 |
| Cash and bank balances | 444 |
| Deferred income tax liabilities (Note 18) | (4,237) |
| Trade and other payables | (680) |
| Taxation payable | (35) |
| Net assets | 53,546 |
| Deemed distribution | (10,262) |
| Consideration | 43,284 |

## 32 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

### (c) Disposal of subsidiaries *(Continued)*

Analysis of net outflow of cash and cash equivalents in respect of the above disposal of subsidiaries:

| | HK$'000 |
|---|---|
| Cash considerations received during the year | – |
| Less: Cash and cash equivalents disposed | (444) |
| | (444) |

### (d) Major non-cash transactions

As described in Note 32(c), in February 2018, New China Steam Laundry Limited disposed of its 100% equity interest in Marco Brilliant Limited and its subsidiary for HK$43.3 million to FMC and settled it through its current account with FMC (Note 32(e)).

In February 2018, NCL settled HK$1.5 million of its amounts due to FMC through offsetting against its receivables from FMC (Note 32(e)).

### (e) Net cash reconciliation

This section sets out an analysis of net cash and the movements in net cash for the year ended 30 June 2018.

| | Cash and cash equivalents HK$'000 | Amount due to a related company HK$'000 | Borrowings due within one year HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Net cash at 1 July 2017, as previously reported** | 968,322 | – | – | 968,322 |
| Acquisition of the Acquired Group (Note 2.1(iii)) | 135,730 | (90,845) | (30,000) | 14,885 |
| As restated | 1,104,052 | (90,845) | (30,000) | 983,207 |
| Cash flows | (707,120) | 46,061 | 30,000 | (631,059) |
| Non-cash transaction (Note 32(d)) | – | 44,784 | – | 44,784 |
| Currency translation differences | 10,629 | – | – | 10,629 |
| **Net cash at 30 June 2018** | 407,561 | – | – | 407,561 |

(f) The exchange differences of cash and cash equivalents during the year are mainly arising from the remeasurement of the Group's foreign currency denominated cash and bank balances at the year end exchange rate.

## 33 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group undertook the following transactions with related parties, which in the opinion of the Directors of the Company, were carried out in the normal course of business during the year ended 30 June 2018.

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

| Name | Relationship |
|---|---|
| FSE Management Company Limited | Note i |
| DMI Development Limited | Note i |
| Fast Solution Limited | Note i |
| General Security (H.K.) Limited | Note i |
| Great City Developments Co Ltd | Note i |
| Hong Kong Island Landscape Company Limited | Note i |
| International Property Management Limited | Note i |
| Kenbase Engineering Limited | Note i |
| Kiu Lok Service Management Company Limited | Note i |
| KOHO Facility Management Limited | Note i |
| Nova Insurance Consultants Limited | Note i |
| Onglory International Limited | Note i |
| Paramatta Estate Management Limited | Note i |
| Perfect Modern Limited | Note i |
| Power Estate Investments Limited | Note i |
| Success Ocean Limited | Note i |
| Turning Technical Services Limited | Note i |
| Urban Management Services Limited | Note i |
| Urban Property Management Limited | Note i |
| Urban-Wellborn Property Management Limited | Note i |
| 上海上實南洋大酒店有限公司 | Note i |
| 上海新尚賢坊房地產發展有限公司 | Note i |
| 上海豐昌物業管理有限公司 | Note i |
| 新豐福貿易(上海)有限公司 | Note i |
| AOS Management Ltd | Note ii |
| ATL Logistics Centre Hong Kong Ltd | Note ii |
| Bright Link Engineering Limited | Note ii |
| Broadway-Nassau Investments Limited | Note ii |
| Build King Construction Ltd | Note ii |
| Chow Tai Fook Enterprises Ltd | Note ii |
| Chow Tai Fook Jewellery and Watch (Macau) Limited | Note ii |
| Chow Tai Fook Jewellery Company Limited | Note ii |
| CIF Solution Limited | Note ii |
| Citybus Limited | Note ii |
| Discovery Park Commercial Services Limited | Note ii |
| Ever Light Limited | Note ii |
| Gammon - Hip Hing Joint Venture | Note ii |
| GH Hotel Company Limited | Note ii |

## 33 RELATED PARTY TRANSACTIONS *(Continued)*

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

| Name | Relationship |
|---|---|
| GHK Hospital Limited | Note ii |
| Head Step Ltd T/A Pentahotel HK Kowloon | Note ii |
| HH - CW Joint Venture | Note ii |
| Hip Hing - Hanison Joint Venture | Note ii |
| Hip Hing Builders Company Limited | Note ii |
| Hip Hing Construction Company Limited | Note ii |
| Hip Hing Engineering Company Limited | Note ii |
| Hip Hing Joint Venture | Note ii |
| Hip Seng Construction Company Limited | Note ii |
| HK Convention & Exhibition Centre | Note ii |
| Hong Kong Golf & Tennis Academy Management Co., Ltd. | Note ii |
| Hong Kong Island Development Ltd | Note ii |
| Hyatt Regency Hong Kong | Note ii |
| K11 Concepts Limited | Note ii |
| K11 Select Ltd | Note ii |
| Kiu Lok Property Services (China) Limited | Note ii |
| New World China Construction Limited | Note ii |
| New World China Land Ltd | Note ii |
| New World Construction Company Limited | Note ii |
| New World Department Stores Limited | Note ii |
| New World Development Company Limited | Note ii |
| New World Facilities Management Company Limited | Note ii |
| New World First Bus Services Limited | Note ii |
| New World Harbourview Hotel Co Ltd | Note ii |
| New World Hotel Management Ltd | Note ii |
| New World Project Management (China) Limited | Note ii |
| New World Property Management Company Limited | Note ii |
| New World Strategic Investment Ltd | Note ii |
| New World Telecommunications Ltd | Note ii |
| New World TMT Ltd | Note ii |
| New World Tower Company Ltd | Note ii |
| NW Project Management Limited | Note ii |
| NWS Holdings Limited | Note ii |
| Pentahotel Hong Kong | Note ii |
| Pridemax Ltd | Note ii |
| Renaissance Harbour View Hotel HK | Note ii |
| Sky Connection Limited | Note ii |
| Space Enterprises Limited | Note ii |
| The Automall Ltd | Note ii |
| The Dynasty Club Ltd | Note ii |
| Ultimate Vantage Limited | Note ii |
| Urban Parking Ltd | Note ii |

## 33 RELATED PARTY TRANSACTIONS *(Continued)*

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

| Name | Relationship |
|---|---|
| Vibro (H.K.) Ltd | Note ii |
| Vibro Construction Company Limited | Note ii |
| Victoria Nursery | Note ii |
| 上海三聯物業發展有限公司 | Note ii |
| 大連新世界大廈有限公司 | Note ii |
| 大連僑樂物業服務有限公司 | Note ii |
| 天津新世界百貨有限公司 | Note ii |
| 天津新世界環渤海房地產開發有限公司 | Note ii |
| 北京京廣中心有限公司 | Note ii |
| 北京崇文 • 新世界房地產發展有限公司 | Note ii |
| 北京祥和物業管理有限公司 | Note ii |
| 北京新世界物業管理有限公司 | Note ii |
| 北京新策項目管理諮詢服務有限公司 | Note ii |
| 北京僑樂房地產管理服務有限公司 | Note ii |
| 北京麗高房地產開發有限公司 | Note ii |
| 新世界協中建築有限公司 | Note ii |
| 深圳拓勁房地產開發有限公司 | Note ii |
| 清遠新世界旅遊發展有限公司 | Note ii |
| 湖南成功新世紀投資有限公司 | Note ii |
| 湖南梓山湖置業有限公司 | Note ii |
| 湖南新城新世界物業服務有限公司 | Note ii |
| 新世界（瀋陽）房地產開發有限公司 | Note ii |
| 新世界（瀋陽）房地產開發第五有限公司 | Note ii |
| 新世界百貨集團上海匯妍百貨有限公司 | Note ii |
| 新世界百貨集團上海匯雅百貨有限公司 | Note ii |
| 新世界發展（武漢）有限公司 | Note ii |
| 新世界嘉業（武漢）有限公司 | Note ii |
| 寧波公泰置業有限公司 | Note ii |
| 寧波新立房地產開發有限公司 | Note ii |
| 廣州市新禦房地產開發有限公司 | Note ii |
| 鄭州新世界百貨有限公司 | Note ii |

Notes:

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

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

## 33 RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related companies during the year ended 30 June 2018.

| **For the year ended 30 June** | **2018**<br>**HK$'000** | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Contract revenue (Note i) | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **92,114** | 56,708 |
| Other related companies (Note ii) | **1,756,606** | 1,730,284 |
| | **1,848,720** | 1,786,992 |
| Facility service income (Note i) | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **160,562** | 146,017 |
| Other related companies (Note ii) | **104,328** | 84,931 |
| | **264,890** | 230,948 |

Notes:

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

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

## 33 RELATED PARTY TRANSACTIONS *(Continued)*

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

| For the year ended 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Insurance broking service expenses (Note iii) | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **19,138** | 17,654 |
| Rental expenses (Note iv) | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **9,763** | 8,329 |
| Other related companies (Note ii) | **3,993** | 1,929 |
| | **13,756** | 10,258 |
| IT secondment fee to a related company (Note v) | **116** | 720 |
| Management fee to a related company (Note vi) | **–** | 5,800 |
| Miscellaneous service fees (Note vii) | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **2,989** | 2,818 |
| Other related companies (Note ii) | **–** | 1,751 |
| | **2,989** | 4,569 |

Notes:

(iii) Insurance broking service expenses were principally charged in accordance with respective insurance policies.

(iv) Rental expenses were principally charged in accordance with respective rental agreements.

(v) IT secondment fee was changed based on fixed amount mutually agreed by the parties.

(vi) Management fee was charged based on fixed amount mutually agreed by the parties.

(vii) Miscellaneous service fee was charged based on fixed amounts mutually agreed by the parties.

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

(ix) Banking facilities granted to the Group amounting to HK$242.1 million (2017: HK$258.4 million) are guaranteed by a related company.

## 33 RELATED PARTY TRANSACTIONS *(Continued)*

### (c) Balances with related parties

| As at 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Trade receivables | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **40,261** | 31,578 |
| Other related companies (Note i) | **75,934** | 68,873 |
| | **116,195** | 100,451 |
| Amounts due from customers for contract works | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **7,045** | 4,825 |
| Other related companies (Note i) | **114,960** | 40,180 |
| | **122,005** | 45,005 |
| Amounts due to customers for contract works | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **7,690** | 8,046 |
| Other related companies (Note i) | **297,062** | 257,003 |
| | **304,752** | 265,049 |
| Retention receivables | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **1,917** | 1,622 |
| Other related companies (Note i) | **249,291** | 214,776 |
| | **251,208** | 216,398 |
| Trade payables | | |
| Related companies commonly controlled by the Ultimate Controlling Shareholder | **147** | 101 |
| Other related companies (Note i) | **–** | 2,986 |
| | **147** | 3,087 |

Note:

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

## 33 RELATED PARTY TRANSACTIONS *(Continued)*

### (d) Key management compensation

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

| For the year ended 30 June | 2018<br>HK$'000 | 2017<br>(restated)<br>HK$'000 |
|---|---|---|
| Fees | **1,440** | 1,281 |
| Salaries and other emoluments | **39,835** | 35,141 |
| Contributions to defined contribution schemes | **2,137** | 2,015 |
| | **43,412** | 38,437 |

The emoluments to directors and members of the senior management of the Group fell within the following bands:

| For the year ended 30 June | 2018<br>Number of individuals | 2017<br>(restated)<br>Number of individuals |
|---|---|---|
| **Emolument bands** | | |
| Nil – HK$1,000,000 | **7** | 6 |
| HK$1,000,001 – HK$1,500,000 | **4** | 5 |
| HK$1,500,001 – HK$2,000,000 | **5** | 8 |
| HK$2,000,001 – HK$2,500,000 | **5** | 1 |
| HK$2,500,001 – HK$3,000,000 | **2** | 2 |
| HK$3,000,001 – HK$3,500,000 | **–** | – |
| HK$3,500,001 – HK$4,000,000 | **–** | 1 |
| HK$4,000,001 – HK$4,500,000 | **–** | – |
| HK$4,500,001 – HK$5,000,000 | **1** | 1 |
| HK$5,000,001 – HK$5,500,000 | **–** | – |
| HK$5,500,001 – HK$6,000,000 | **–** | – |
| HK$6,000,001 – HK$6,500,000 | **–** | – |
| HK$6,500,001 – HK$7,000,000 | **–** | – |
| HK$7,000,001 – HK$7,500,000 | **1** | – |
| | **25** | 24 |

## 34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

| As at 30 June | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current asset** | | |
| Subsidiaries | **501,697** | 501,697 |
| **Current assets** | | |
| Trade and other receivables | **243** | 236 |
| Amounts due from subsidiaries | **1,064,935** | 428,105 |
| Cash and bank balances | **959** | 385 |
| | **1,066,137** | 428,726 |
| **Total assets** | **1,567,834** | 930,423 |
| **EQUITY** | | |
| Share capital | **45,000** | 45,000 |
| Reserves (Note (a)) | **531,329** | 613,262 |
| **Total equity** | **576,329** | 658,262 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | **1,973** | 2,603 |
| Amounts due to subsidiaries | **989,532** | 269,558 |
| **Total liabilities** | **991,505** | 272,161 |
| **Total equity and liabilities** | **1,567,834** | 930,423 |
| **Net current assets** | **74,632** | 156,565 |
| **Total assets less current liabilities** | **576,329** | 658,262 |

The statement of financial position of the Company was approved by the Board of Directors on 26 September 2018 and was signed on its behalf.

| | |
|---|---|
| **Lam Wai Hon, Patrick** | **Poon Lock Kee, Rocky** |
| *Director* | *Director* |

## 34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note (a) Reserve movement of the Company

| | Share premium HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 1 July 2016** | 743,204 | (48,791) | 694,413 |
| Loss for the year | – | (5,551) | (5,551) |
| Dividends | – | (75,600) | (75,600) |
| **At 30 June 2017** | 743,204 | (129,942) | 613,262 |
| **At 1 July 2017** | 743,204 | (129,942) | 613,262 |
| Loss for the year | – | (10,383) | (10,383) |
| Dividends | – | (71,550) | (71,550) |
| **At 30 June 2018** | **743,204** | **(211,875)** | **531,329** |

## 35 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries as at 30 June 2018:

| Company name | Place of incorporation or establishment/ place of operation | Registered/ issued and paid-up capital | Attributable equity interest of the Group As at 30 June 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| **Directly-owned subsidiaries:** | | | | | |
| Building Material Supplies Limited | British Virgin Islands | 100,000 shares of HK$1 each paid up to HK$1 | 100 | 100 | Investment holding |
| FSE Engineering Group Limited (1) | British Virgin Islands/ Hong Kong | 50,000,000 shares of HK$1 each paid up to HK$50,000,000 | 100 | 100 | Investment holding |
| FSE Environmental Technologies Limited | British Virgin Islands | 50,000 shares of US$1 each paid up to US$1 | 100 | 100 | Investment holding |
| FSE Facility Services Group Limited (2) | British Virgin Islands | 50,000 shares of US$1 each paid up to US$1 | 100 | – | Investment holding |
| Lucky Bridge Investments Limited | British Virgin Islands/ Hong Kong | 1 share of US$1 paid up to US$1 | 100 | 100 | Investment in trading securities |
| **Indirectly owned subsidiaries:** | | | | | |
| Bright Team Enterprises Limited | Hong Kong | 1 ordinary share paid up to HK$1 | 100 | 100 | Provision of transportation services to fellow subsidiaries |
| Companion Building Material Supplies (H.K.) Limited | Hong Kong | 100 shares paid up to HK$100 | 100 | 100 | Trading of ceramic tiles and building materials and provision of maintenance and fitting out services |
| Crystal Brilliant Limited(3) | British Virgin Islands | 50,000 shares of US$1 each paid up to US$1 | 100 | – | Investment holding |
| Environmental Pioneers & Solutions Limited | Hong Kong | 1,000 shares paid up to HK$100,000 | 100 | 100 | Trading of environmental products and the provision of related engineering and consultancy services |
| Extensive Trading Company Limited | Hong Kong | 8,500,000 ordinary shares and 1,500,000 non-voting deferred shares paid up to HK$10,100,000 | 100 | 100 | Trading of equipment and materials |

## 35 PRINCIPAL SUBSIDIARIES *(Continued)*

| Company name | Place of incorporation or establishment/ place of operation | Registered/ issued and paid-up capital | Attributable equity interest of the Group As at 30 June 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| EPS Environmental Technologies (Macao) Limited | Macau | MOP25,000 | 100 | 100 | Trading of environmental products and the provision of related engineering and consultancy services |
| Far East Engineering Services Limited | Hong Kong | 766,714 ordinary shares and 233,288 non-voting deferred shares paid up to HK$10,000,020 | 100 | 100 | Mechanical and electrical engineering, trading and project management consultancy |
| Far East Technical Services (Macao) Limited | Macau | MOP25,000 | 100 | 100 | Mechanical and electrical engineering |
| FSE Environmental Laboratory Services Limited(4) | Hong Kong | 10,000 shares paid up to HK$10,000 | 100 | 100 | Provision of testing and calibration services |
| Joneson Environmental Technologies Limited | Hong Kong | 535,000 ordinary shares and 35,000 non-voting deferred shares paid up to HK$570,000 | 100 | 100 | Trading, building maintenance, chemical engineering |
| Kleaners Limited | Hong Kong | 5,000,000 ordinary shares paid up to HK$5,000,000 | 100 | 100 | Laundry services |
| Majestic Engineering Company Limited | Hong Kong | 30,000 shares paid up to HK$30,000,000 | 100 | 100 | Mechanical and electrical engineering |
| Majestic Engineering (Macao) Company Limited | Macau | MOP25,000 | 100 | 100 | Mechanical and electrical engineering |
| Majestic Plumbing Engineers Limited | Hong Kong | 2,000,000 shares paid up to HK$2,000,000 | 100 | 100 | Plumbing engineering services |
| New China Laundry Limited | Hong Kong | 40,000,002 ordinary shares and 704,000 non-voting deferred shares paid up to HK$40,704,002 | 100 | 100 | Laundry services |
| New China Steam Laundry Limited | British Virgin Islands | 100,000 shares of HK$1 each paid up to HK$1 | 100 | 100 | Investment holding |
| Ocean Front Investments Limited | Hong Kong | 1 share paid up to HK$1 | 100 | 100 | Property holding |
| Smart and Safe Fleet Management Limited | Hong Kong | 1 ordinary share paid up to HK$1 | 100 | 100 | Provision of fleet management services in Hong Kong |
| Success Ocean Limited | Hong Kong | 2 ordinary shares paid up to HK$2 | – | 100 | Property investment |

## 35 PRINCIPAL SUBSIDIARIES *(Continued)*

| Company name | Place of incorporation or establishment/ place of operation | Registered/ issued and paid-up capital | Attributable equity interest of the Group As at 30 June 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Tridant Engineering Company Limited | Hong Kong | 34,400,000 ordinary shares and 15,600,000 non-voting deferred shares paid up to HK$50,000,000 | 100 | 100 | Provision of mechanical and electrical engineering services |
| Waihong Cleaning Limited | British Virgin Islands | 100,000 shares of HK$1 each paid up to HK$1 | 100 | 100 | Investment holding |
| Waihong Environmental Services Limited | Hong Kong | 400,000 ordinary shares paid up to HK$40,000,000 | 100 | 100 | Provision and management of cleaning and waste disposal services and provision of recycling and environmental disposal services |
| Waihong Integrated Green Services Limited (formerly known as Waihong Pest Control Services Limited) | Hong Kong | 400,000 ordinary shares paid up to HK$400,000 | 100 | 100 | Provision of pest control services |
| Waihong Medicare Services Limited | Hong Kong | 1 ordinary share paid up to HK$1 | 100 | 100 | Provision of cleaning services in hospitals |
| Yau Fai Building Supplies (Macao) Limited | Macau | MOP25,000 | 100 | 100 | Trading and supply of building materials |
| Young's Engineering Company Limited | Hong Kong | 4,000,000 shares paid up to HK$40,000,000 | 100 | 100 | Mechanical and electrical engineering |
| Young's Engineering (Macao) Company Limited | Macau | MOP100,000 | 100 | 100 | Mechanical and electrical engineering |
| 豐盛機電工程有限公司 (formerly known as 新創機電工程有限公司) | Mainland China[5] | RMB50,000,000 | 100 | 100 | Mechanical and electrical engineering |
| 北京遠東景福機電設備維修有限公司 | Mainland China[5] | US$150,000 | 100 | 100 | Mechanical, electrical engineering and maintenance |
| 景福機電安裝工程(上海)有限公司 | Mainland China[5] | RMB15,000,000 | 100 | 100 | Mechanical and electrical engineering |

Notes:

(1) The Chinese name of FSE Engineering Group Limited was changed from "豐盛創建機電工程集團有限公司" to "豐盛機電工程集團有限公司" on 6 June 2018.

(2) FSE Facility Services Group Limited was incorporated on 21 February 2018.

(3) Crystal Brilliant Limited was incorporated on 1 February 2018.

(4) The Chinese name of FSE Environmental Laboratory Services Limited was changed from "豐盛創建環境化驗服務有限公司" to "豐盛環境化驗服務有限公司" on 11 June 2018.

(5) These subsidiaries are limited liability companies incorporated in Mainland China.

# Five-year Financial Summary

## FSE SERVICES GROUP — CONSOLIDATED[i]

| RESULTS | For the year ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2014 (restated) HK$'000 | 2015 (restated) HK$'000 | 2016 (restated) HK$'000 | 2017 (restated) HK$'000 | **2018 HK$'000** |
| REVENUE | 3,424,206 | 3,819,044 | 4,487,551 | 4,829,618 | **4,926,518** |
| PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | 141,984 | 198,543 | 214,202 | 225,396 | **236,784** |

| ASSETS, LIABILITIES AND EQUITY | As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2014 (restated) HK$'000 | 2015 (restated) HK$'000 | 2016 (restated) HK$'000 | 2017 (restated) HK$'000 | **2018 HK$'000** |
| TOTAL ASSETS | 2,342,643 | 2,016,721 | 3,130,639 | 3,016,287 | **2,567,760** |
| TOTAL LIABILITIES | (1,655,653) | (1,444,408) | (2,151,188) | (1,945,569) | **(1,930,410)** |
| TOTAL EQUITY | 686,990 | 572,313 | 979,451 | 1,070,718 | **637,350** |

| FINANCIAL INFORMATION PER SHARE | For the year ended 30 June/As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2014 (restated) | 2015 (restated) | 2016 (restated) | 2017 (restated) | **2018** |
| EARNINGS (HK$) | 0.44 | 0.66 | 0.56 | 0.50 | **0.53** |
| NET TANGIBLE ASSETS (HK$) | 2.11 | 1.73 | 2.06 | 2.26 | **1.30** |

| KEY RATIO | For the year ended 30 June/As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2014 (restated) | 2015 (restated) | 2016 (restated) | 2017 (restated) | **2018** |
| RETURN ON ASSETS | 6.1% | 9.8% | 6.8% | 7.5% | **9.2%** |
| RETURN ON EQUITY | 20.7% | 34.7% | 21.9% | 21.1% | **37.2%** |
| CURRENT RATIO (times) | 1.3 | 1.3 | 1.4 | 1.3 | **1.1** |
| GEARING RATIO | 0% | 0% | 0% | 0% | **0%** |

Note (i): Consolidated figures after intra-group eliminations. For presentation purpose, the financial information for 2014 to 2017 were restated for the Group's application of merger accounting for its acquisition of the Acquired Group completed on 11 April 2018 which have been accounted for as a business combination under common control. Details of the acquisition and the effect for Group's financial information for 2017 are set out in Note 2.1(iii) to the consolidated financial statements.

# Five-year Financial Summary

## E&M ENGINEERING AND ENVIRONMENTAL MANAGEMENT SERVICES SEGMENTS

| RESULTS | For the year ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | **2018**<br>**HK$'000** |
| REVENUE | 2,555,017 | 2,825,107 | 3,471,907 | 3,700,133 | **3,757,158** |
| PROFIT FOR THE YEAR | 131,200 | 151,368 | 163,211 | 173,796 | **179,549** |

| ASSETS, LIABILITIES AND EQUITY | As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | **2018**<br>**HK$'000** |
| TOTAL ASSETS | 1,931,239 | 1,560,266 | 2,660,420 | 2,524,381 | **2,261,390** |
| TOTAL LIABILITIES | (1,391,693) | (1,141,072) | (1,837,579) | (1,611,873) | **(1,750,973)** |
| TOTAL EQUITY | 539,546 | 419,194 | 822,841 | 912,508 | **510,417** |

| KEY RATIO | For the year ended 30 June/As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| RETURN ON ASSETS | 6.8% | 9.7% | 6.1% | 6.9% | **7.9%** |
| RETURN ON EQUITY | 24.3% | 36.1% | 19.8% | 19.0% | **35.2%** |
| CURRENT RATIO (times) | 1.3 | 1.3 | 1.4 | 1.3 | **1.0** |
| GEARING RATIO | 0% | 0% | 0% | 0% | **0%** |

## FACILITY SERVICES SEGMENT

| RESULTS | For the year ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | **2018**<br>**HK$'000** |
| REVENUE | 869,995 | 993,963 | 1,016,543 | 1,130,443 | **1,170,985** |
| PROFIT FOR THE YEAR | 10,784 | 47,175 | 50,991 | 51,600 | **57,235** |

| ASSETS, LIABILITIES AND EQUITY | As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | **2018**<br>**HK$'000** |
| TOTAL ASSETS | 411,681 | 456,647 | 470,312 | 492,153 | **421,518** |
| TOTAL LIABILITIES | (264,237) | (303,528) | (313,702) | (333,943) | **(294,585)** |
| TOTAL EQUITY | 147,444 | 153,119 | 156,610 | 158,210 | **126,933** |

| KEY RATIO | For the year ended 30 June/As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| RETURN ON ASSETS | 2.6% | 10.3% | 10.8% | 10.5% | **21.5%** |
| RETURN ON EQUITY | 7.3% | 30.8% | 32.6% | 32.6% | **45.1%** |
| CURRENT RATIO (times) | 1.3 | 1.2 | 1.3 | 1.2 | **1.3** |
| GEARING RATIO | 0% | 5.4% | 10.2% | 0% | **0%** |

# Corporate Information

## BOARD OF DIRECTORS

### Non-executive Directors

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

### Executive Directors

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

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

Mr. Kwong Che Keung, Gordon *(Chairman)*
Mr. Hui Chiu Chung, Stephen *JP*
Mr. Lee Kwan Hung
Dr. Tong Yuk Lun, Paul

## REMUNERATION COMMITTEE

Mr. Hui Chiu Chung, Stephen *JP (Chairman)*
Mr. Lee Kwan Hung
Dr. Tong Yuk Lun, Paul
Mr. Lam Wai Hon, Patrick
Mr. Poon Lock Kee, Rocky

## NOMINATION COMMITTEE

Mr. Lee Kwan Hung *(Chairman)*
Mr. Hui Chiu Chung, Stephen *JP*
Dr. Tong Yuk Lun, Paul
Mr. Poon Lock Kee, Rocky
Mr. Doo William Junior Guilherme *JP*

## JOINT COMPANY SECRETARIES

Mr. Lee Kwok Bong
Mr. Chan Ju Wai

## AUDITOR

PricewaterhouseCoopers
22/F Prince's Building
Central
Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
Crédit Agricole Corporate and Investment Bank
Hong Kong Branch
Fubon Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
JPMorgan Chase Bank NA, Singapore
Nanyang Commercial Bank, Limited
Standard Chartered Bank (Hong Kong) Limited
Sumitomo Mitsui Banking Corporation

## REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 801 – 810
8th Floor, Chevalier Commercial Centre
8 Wang Hoi Road, Kowloon Bay
Kowloon, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

## STOCK CODE

331

## INVESTOR RELATIONS

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