

# Management Discussion and Analysis

## Business Review

In FY2022, the Group recorded revenue amounting to HK\$6,966.9 million, representing an increase of HK\$514.2 million or 8.0%, as compared with HK\$6,452.7 million in FY2021. Profit attributable to shareholders for the year was HK\$502.9 million, representing a decrease of HK\$84.0 million or 14.3% as compared with HK\$586.9 million in FY2021, mainly resulted from a decrease in government grants, partly mitigated by the effects of (i) new contracts awarded for the Facility/Property Management segment and City Essential segment (primarily cleaning and insurance businesses); (ii) higher gross profits from the E&M services segment's installation projects and (iii) losses related to laundry business disposal in December 2020 and one-off professional fees for acquisition which did not recur this year. Details of the government grants recognised by the Group are set out in Notes 6 and 8 to the consolidated financial statements and summarised in the table below.

## Summary of government grants

For the year ended 30 June	2022 HK\$'M	2021 HK\$'M
Recognised as deduction of staff costs included in "Cost of services and sales"	43.9	308.4
Recognised as deduction of staff costs included in "General and administrative expenses"	7.3	33.0
Recognised as "Other income"	37.0	0.4
Gross	88.2	341.8
Tax effects thereon	–	(1.8)
Net of tax	88.2	340.0

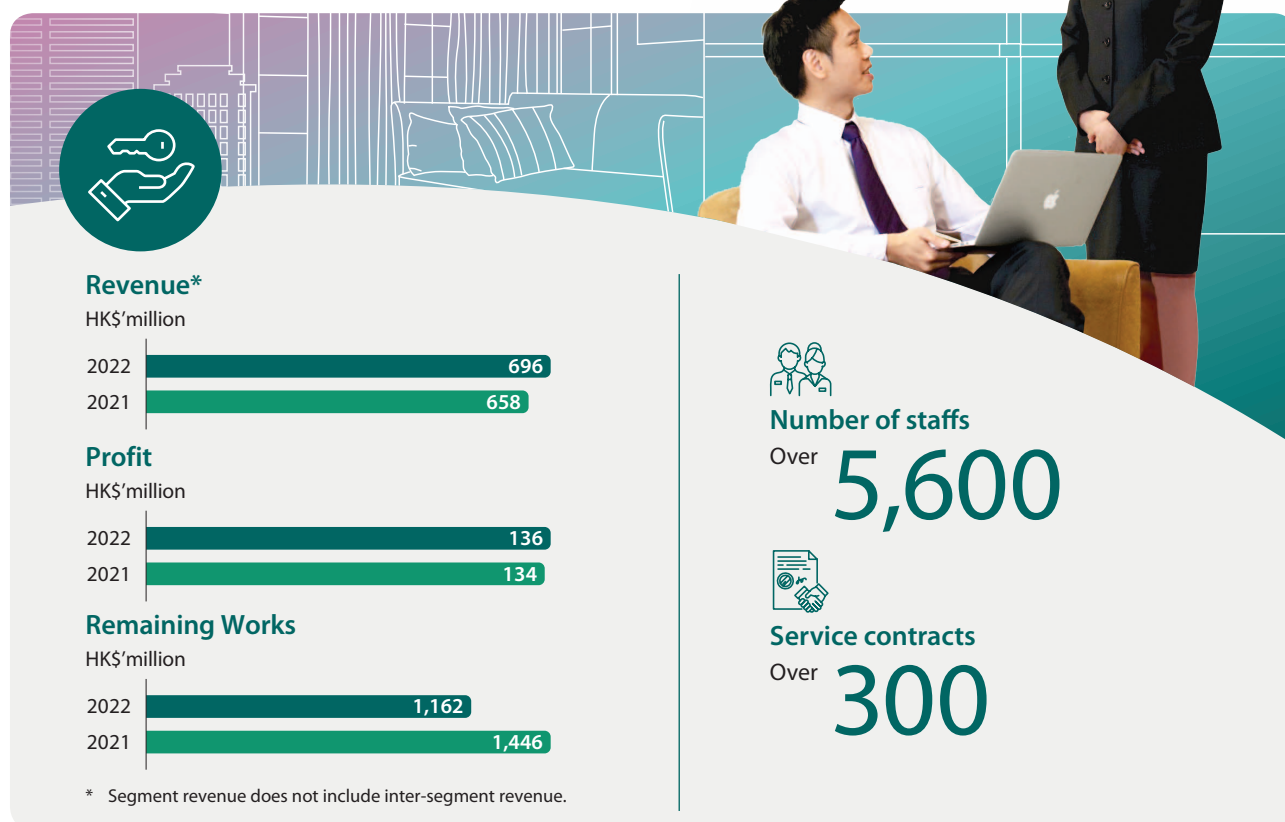
## Results excluding non-recurring items

If excluding the effects of government grants in the Group's results for both years and item (iii) mentioned above in the Group's prior year results to better illustrate the Group's financial results without the effects of such non-recurring items, the Group recorded an increase in adjusted net profit for the Year of 35.2% to HK\$414.7 million (i.e. after excluding government grants of HK\$88.2 million from profit attributable to shareholders of the Company of HK\$502.9 million for the Year) as compared to its adjusted net profit of HK\$306.8 million for last year (i.e. after excluding (a) government grants of HK\$340.0 million, (b) losses related to laundry business of HK\$45.8 million and (c) one-off professional fees for acquisition of HK\$14.1 million from profit attributable to shareholders of the Company of HK\$586.9 million for the year ended 30 June 2021). Such analysis, which involves the exclusion of non-recurring items mentioned above, may not be comparable to similar analysis presented by other companies.



*FSE Lifestyle is a pioneer in applying advanced technology and innovative thinking into its property and facility management services, together with our passionate management professionals to provide a harmonious and comfortable living environment to our clients*

# Property & Facility Management Services



The Group's property and facility management services business, comprising Urban, International Property Management Limited and Kiu Lok (together, the "Property & Facility Management Group"), is serving one of the largest property and facility asset portfolios in Hong Kong, which provides the most comprehensive and customised professional management services for its clients, with International Property Management Limited providing property management services primarily for small to medium sized residential and commercial properties, including commercial buildings in the central business districts.

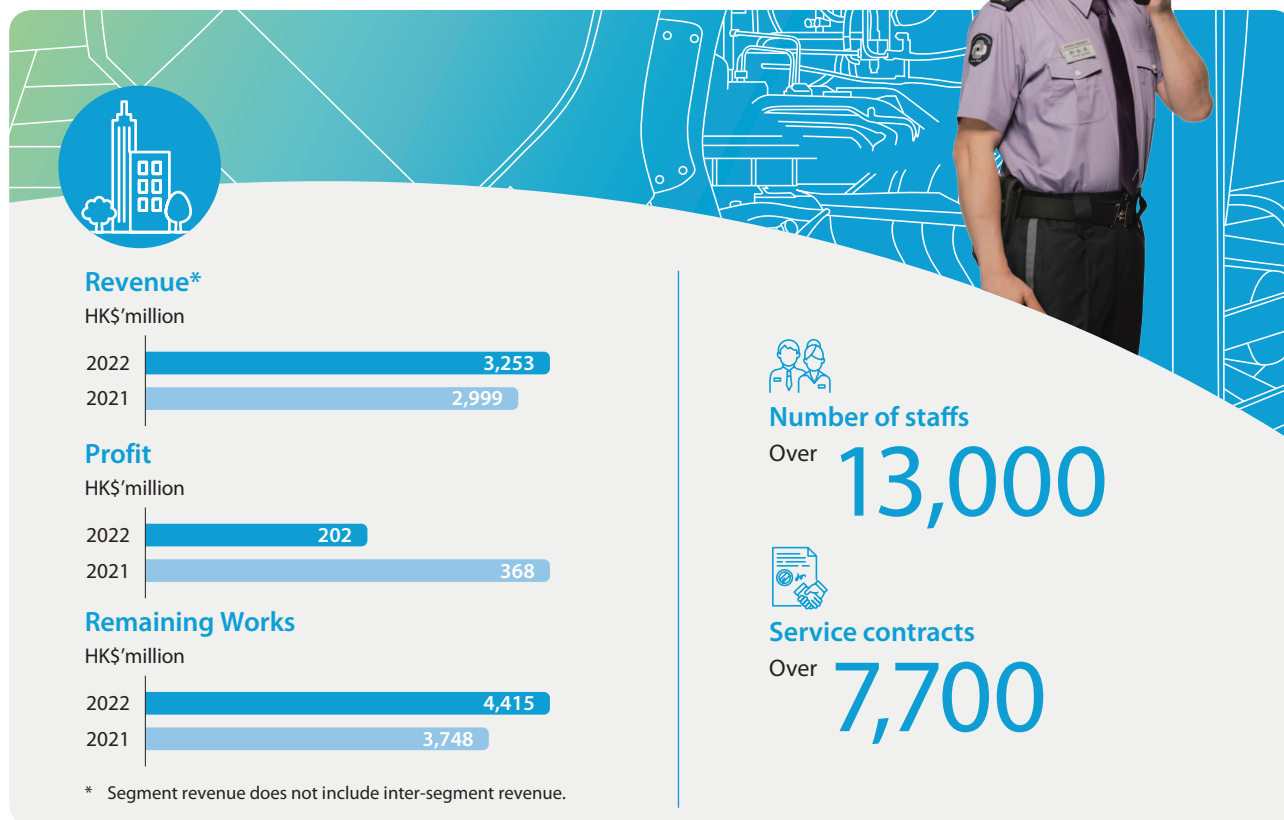
Our Property & Facility Management Group has expertise in six core property and facility management areas: (i) residential property asset management; (ii) facilities management and operations, including both public and private sectors; (iii) commercial, retail and industrial premises operations; (iv) project management; (v) leasing and tenancy management and (vi) car park operations and management. Its property asset and facility services cover all kinds of property and facility assets including luxurious residence, high end residential properties, government facilities, offices and quarters, academic campus and educational institutes, service apartments, Grade A intelligent buildings and commercial complexes, modern industrial premises, composite residential developments to regional car parks and various kinds of public and private facility assets.

Our Property & Facility Management Group's unique market differentiation lies in their integration of services, strong pool of professional talents and partnership approach with our clients. In addition, innovation keeps our Property & Facility Management Group at the forefront of the industry. It is a pioneer in the introduction of modern international standards and innovative service models in property and facility management in Hong Kong.

During FY2022, our Property & Facility Management Group submitted tenders for 35 service contracts (with a contract sum not less than HK\$1 million for each service contract) with a total tender sum of HK\$1,186 million and, combining the submitted tenders from previous months, was awarded 29 service contracts (with a net contract sum not less than HK\$1 million for each service contract) with a total contract sum of HK\$133 million. Among these 29 service contracts, two of them were major service contracts (with net contract sum not less than HK\$20 million) for residential estates in Shatin and Wong Chuk Hang.

As at 30 June 2022, the property & facility management services segment has a total gross value of contract sum of HK\$2,074 million with total outstanding contract sum of HK\$1,162 million.

## City Essential Services



### Cleaning Services

The Group's cleaning services business, Waihong, covers four core areas: (i) specialist cleaning; (ii) disinfection; (iii) pest control and (iv) waste management. Waihong's services encompass a wide range of private and public facilities in every corner of Hong Kong, which includes office towers, shopping malls, hotels, university campus, international schools, tourism facilities, government properties, public utilities, convention and exhibition centers, railway stations, airport terminal building, hospitals, industrial buildings and residential properties. Specialist cleaning mainly covers the services for general cleaning, initial cleaning, curtain wall cleaning, housekeeping, marble and granite floor maintenance. Disinfection services include space disinfection treatment, support for clinics, formaldehyde removal and antibacterial coating services. Pest control services provide general insecticide treatment, fogging treatment, rodent control and termite elimination. Waste management

offers recycling services, food waste collection, solid waste collection, clinical waste and construction waste disposal.

With successive waves of COVID-19 pandemic during the past year, the demands for cleaning services in Hong Kong have been full of challenges and opportunities. Despite the challenges Waihong faced, it has turned crisis into business opportunities and widened its services in different market segments. On the one hand, Waihong has successfully secured new service contracts and attained a higher contract renewal rate for the existing contracts during FY2022. On the other hand, the rapid spread of COVID-19 Omicron variant resulted in a sharp increase in demand for ad-hoc disinfection services. Waihong conducted many urgent disinfection services from January 2022 to March 2022. Waihong management has adopted flexible business strategies to deal with the difficulties and challenges in the rapid changing market for broadening its service portfolio in both private and public sectors to sustain its business growth.



Waihong's unique market differentiation lies in its integration of services, enormous working teams comprise of 7,500 skillful staff, a strong fleet management with over 60 municipal vehicles and full support towards customers. High degree of service commitments keeps Waihong ranked among the top three players in the cleaning service industry in Hong Kong. It is a market leader and competent in providing all its clients with the best quality services at all times.

During FY2022, Waihong submitted tenders for 437 cleaning service contracts (with a contract sum not less than HK\$1 million for each service contract) with a total tender sum of HK\$5,402 million and, combining the submitted tenders from previous months, was awarded 94 new service contracts (with a net contract sum not less than HK\$1 million for each service contract) with a total contract sum of HK\$1,104 million. Among these 94 service contracts, 10 of them were major service contracts (with net contract sum not less than HK\$20 million for each service contract), which included two residential estates in Ma On Shan and Quarry Bay, two banks, a shopping mall in Shatin, a cross-border transport system in West Kowloon and Shek Kong, clubhouses in Happy Valley, an airport ancillary building and a commercial complex in Chep Lap Kok and government clinics in New Territories East District.

### Technical Support & Maintenance Services

The Group's technical support & maintenance services business, comprising Far East Engineering Services Group

and Turning Technical Services Limited, provides services which covers three core areas: (i) system retrofit, including replacement of chiller units, upgrade of electrical supply systems, modification and enhancement of fire services and plumbing and drainage systems; (ii) operation and maintenance, including routine system maintenance and repairing works in heat, ventilation, and air conditioning ("HVAC") systems, testing and commissioning, periodic inspection in electrical and fire services installation works; (iii) renovation works in E&M systems. All these different core services cover mostly in Hong Kong and Macau.

During FY2022, the Group submitted tenders for 430 maintenance service contracts (with a contract sum not less than HK\$1 million for each contract) with a total tender sum of HK\$3,735 million and, combining the submitted tenders from previous months, was awarded 84 projects (with a net contract sum not less than HK\$1 million for each project) with a total net contract sum of HK\$855 million. Among these 84 projects, seven of them were major projects (with net contract sum not less than HK\$20 million), which included chiller replacement for an exhibition centre in Wan Chai, provision of term worker service for an integrated development project in Chek Lap Kok, refurbishment/improvement works for a hotel in Tsim Sha Tsui, a youth association headquarters in Yau Ma Tei and three term contracts for air-conditioning maintenance covering various government venues.



*FSE Lifestyle introduces integrated solutions into its city essential services to maintain high competitive advantages and to offer fully customised services to its clients*

## Management Discussion and Analysis



### Security Guarding & Event Services

The Group's security guarding & event services business comprises General Security and Perfect Event Services Limited ("Perfect Event").

General Security serves a broad range of clients of residential properties (including estates, service apartments and luxury detached houses), office towers, shopping malls and buildings, private clubs, construction sites, entertaining facilities, event and exhibition venues. General Security holds all three types of licences for operating a security company in Hong Kong which cover its three core areas: (i) Type I Licence for provision of security guarding services; (ii) Type II Licence for providing armoured transportation services and (iii) Type III Licence for installation, maintenance and/or repairing of a security device and/or designing a security system incorporating a security device. In addition, General Security operates a 24-hours Central Alarm Monitoring Station, an additional Central Alarm Monitoring Station ("CAMS") license endorsement and is providing monitoring services to top jewelry stores and prestigious luxury detached housing.

Perfect Event has steadily gained a foothold in its two core businesses in (i) providing its customers service ambassadors to a variety of events such as exhibitions, concerts, pop music award ceremonies as well as high end private club festive events and (ii) providing its customers technological support enhancements for events. Although Perfect Event

is young it has a very solid foundation from General Security in management and back-office support, vast operations experiences, as well as a list of potential clients who are already well familiar with the reputation and quality of General Security.

During FY2022, General Security and Perfect Event submitted tenders for 80 security guarding and event services contracts (with a contract sum not less than HK\$1 million for each contract) with a total tender sum of HK\$1,568 million and, combining the submitted tenders from previous months, was awarded 32 service contracts (with a net contract sum not less than HK\$1 million for each project) with a total contract sum of HK\$599 million. Among these 32 service contracts, five of them were major service contracts (with net contract sum not less than HK\$20 million for each service contract) including two residential estates in Shatin and Yuen Long, a commercial entertainment complex in the vicinity of the airport area, clubhouses and entertaining facilities.

### Insurance Solutions

The Group's insurance solutions business, Nova, comprising Nova Insurance Consultants Limited and International Reinsurance Management Limited, which both holds an Insurance Broker Company License granted by the Insurance Authority. Nova Insurance Consultants Limited is also a registered Mandatory Provident Fund ("MPF") Intermediary under the Mandatory Provident Fund Schemes Authority.

Nova offers five core risk and insurance services: (i) insurance advisory and brokerage services; (ii) risk management services; (iii) global and regional insurance management services; (iv) reinsurance broking and (v) MPF intermediary services.

As one of the top five general insurance brokers, out of over 810 brokers in Hong Kong, Nova's unique market differentiation lies in its highly professional team of brokers and specialists, strong expertise in various classes of insurance, customised services, strong bargaining power in the insurance market and its serving network in both the Greater Bay Area and in the world through its affiliated company in China and global broker partners. Nova serves many clients who are leaders within their respective industries.

During FY2022, Nova has secured placement for a number of sizeable construction projects. Nova also managed to get some new accounts including residential developments, new hotels, listed companies, non-governmental organisations and other commercial enterprises. In addition, it has handled more trade credit insurance business and concluded some new businesses on cyber insurance. The vast majority of Nova's business is from annual renewable insurance policies. Each year Nova has to submit renewal quotations for all these policies to its clients and will only be awarded the renewal contracts when its terms and conditions are competitive. Nova's retention ratio has always been over 90% reflecting its competitiveness and high level of services.

During FY2022, Nova submitted tenders for 16 service contracts (with a contract sum not less than HK\$1 million for each service contract) with a total tender sum of HK\$31 million and all of them were awarded.

## Environmental Solutions

The Group's environmental solutions business, comprising FSE Environmental Technologies Group Limited, Hong Kong Island Landscape Company Limited and Extensive Trading Company Limited, provides air, water, landscape, and integrated management solutions to its clients in order to achieve environmental protection, energy conservation, sustainability and the long-term goals of carbon neutrality to fight against climate change.

This business has expertise in six core areas: (i) comprehensive HVAC water treatment services, (ii) environmental assessment in air and water quality, (iii) environmental management solutions like deodorisation system and electro-chlorination system to assist its customers in achieving their environmental protection and energy conservation objectives, (iv) landscape management and maintenance services to a diversified business portfolio, (v) Extra Low Voltage ("ELV") infrastructure and advanced technologies to enhance building sustainability and environmental quality with smart facility management solutions to property developers and (vi) trading of retail sales of wall and floor tiles, building controls equipment and other building materials.

Its HVAC water treatment service is well-known for the professionalism in the industry with over 40 years of history and it has a water treatment company which is under the list of approved specialist contractors for public works in fountain installation. As innovation is at the heart of this business, it has a patented application of using nanobubble ozonation to sterilize fresh water at cooling tower, swimming pool, public toilet, and water features.

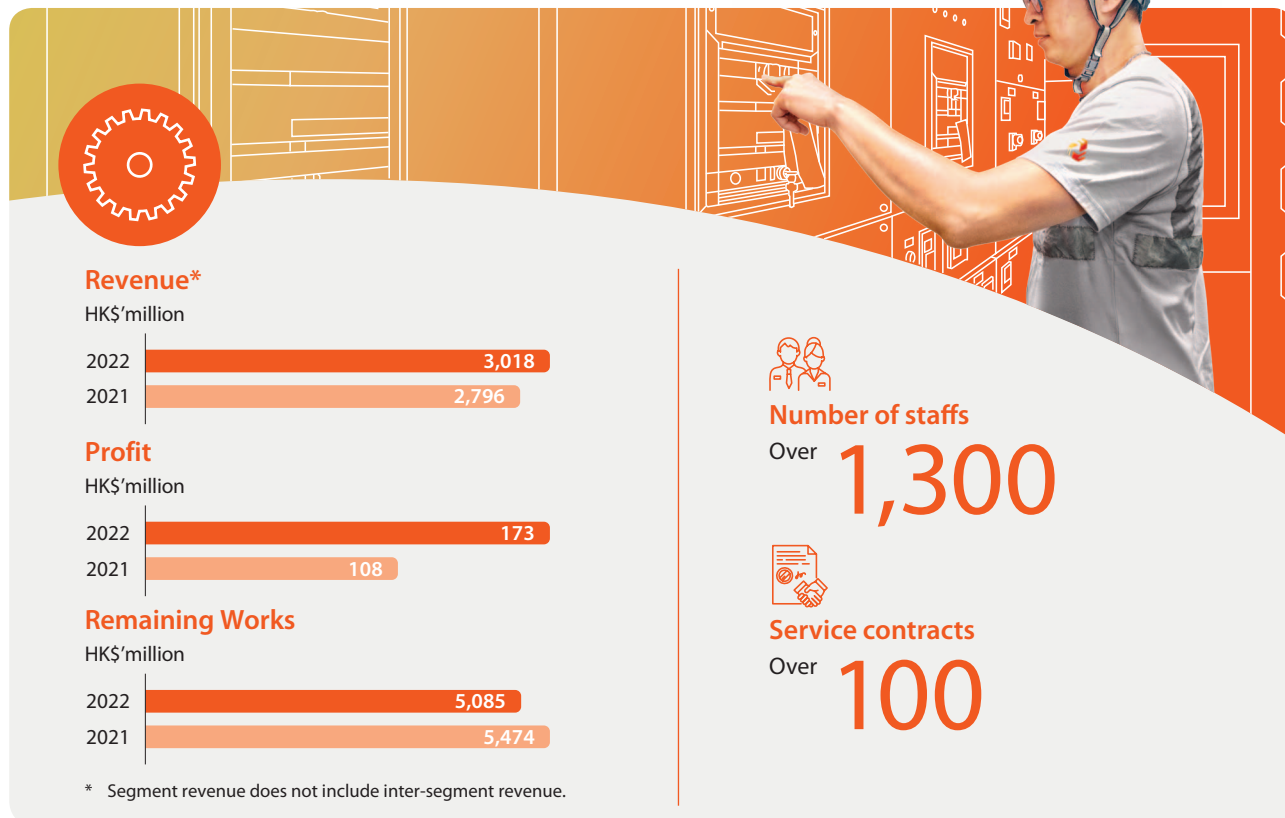
Its laboratory is accredited by Hong Kong Laboratory Accreditation Scheme ("HOKLAS") which is able to test a wide range of chemical and microbial parameters. For air quality related business, it is one of the eight accredited indoor air quality certificate issuing bodies in Hong Kong.

Its landscape business offers a wide range of one-stop green solutions to its clients. It provides landscape design and performs landscape projects and various tree works. It also supplies festival plants to its clients.

During FY2022, the Group submitted tenders for 54 environmental and landscape service contracts (with a contract sum not less than HK\$1 million for each contract) with a total tender sum of HK\$219 million and, combining the submitted tenders from previous months, was awarded 15 environmental and landscape service contracts (with a net contract sum not less than HK\$1 million for each contract) with a total contract sum of HK\$56 million and 7 ELV service contracts with a total contract sum of HK\$105 million (with a net contract sum not less than HK\$1 million for each contract). In addition, the Group submitted 32 quotations for building material trading (with a quotation sum not less than HK\$1 million for each quotation) with a total quotation sum of HK\$87 million and, combining the submitted quotations from previous months, was accepted 6 orders (with a sum not less than HK\$1 million for each order) with a total sum of HK\$20 million.

As at 30 June 2022, the city essential services segment has a total gross value of contract sum of HK\$7,643 million with a total outstanding contract sum of HK\$4,415 million.

## E&M Services



The Group's E&M services business, comprising Young's Engineering Group, Majestic Engineering Group and FSE Engineering Group, serving Hong Kong, Mainland China and Macau, has maintained its position as one of the leading E&M companies in Hong Kong, capable of providing quality professional management and a comprehensive range of E&M services to its clients, ranging from design, installation and testing and commissioning services. The Group's E&M projects encompassed a wide range of buildings and facilities, including government buildings and facilities, offices, shopping malls, hotels, integrated resorts, sports park, residential properties, hospital and airport facilities.

The Group's E&M services business' unique market differentiation lies in its integration of all E&M services, a strong pool of professional talents, a well-established network of suppliers and subcontractors, and a team-based partnership approach towards its clients. Innovation by using advanced technology keeps it at the forefront of the E&M industry. It is also recognised as one of the industry pioneers in adoption of green building design, Modular Integrated Construction ("MiC"), Multi-trade Integrated Mechanical, Electrical and Plumbing ("MiMEP"), Design for Manufacture and Assembly ("DfMA") in its projects. With such competitive edges over its competitors, the Group has strong confidence in securing and undertaking integrated E&M projects in Hong Kong, Mainland China and Macau.



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.

During FY2022, the Group's E&M services division submitted tenders for 168 E&M engineering projects (with a contract sum not less than HK\$1 million for each project) with a total tender sum of HK\$21,413 million and, combining the submitted tenders from previous months, was awarded 42 contracts (with a net contract sum not less than HK\$1 million for each

project) with a total net contract sum of HK\$2,335 million. Among these contracts, nine of them were major projects (with net contract sum not less than HK\$100 million for each project), which included, in Hong Kong four residential developments in Ho Man Tin Station, LOHAS Park and Kai Tak, two subsidised housing developments in Anderson Road and Pak Wo Road, a public housing development at Yip Wong Road and AIA Campus Redevelopment and, in Mainland China a commercial complex development in Tianjin.

As at 30 June 2022, the E&M services segment has a total gross value of contract sum of HK\$9,009 million with a total outstanding contract sum of HK\$5,085 million.



*FSE Lifestyle's E&M team is dedicated to serve its clients with professionalism and passion, providing a safe and comfortable living environment for the people of Hong Kong*



## Management Discussion and Analysis



## Financial Review

### Revenue

In FY2022, the Group's revenue increased by HK\$514.2 million or 8.0% to HK\$6,966.9 million from HK\$6,452.7 million in FY2021, reflecting higher revenue from the city essential services segment, E&M services segment and property & facility management services segment amounting to HK\$254.0 million, HK\$222.1 million and HK\$38.1 million respectively.

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

	For the year ended 30 June			
	2022	% of total revenue	2021 (restated)	% of total revenue
	HK\$'M		HK\$'M	
Property & facility management services*	696.3	10.0%	658.2	10.2%
City essential services*	3,252.6	46.7%	2,998.6	46.5%
E&M services*	3,018.0	43.3%	2,795.9	43.3%
Total	6,966.9	100.0%	6,452.7	100.0%

\* Segment revenue does not include inter-segment revenue.

	For the year ended 30 June			
	2022	% of total revenue	2021	% of total revenue
	HK\$'M		HK\$'M	
Hong Kong	6,123.3	87.9%	5,780.7	89.6%
Mainland China	565.8	8.1%	436.3	6.8%
Macau	277.8	4.0%	235.7	3.6%
Total	6,966.9	100.0%	6,452.7	100.0%

- *Property & facility management services:* This segment, which principally provides services in Hong Kong, contributed 10.0% (2021: 10.2%) of the Group's total revenue.

Segment revenue grew by 5.8% or HK\$38.1 million to HK\$696.3 million from HK\$658.2 million. Such growth was mainly driven by (i) newly awarded property management contracts for car parks of shopping malls, (ii) additional works for staff quarters of a university and (iii) increased commission income from property sales and leasing partly offset by a reduction in revenue from pandemic-induced additional works for government buildings. It should be noted that, under contract terms, about 20% of the property & facility management services segment's revenue represents management fees only. Should such revenue be recognised on the same basis as the rest of this segment's revenue derived from its lump sum contracts (i.e. with all direct operational costs for performing the related services borne by it) which are primarily facility management contracts, the property & facility management services segment's revenue for FY2022 would be increased from its reported amount of HK\$696.3 million (2021: HK\$658.2 million) to about HK\$3,500.0 million (2021: HK\$3,500.0 million).

- *City essential services:* This segment contributed 46.7% (2021: 46.5% (restated)) of the Group's total revenue. Segment revenue of HK\$3,252.6 million (2021: HK\$2,998.6 million (restated)) are set out in the below table.

	For the year ended 30 June		Change HK\$'M	% Change
	2022	2021 (restated)		
	HK\$'M	HK\$'M		
Cleaning services	1,409.3	1,262.6	146.7	11.6%
Technical support & maintenance services	834.0	783.6	50.4	6.4%
Security guarding & event services	636.4	660.1	(23.7)	(3.6%)
Insurance solutions	99.6	85.9	13.7	15.9%
Environmental solutions	273.3	177.3	96.0	54.1%
Laundry services	–	29.1	(29.1)	(100.0%)
Total	3,252.6	2,998.6	254.0	8.5%

Such revenue reflected an increase in revenue contribution from Hong Kong amounting to HK\$303.7 million, partly mitigated by a decrease in revenue contributions from Macau and Mainland China of HK\$43.7 million and HK\$6.0 million respectively.

Segment revenue grew by 8.5% or HK\$254.0 million to HK\$3,252.6 million from HK\$2,998.6 million (restated) reflected (i) a number of new general cleaning service contracts, which encompassed a wide range of buildings and facilities, including university campus, shopping malls, hospital, government buildings and residential and commercial properties, and additional ad-hoc intensive disinfection cleaning contracts; (ii) higher revenue from its environmental solutions business, especially in respect of its provision of ELV device installation services, largely contributed by 11 SKIES project in Chak Lap Kok; (iii) higher revenue from its technical support and maintenance services in Hong Kong contributed from the refurbishment works for a hotel in Tsim Sha Tsui and the maintenance works for 2 residential properties in Shatin and Sai Wan Ho and (iv) an increase in new insurance contracts for construction projects awarded, partly offset by (i) the absence of revenue from the laundry business following the Group's disposal of it in December 2020 and (ii) a lower revenue contribution from its technical support and maintenance services in Macau following the substantial completion of St. Regis Service Apartment in Macau last year.

- *E&M services:* This segment contributed 43.3% (2021: 43.3% (restated)) of the Group's total revenue. Segment revenue increased by 7.9% or HK\$222.1 million to HK\$3,018.0 million from HK\$2,795.9 million (restated) and reflected an increase in revenue contribution from Mainland China, Macau and Hong Kong by HK\$122.9 million, HK\$85.8 million and HK\$13.4 million respectively.

The increased revenue contribution from Mainland China and Macau reflected a number of E&M engineering installation projects, including Qianhai Chow Tai Fook Finance Tower and Guangzhou New World Zengcheng Comprehensive Development project in Mainland China and Studio City Phase 2 in Macau, which had substantial progress this year. The revenue from Hong Kong region in the Year remained stable at HK\$2,299.0 million compared to HK\$2,285.6 million last year and contributed 76.2% of this segment's revenue. It should be noted that, under contract terms, only the management fees and reimbursable costs were reflected in the revenue of the Kai Tak Sports Park project.

# Management Discussion and Analysis

## Gross profit

The following tables present the breakdowns of the Group's gross profit by business segment:

For the year ended 30 June 2022			
	Gross profit HK\$'M	% of total gross profit	Gross profit Margin %
Property & facility management services	219.4	22.1%	31.5%
City essential services	434.4	43.8%	13.4%
E&M services	338.7	34.1%	11.2%
Total	992.5	100.0%	14.2%

For the year ended 30 June 2021 (restated)			
	Gross profit HK\$'M	% of total gross profit	Gross profit Margin %
Property & facility management services	242.9	21.4%	36.9%
City essential services	627.7	55.3%	20.9%
E&M services	264.5	23.3%	9.5%
Total	1,135.1	100.0%	17.6%

In FY2022, the Group's property & facility management services segment, city essential services segment and E&M services segment contributed 22.1% (2021: 21.4%), 43.8% (2021: 55.3% (restated)) and 34.1% (2021: 23.3% (restated)) of its gross profit respectively. The Group's gross profit decreased

by HK\$142.6 million or 12.6% to HK\$992.5 million from HK\$1,135.1 million in FY2021, with an overall gross profit margin decreased to 14.2% from 17.6%, mainly reflecting a decrease in COVID-19 related government grants.

For the year ended 30 June				
	2022 HK\$'M	Gross profit margin %	2021 HK\$'M	Gross profit margin %
Gross profit as reported	992.5	14.2%	1,135.1	17.6%
Excluding government grants	(43.9)	(0.6%)	(308.4)	(4.8%)
Gross profit excluding government grants	948.6	13.6%	826.7	12.8%

If excluding the effects of these grants in the Group's gross profit for both years (i.e. HK\$43.9 million for the Year and HK\$308.4 million in last year) to better illustrate the Group's performance without such effects, its adjusted gross profit margin increased to 13.6% from 12.8% last year, mainly caused by an improvement in the gross profit margin of the E&M services segment.

The property & facility management services segment recorded a decrease in its gross profit of HK\$23.5 million to HK\$219.4 million from HK\$242.9 million, with its gross profit margin decreased to 31.5% from 36.9%, reflected a decrease in COVID-19 related government grants.



The city essential services segment recorded a decrease in its gross profit of HK\$193.3 million to HK\$434.4 million from HK\$627.7 million (restated), with its gross profit margin decreased to 13.4% from 20.9% (restated), reflected (i) a decrease in COVID-19 related government grants; (ii) a reduction in gross profit contribution from its security guarding & event services resulted from a lower demand in event services affected by the fifth wave of COVID-19 and (iii) a lower gross profit contribution from its technical support and maintenance services following the completion of Venetian contracts in Macau last year, partly mitigated by the effects of an increase in new cleaning and insurance service contracts as well as epidemic-induced ad hoc intensive cleaning and disinfection works and the losses related to laundry business disposed in December 2020 which did not recur this year.

The gross profit of the E&M services segment increased by HK\$74.2 million to HK\$338.7 million from HK\$264.5 million (restated) with its gross profit margin increased to 11.2% from 9.5% (restated), principally reflected a higher gross profit margin contributed by its Inland Revenue Tower project in Kai Tak, partly offset by a decrease in COVID-19 related government grants.

### General and administrative expenses

General and administrative expenses of the Group for the Year decreased by HK\$13.8 million or 3.0% to HK\$444.3 million from HK\$458.1 million last year, reflected a successful cost saving campaign including the reduction in staff costs, rental expenses and depreciation of properties and leasehold improvements and the one-off professional fees for acquisition which did not recur this year, partly offset by a decrease in COVID-19 related government grants. If excluding the effects of government grants in the Group's general and administrative expenses for both years (i.e. HK\$7.3 million for the Year and HK\$33.0 million last year) to better compare their amounts without such effects, its adjusted general and administrative expenses decreased 8.0% to HK\$451.6 million compared to HK\$491.1 million last year.

### Other income/(expenses), net

Other net income of HK\$42.3 million was recorded by the Group during FY2022 compared to other net expenses of HK\$28.6 million recorded in FY2021.

The other net income recorded during the Year mainly represented the receipt of COVID-19 related government grants, administration fee income for property management companies under Anti-epidemic Support Scheme and gratia payments from the government for retirement of motor vehicles. The net expenses recorded last year mainly represented the Group's losses related to disposal of its laundry business of HK\$26.2 million.

### Finance income

In FY2022, the Group recorded finance income of HK\$1.5 million (2021: HK\$2.3 million). The decrease mainly reflected lower average market interest rates and principal sum of the Group's bank deposits placed during the Year.

### Finance costs

The Group's finance costs of HK\$5.4 million (2021: HK\$5.4 million) for FY2022 included interest expenses of (i) HK\$2.6 million (2021: HK\$3.5 million) for the Group's bank loan financing its acquisition of property & facility management services business in December 2019, (ii) HK\$1.4 million (2021: HK\$1.5 million) for lease liabilities and (iii) HK\$1.4 million (2021: HK\$0.4 million) for other bank borrowings.

### Income tax expenses

The effective tax rate of the Group increased by 5.3% to 14.5% (2021: 9.2%), mainly attributable to a reduction in the non-taxable COVID-19 related government grants.

# Management Discussion and Analysis

## Profit for the year attributable to shareholders of the Company

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

	For the year ended 30 June			
	2022 HK\$'M	2021 (restated) HK\$'M	Change HK\$'M	% Change
Property & facility management services	136.3	134.1	2.2	1.6%
City essential services	201.5	368.1	(166.6)	(45.3%)
E&M services	173.4	108.3	65.1	60.1%
Unallocated corporate expenses and finance costs*	(8.3)	(23.6)	15.3	(64.8%)
Total	502.9	586.9	(84.0)	(14.3%)

\* Unallocated corporate expenses and finance costs comprise the Company's corporate expenses of HK\$5.7 million (2021: HK\$20.1 million) and interest expenses of HK\$2.6 million (2021: HK\$3.5 million). The corporate expenses in last year included legal and professional fees of HK\$14.1 million incurred for the acquisition of Business Investments Group.

The Group's profit for the Year decreased by 14.3% or HK\$84.0 million to HK\$502.9 million compared to HK\$586.9 million last year. The decrease mainly resulted from the decrease in government grants, partly mitigated by the effects of (i) new contracts awarded for the city essential segment (primarily cleaning and insurance businesses); (ii) higher gross profits from E&M services segment's installation projects and (iii) losses related to laundry business disposed in December 2020 and one-off professional fees for acquisition which did not recur this year. The net profit margin of the Group reduced to 7.2% for the Year from 9.1% for last year.

If excluding the effects of government grants in the Group's result for both years and item (iii) mentioned above in the Group's prior year results to better illustrate the Group's financial results without the effects of such non-recurring items, the Group recorded an increase in adjusted net profit for the Year of 35.2% to HK\$414.7 million (i.e. after excluding government grants of HK\$88.2 million from profit attributable to shareholders of the Company of HK\$502.9 million for the Year) as compared to its adjusted net profit of HK\$306.8 million for last year (i.e. after excluding (a) government grants of HK\$340.0 million, (b) losses related to laundry business of HK\$45.8 million and (c) one-off professional fees

for acquisition of HK\$14.1 million from profit attributable to shareholders of the Company of HK\$586.9 million last year).

## Other comprehensive (loss)/income

The Group recorded other comprehensive income for the Year of HK\$8.0 million (2021: HK\$27.6 million), reflected remeasurement gains on long service payment liabilities of HK\$12.4 million (2021: HK\$8.5 million), partly offset by and remeasurement losses on defined benefit retirement scheme of HK\$2.5 million (2021: gains of HK\$3.7 million) and an unfavourable exchange reserve movement of HK\$1.9 million (2021: favourable exchange movement of HK\$15.4 million) recorded during the Year following a depreciation of the Renminbi ("RMB") for conversion of the Group's net investments in Mainland China.

## 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 2022, the Group had total cash and bank balances of HK\$767.0 million (30 June 2021: HK\$549.9 million), of which 89%, 9% and 2% (30 June 2021: 91%, 7% and 2%) were denominated in Hong Kong dollars, RMB and other currencies

respectively, and total borrowings of HK\$403.5 million (30 June 2021: HK\$383.8 million) denominated in Hong Kong dollars. The Group's net cash balance increased by HK\$197.4 million to HK\$363.5 million as at 30 June 2022 as compared to HK\$166.1 million as at 30 June 2021 mainly reflecting the net cash inflow from operating activities, partly offset by the distribution of the Company's FY2021 final dividend of HK\$72.5 million and FY2022 interim dividend of HK\$94.0 million and the Group's payments for principal portion of lease liabilities of HK\$37.7 million. The Group's net gearing ratio was maintained at zero as at 30 June 2022 (30 June 2021: 0%). This ratio is calculated as net debt divided by total equity. Net debt is calculated as total bank borrowings less cash and cash equivalents.

Adopting a prudent financial management approach in implementing its treasury policies, the Group maintained a healthy liquidity position throughout the reporting period. As at 30 June 2022, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK\$2,731.6 million (30 June 2021: HK\$2,754.3 million). As at 30 June 2022, the Group has no banking facilities guaranteed by FSE Management Company Limited ("FMC", a direct wholly-owned subsidiary of FSE Holdings Limited) (30 June 2021: HK\$100 million was guaranteed by FMC). As at 30 June 2022, HK\$945.6 million (30 June 2021: HK\$821.8 million) of the Group's banking facilities had been utilised for bank borrowings, bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet current business operation and capital expenditure requirements.

### Debt profile and maturity

As at 30 June 2022, the Group's total debts amounted to HK\$403.5 million (30 June 2021: HK\$383.8 million), of which HK\$140.0 million matures in June 2023 and HK\$263.5 million matures in December 2024. The Group has managed its

debt maturity profile to minimise its refinancing risks. All of these debts are denominated in Hong Kong Dollar and bears interest at floating rates.

### Foreign currency exposure

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

As part of the Group's business is carried out in Mainland China, some of its assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in Mainland China operations with net assets of HK\$136.6 million (30 June 2021: HK\$121.2 million) as at 30 June 2022. 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 7.6% (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 2022, if the Hong Kong dollars had strengthened/weakened by another 7.6% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK\$10.4 million lower/higher.



# Management Discussion and Analysis

## Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 30 June 2022, the net proceeds of HK\$264.5 million received from the Company's Initial Public Offering ("IPO") or Global Offering (referred to the prospectus issued by the Company on 26 November 2015) and the revised use of unutilised proceeds of HK\$133.5 million as stated in the Company's announcement dated 26 June 2018 were applied in the manner as shown in the table below:

	Original use of proceeds from Global Offering HK\$'M	Utilised amount as at 26 June 2018 HK\$'M	Revised use of proceeds pursuant to the Company's announcement dated 26 June 2018 HK\$'M	Aggregated utilised amount from 27 June 2018 to 30 June 2021 HK\$'M	Aggregated utilised amount from 1 July 2021 to 30 June 2022 HK\$'M	Unutilised amount as at 30 June 2022 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	16.0	–	–
Enhancement of quality testing laboratory	12.2	4.9	7.3	5.7	1.6	–
Upgrade of corporate information technology system and software	8.0	5.9	2.1	2.1	–	–
General working capital	25.0	25.0	–	–	–	–
<b>Total</b>	<b>264.5</b>	<b>131.0</b>	<b>133.5</b>	<b>131.9</b>	<b>1.6</b>	<b>–</b>

The Group has fully utilised HK\$264.5 million of the net proceeds from Global Offering, of which HK\$1.6 million was utilised during the Year with the actual usage consistent with the usage as intended and previously disclosed by the Company.

## Capital commitments

As at 30 June 2022, the Group had capital commitments of HK\$1.9 million (30 June 2021: HK\$1.7 million) in relation to purchase of plant and equipment.

## Contingent liabilities

In carrying out the ordinary course of business, the Group is subject to the risk of being named as defendant in legal

actions, claims and disputes in connection with its business activities. The nature of the legal proceedings initiated against the Group mainly includes claims for compensation by the Group's existing or former employees for work related injuries. The Group maintains insurance cover and, in the opinion of the Directors, based on current available evidence, any such existing claims and legal proceedings against the Group are not expected to have significant adverse financial impact to the Group as at 30 June 2022.

Other than the above, as at 30 June 2022, the Group did not have any material contingent liabilities (2021: Nil).

### Convertible preference shares

On 16 December 2019, the Group acquired Legend Success Investments Limited ("Legend Success") (together with its subsidiaries, the "Legend Success Group"), which principally engaged in the provision of property and facility management services, at a total consideration of HK\$743.4 million upon which the initial sum of consideration of HK\$704.9 million was satisfied by the Company through (i) the payment of HK\$564.0 million in cash and (ii) a non-cash consideration of HK\$140.9 million through the issuance and allotment by the Company of 43,676,379 non-voting redeemable convertible preference shares of HK\$0.10 each at the issue price of HK\$3.2260 per share. A final cash payment of the consideration of HK\$38.5 million was made on 13 February 2020.

The convertible preference shares are (i) convertible into 43,676,379 ordinary shares of the Company at an initial price of HK\$3.2260 per share (subject to adjustments upon occurrence of certain prescribed events, including consolidation, subdivision or reclassification of shares in the capital of the Company, capitalisation of profits or reserves etc., in each case if not also made available to the holder(s) of the convertible preference shares), provided that any conversion shall not result in the Company failing to comply with any public float requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), within a period of 10 years after their date of issue of 16 December 2019 (the "Issue Date") and (ii) redeemable by the Company at its sole discretion at a redemption price equals to the Issue Price together with all outstanding preferred distributions accrued to the date fixed for redemption at any time after 10 years following the Issue Date. The convertible preference shares are treated as contingently issuable potential ordinary shares under Hong Kong Accounting Standard ("HKAS") 33 "Earnings per Share" and, since the conditions for their conversion were not met as at 30 June 2022, the effect of their conversion is not

included in the calculation of the diluted earnings per share for years ended 30 June 2022 and 2021 pursuant to HKAS 33's requirements as described in Note 6 to the consolidated financial statements. Assuming that all of the outstanding convertible preference shares were converted as at the end of the financial year of 30 June 2022 and assuming their conditions for conversion were met, the Company's earnings per share after taking into account of the dilutive impact of such conversion for the year ended 30 June 2022 would be HK\$1.02 per share, calculated as the Group's profit attributable to shareholders of the Company of HK\$502.9 million divided by the weighted average number of the Company's ordinary shares in issue of 493.7 million (after taking into account the weighted average number of incremental number of ordinary shares that would be issued from the conversion of the convertible preference shares on its Issue Date of 43.7 million). The convertible preference shares confer their holder(s) the right to receive preferred distributions from the Issue Date at a rate of 6.0% per annum on its Issue Price, payable annually in arrears. As (i) the Company may at its sole discretion redeem either in whole or in part the convertible preference shares for the time being outstanding (i.e. it has no obligation to settle them in cash unless it elects at its sole discretion to redeem) and (ii) the convertible preference shares are only convertible within a period of 10 years after the Issue Date but redeemable only after 10 years following the Issue Date, an analysis on the Company's share price at which it would be equally financially advantageous for the convertible preference share holder(s) to convert or redeem the convertible preference shares based on their implied rate of return at a range of dates in the future is not applicable. Based on the financial and liquidity position of the Group (with details set out in the paragraphs headed "Liquidity and financial resources" of this section), to the best knowledge of the Company, the Company expects that it will be able to meet its redemption obligations under the outstanding convertible preference shares issued by it.



## 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. The Board of Directors holds the overall accountability for the Group’s ESG management approach, strategy and performance. The Board’s responsibilities include reviewing the Group’s material ESG topics and approving the ESG related policies and targets. The Board also reviews and signs off the annual ESG Report. To support the Board’s oversight and systematic management of the ESG issues, we have set up a Board-level Sustainability Committee. The members of the Committee are appointed by the Board and composed of three executive directors (one of the executive directors is the Chairman) and two non-executive directors of the Company. The Sustainability Committee meets regularly to review the Group’s sustainable development and provide recommendations on relevant ESG matters to the Board. The recommendations are examined and endorsed by the Board, for various departments to drive ESG performance accordingly.

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 2022.

### 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 has set reduction targets for energy consumption, GHG emissions, water consumption and paper procured, demonstrating strong dedication to reducing its environmental 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 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.

## People development

We believe our employees are the most valuable assets for our success. To assure the quality of our employees at all levels and to secure a stable supply of future leaders, we have set up the Talent Development and Training Committee to plan, organise and oversee a comprehensive training and development programme for our employees.

In 2020 and 2021, the Committee launched 2 custom-made leadership development programmes, namely the Executive Development Programme and Young Executive Training Programme ("YETP") to nurture our leaders at different levels. To date, 136 employees have attended or are attending these 2 programmes. Our goal is to identify and develop talent, with the aim of providing upward mobility within our Group, fostering employee loyalty and incorporating customised mentoring, coaching and training.

Apart from management staff, we also provide different types of training courses to our frontline staff. During the Year, over 28,000 hours of training were provided to our 4,600 technical and operational staff.



*Our people are our important human capitals that are nurtured to grow. The EDP delivered a sustainable leadership pipeline with the competencies needed to collaborate across functional and geographic areas*

## Management Discussion and Analysis



*Nurturing young people is dear to our heart. The participants in the YETP are able to learn essential elements in teamwork and to develop leadership skills through hands-on experience and collaborative training*



*Team building day for our future young leaders*

Our established Training and Education Subsidy Scheme also allows the Group to cultivate a continuous learning culture and effectively explores the potential of our employees which helps foster staff growth and development.

In addition to focusing on employees' training, the Group also extends this learning and caring culture to our employees' children. FSE Children Academic Star Award was launched in 2014 to recognise the academic achievements of our employees' next generation. This award scheme also serves

to develop human asset with different potential that could be beneficial to our society and the Group. The prize set for the award scheme recognising students' outstanding achievements in HKDSE, GCE/GCSE A-Level and International Baccalaureate Diploma examinations as well as talents performing in Music, Sports and Art. A total of 72 children of our employees have been awarded for the outstanding academic achievements and another 4 children have achieved the special awards for their talents. This award scheme displays the alignment of FSE Lifestyle's core values and contributes to establishing a caring employer brand for our Group.



*Academic Star Award builds a caring employer brand for our Group*

### Corporate Social Responsibility ("CSR")

With a deep-rooted spirit of giving back to the society, we have set up the CSR Committee for years to encourage employee participation in social services and practice corporate citizenship. We are dedicated to serving the needy, especially children, the elderly and other disadvantaged groups. Our enthusiastic colleagues served over different groups of beneficiaries, creating a positive impact in our shared community. The Company has garnered many awards related to volunteer services in the past in appreciation of the contribution of its volunteer services to the community.





*FSE Lifestyle management led its staff to participate in its annual social caring event – FSE Caring Day*

Despite the ongoing pandemic, we remained steadfast in our commitment to contribute to the society and provided much needed assistance to the underprivileged during such unprecedented times. Supported by the admirable efforts and dedication of over 800 volunteers and donors, we continued to work alongside our trusted NGO partners to deliver an array of community service projects and served more than 550 beneficiaries this year, contributing a total of over 5,200 service hours. Key initiatives include the donation of essential supplies to facilitate home learning for children during the suspension of face-to-face classes; the recording of selfie videos to express our love and care to the mentally handicapped and rehabilitation groups; and our volunteers' participation in scarf-knitting, paper-cutting as well as production of natural hand creams as gifts for elderly living alone.



*FSE Lifestyle has a strong spirit in serving the community, especially the elders, Mr. Terry Kwan, Director of Human Resources of FSE Lifestyle and Ms. Connie Cheung, General Manager of Human Resources of FSE Engineering took part in various elder services to express our Group's respect and gratitude to them*





## Management Discussion and Analysis



*Mr. Thomas Soon, Executive Director of FSE Lifestyle, signed the BEC Low Carbon Charter on behalf of the Group, pledging to set carbon reduction targets and implement strategic decarbonisation actions. Being a key player in the society, business community should work together to support Hong Kong's transition to a low-carbon community*

The Company endeavours to uphold corporate social responsibility. By organising a wide range of charitable campaigns, we strive to create a positive impact in our shared community and respond to social needs in a beneficial manner. We are committed to encouraging a culture of volunteerism amongst our employees and will continue to strengthen our contribution in fostering a caring society.

### Environmental concerns

We aim to ensure that all services are conducted in an environmentally responsible manner. We believe that a successful environment management is important for us to meet customers' demand in environment protection and to ensure healthy growth and sustainable development of our business. In this connection, we have set up environmental management system to promote environmental awareness and to prevent pollution of the environment.

Our environmental management system currently in place was accredited by HKQAA with ISO14001 certification.

### Commitment to the environment

We are committed to reduce energy consumption and greenhouse gas emissions in our operations. This year, we have set targets of reducing 3% of energy consumption (intensity), 3% of greenhouse gases emissions (intensity), and paper procured by 2% by end of the financial year ended 30

June 2022. Through adopting different initiatives, applications, measures and communication with employees, the results of the targets set were completely achieved by the said period.

### Building a culture of sustainability

We believe fostering behavioural change within the Group is key to driving sustainable growth. To nurture an environmentally friendly culture within the Group, the Green Office Guidelines were officially launched in November 2016. The Guidelines focus on paper use reduction, energy conservation and materials recycling at our offices, sites, workshops and plant rooms.

### Research and development projects

Over the years, FSE has strengthened its commitment in research and development to enhance our existing services and protect the environment. Through collaboration with The Nano and Advanced Materials Institute Limited ("NAMI"), FSES has participated in two R&D projects involving water treatment and solid waste treatment. Currently, we are running a pilot water treatment project on cooling tower. We will continue to explore new technologies for a greener future.

**Nanobubble Ozonation System** is one of the applications adopting Nano Technology. Ozone is a powerful disinfectant for water purification. However, low mass transfer efficiency, low saturation solubility and short half-life are the obstacles in practical application. The integration of ozone with Micro-nano Bubbles (MNBs) named as "**Nanobubble Ozonation**" can tackle those obstacles and therefore has many real-life applications. For the Fresh water-cooling tower (FWCT) application, Nanobubble ozonation has improved the effectiveness of cooling water treatment. Energy saving from the improvement of fouling factor is the ultimate goal. It is expected 1-3% energy saving could be achieved for lightly fouled chiller and up to 10% saving could be gained for heavily fouled chiller by the application of Nanobubble Ozonation in FWCT.

With the use of IoT technology, we provide complete integrated solutions to tackle the pain points of our customers. FioTec, our smart solution system, delivers a wide scope of services ranging from consultation and solution design, system implementation and operation, to routine support and maintenance. It focuses on innovative

IoT solutions for facility management, including building automation and energy optimization, facility digitalization, predictive maintenance solutions for building services equipment, video analytic and smart security solutions, etc. FioTec can integrate with existing Building Management System and Central Control and Monitoring System, and BIM model to create an IoT ecosystem for various customers.

FioTec assists digitisation of facility, leading to improving service quality and operational efficiency, cost reduction, energy, electricity, and water saving. FioTec is able to achieve long-term sustainable development goals (e.g. United Nations Sustainable Development Goals, Smart City development, net zero carbon emission), to build a better company image and raise the asset value.



*A customised and 3D BIM-enabled dashboard showing real time status of all IoT sensors developed by FioTec*



*Nanobubble ozonation technology is able to turn ordinary air and water into strong oxidizing fluid*

During 2022, FSE Lifestyle launched an industry-first innovative FSEasy Service Model. Capitalising on the professional knowledge and synergies from its business units, the FSEasy Service Model is operating under the BIM platform together with its self-invented FioTec, an innovative combination of IoT and modern information technologies for effective operational control, and ComEasy, a comprehensive surveillance system for all service teams to enhance the overall operation efficiency and cost effectiveness.

### Compliance with relevant laws and regulations

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.



As at 30 June 2022, the Group had a total of 20,004 employees (30 June 2021: 18,460), including 8,070 (30 June 2021: 7,147) casual workers and employees whose relevant costs are directly reimbursed by or charged to our customers or charged by sub-contractors. Staff costs for the Year, including salaries and benefits, was HK\$2,870.5 million (2021: HK\$2,390.5 million). The increase mainly reflects a reduction in various grants received by the Group from the Hong Kong, Mainland China and Macau governments recognised as deductions in its staff costs.

The Group offers attractive remuneration packages, including competitive fixed salaries plus performance-based annual bonuses, and continuously provides tailored training to

its employees with the aim of promoting upward mobility within its organisation and fostering employee loyalty.

Our employees are subject to regular job performance reviews which determine their promotion prospects and compensation. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

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



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



## Property & Facility Management Services Segment



**There is a growing demand of enhanced services and one-stop solutions in professional property and facility management services.**



With over 50 years of substantial experience, our Property & Facility Management Group is able to provide quality management services to preserve and improve the quality of the property and facilities for its clients to enhance its reputation and asset values. With the increasing expectation of the corporate clients and property investors, there is a growing demand of enhanced services and one-stop solutions in professional property and facility management services.

Under the current economic situation, our Property & Facility Management Group believes that large corporations and multinational enterprises will continue to outsource their non-core property and facility management activities to external professional agencies, which creates new business opportunities to it.

Further to the strong synergies generated among business units within the Group, our Property & Facility Management Group has also established extensive partnerships with professional service suppliers and contractors. It maximises its competitive advantages by creating economies of scale and strong bargaining power for its clients to maximise cost-effectiveness and operational efficiency at all times. Most importantly, it is able to provide the most cost-effective services to its clients at the optimum price levels.

Under the current social appeal and requests for controlling rights of property owners, there is an increasing demand of independent property and facility management companies, which are not subsidiaries of property developers.

Our Property & Facility Management Group comprises one of the strongest professionally qualified workforce to serve our diversified clientele. While individual companies under it has been obtaining the property management company licence under the Property Management Services Ordinance ("PMSO") (CAP. 626 PMSO), it has maintained a strong team of over 500 Tier 1 and Tier 2 property management practitioners, which is believed to be one of the largest service teams in the industry, to enable smooth operations of the managed property and facility assets and the fulfilment of the statutory requirements. Hence, it has established a good strategic position to grasp the market openings and demands generated by the full enactment of PMSO and maintains good competitive advantages over its rival companies in new tendering and business development activities in the coming years.

Upon the government policy on increasing the supplies of residential units by the coming 10 years, there is a growing demands of professional property management services in Hong Kong. The market opportunities initiated by the increasing supply of both private and public housing units, hence, creates a growing demand and necessities of professional property management services in the territory. Our Property & Facility Management Group with over 6,000 workforce has been developing a new operation approach combining its quality manpower strengths with modern innovative technologies and IoT provisions to enhance its overall service efficiency and effectiveness.



## Management Discussion and Analysis

Our Property & Facility Management Group has obtained over 50 years of substantial experiences in managing all kinds of property and facility assets in the territory. With its leadership position in the industry, it has maintained a strong representation in major and leading professional bodies and trade organisations in Hong Kong, which enables the Group to observe the latest market trends and development directions.

As most of the business units under FSE Lifestyle have extensive experiences, knowledge, expertise and portfolios in their trade, our Property & Facility Management Group may generate strong synergies from its sister companies to offer differentiated and cost effective management solutions to its clients to cater for different demands and expectations.

Our Property & Facility Management Group maintains a strong technical and engineering team with extensive experiences and expertise for all kinds of building repairs, maintenance, renovations and rejuvenation projects. It has been participating and coordinating for different kinds of building renovation and improvement projects for large private housing estates, commercial premises and modern intelligent buildings to enhance their building facilities, and ultimately, enhancing their asset values. Currently, it maintains a strong engineering team with over 500 well trained technical personnel to serve its clients.

Nowadays, both property owners and investors perceive brand recognition as one of the major selection criteria for their property and facility managers. With the brand equity of over 50 years together with the substantial experience obtained and accolades received from the Hong Kong society, our Property & Facility Management Group has created its unique selling proposition from the industry to obtain the trust from the clients.

Apart from the statutory requirements, our Property & Facility Management Group has been implementing stringent governance initiatives covering environmental protection and care, corporate social responsibilities as well as risks and crisis control. Moreover, within our Property & Facility Management Group, Urban is all along a household name of “Hong Kong’s Premier Community Manager” through organising and participating in over 100 CSR activities annually. More importantly, Urban’s well-defined and comprehensive risks and crisis management system covers an extensive spectrum of crises, from the operational suspension of building services and systems breakdowns to the territory-wide pandemic diseases.

### City Essential Services Segment



**We offer fully integrated solutions, enabling our clients to enjoy customized and innovative services.**



#### 1. Cleaning Services

With the fifth wave of the COVID-19 pandemic running rampant in Hong Kong, most retail and catering businesses are being affected. Environmental hygiene service is one of the benefited industries as demands of ad-hoc disinfection services have been significantly increased during the pandemic outbreak period. Due to the citizens’ increased awareness of virus prevention and personal hygiene, demands for preventive and disinfectant services are expected to grow continuously. Many of Waihong’s clients appreciate quality and are often willing to pay for quality cleaning services to obtain higher hygiene standards.

It has come to the public alert that the pandemic may come repeatedly after the end of the current outbreak. Waihong will continue to strengthen its team force and promote robotic disinfection devices involving antiviral coating and preventive disinfection services. Waihong expects its future prospect to be optimistic and the environmental cleaning service industry will continue to develop steadily and prosperously.

Waihong foresees a rapid rebound of economy and benefits to its business with the resumption of cross-border travel. By capitalising on its extensive experience, systematic and customised services with its established brand, Waihong will explore more potential businesses from different market segments through leveraging its competitive advantages.

In the coming years, there will be plenty of new residential and other new projects to be launched. The demands for specialist cleaning and hygiene services in these properties and facilities will increase while they are completed. Due to changes in the criteria of tender evaluation, government service contracts became more attractive and deserve to invest more resources in the government market segment.



Strategically, Waihong is one of players bidding government service contracts and continues to expand its service capacity from this market segment.

Further, the municipal solid waste charging scheme will be implemented in the year of 2023. Waihong's waste management team is going to expand the scale of its fleet and business mode in the coming years to deal with the foreseeable market demands. Waihong will purchase different kinds of trucks to provide disposal of municipal solid waste, clinical waste, liquid waste, construction waste, food waste and paper recycling services.

In recent years, Waihong has actively introduced innovative ideas and technologies, and has adopted AI smart systems to improve daily management and operations. Waihong has introduced IoT smart toilet management systems for customers in some commercial buildings and also introduced different types of robotic devices handling disinfection, carpet vacuum, floor cleaning and polishing in different worksites. An in-house developed mobile inspection Apps is being utilised for improving work efficiency and enhancing the image of management style in some renowned properties.

## 2. Technical Support & Maintenance Services

Stabilising revenue by further developing business in the public sector is one of the strategic movements of the Group's technical support & maintenance services section. The Group's technical support & maintenance services section is specialised in providing maintenance and repairing services in building services systems, especially in HVAC systems. Information showing that there is an estimate of over HK\$500 million of substantial HVAC maintenance and replacement term contract works budgeted and addressed in the forecast of works tenders in Electrical and Mechanical Services Department ("EMSD") in next year. This provides a good opportunity for the Group's technical support & maintenance services section to generate business revenue and profit in the public sector.

In the private sector, steady and stable income generated from maintenance and system retrofit works support the fundamental operation business of the Group's technical support & maintenance services section. Furthermore, large-scale renovation works for existing commercial premises is also expected to create emerging business opportunities in the coming few years. Information from

Hong Kong Tourism Board reviewed that there are more than 300 hotels and 50 mega size shopping malls in Hong Kong, this market offers tremendous opportunities for further developing business in the private sector in the next few years.

The Group's technical support & maintenance services section advocates implementation of innovative technologies to increase the efficacy and efficiency of works. The well-developed maintenance service mobile application had significantly transformed the operation and maintenance methodology from traditional paper-based record management system to advanced digitalised management system. Next step, our Group's technical support & maintenance services section will continue to develop the production of BIM combined with application of digitalised Asset Management for existing mechanical plants. This breakthrough can benefit high demanding customers to experience the innovative management system not only in new buildings, but also in existing buildings.

## 3. Security Guarding & Event Services

Demand for security services has continue to grow steadily for the past year and it is expected to continue to grow. One major factor is that the government has planned to build 330,000 public housing units for the next ten years with another 440,000 residential units from the private sector. Also, several government projects are in the pipeline, including the Hong Kong Convention and Exhibition Centre Phase 3 construction, the Hong Kong Airport third runway and Lok Ma Chau development. Once these projects come into use, there will be huge demand for security services.

Despite the overall economic situation, the exhibition and convention industry has seen a gradual warming up albeit in a small scale, but more optimistic outlook is anticipated for 2023 onward. Perfect Event is proactively positioning itself in the event service industry. It has recently become a member of Hong Kong Exhibition and Convention Industry Association, the main local industry body. Meanwhile, the Perfect Event's multi-purpose app continues to find new audiences looking to complement their existing service and workflow, and progress is being made to expand its capabilities such as compatibility with IoT. Thus, Perfect Event is well placed once the economy picks up and opportunities arrive.

# Management Discussion and Analysis

## 4. Insurance Solutions

The HKSAR Government has always been acting as a "facilitator" and "promoter" to create opportunities for the insurance industry with the ultimate aim at developing Hong Kong as a global risk-management centre and a regional insurance hub. Nova being the largest local general insurance broker with a history of 34 years and a strong professional team has its comparative advantages to benefit from this development.

As the needs for corporate insurance buyers become more and more sophisticated whilst clients become more demanding, flexibility of Nova's services and its strong customer focused approach help it win more accounts from its competitors even though they are typically foreign broking firms with multi-national background and a bigger operation.

Nova continues to do what it is good at such as construction projects related insurance. Hong Kong Government's Northern Metropolis scheme, various new commercial and residential developments and infrastructure all lead to more business opportunities for it.

Due to mergers and acquisitions in the global broker segment in the past few years, the number of sizable international insurance brokers has been reduced. Nova can fulfill this gap perfectly as it is well experienced with good track record yet with a local touch. The fact that Nova was invited by the Insurance Authority ("IA") as a Partner of the Hong Kong Specialty Risks Consortium to support IA the Belt & Road Initiative is a good example to show its credentials. Through Nova's global broker networks, it can serve its clients' insurance needs all over the world.

In the coming year, Nova will further leverage its leading position in the market and expertise to develop more clientele in industries it is well experienced in, such as construction, property managers, hospitality, jewelry, non-government organisations and employee benefits like group medical and MPF schemes. Nova will also focus more on specialty products with higher yields and where its team has already possessed in-depth professional skills and knowledge such as cyber insurance, professional indemnity insurance and trade credit insurance.

## 5. Environmental Solutions

Increasing public awareness of the importance of sustainable environment has fueled the demand for environmental services and products. The Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) enacted in 2012 and the Hong Kong SAR Government pledged to reach carbon neutrality by 2050 with the publication of the "Hong Kong Climate Action Plan 2050" in 2021 continues to support the business development of the Group's environmental services.

For our Group's environmental solutions business, its seawater and freshwater treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively have brought steady growth to its environmental engineering business. Despite the fierce competition of HVAC water treatment service, its patented nanobubble ozonation and the use of real-time monitoring systems provide it a good opportunity to enlarge its market share.

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

The Group's environmental solutions business will keep abreast of the market trends and facilitate identification of new products. It will keep working with vendors to customise those systems according to the specific needs of customers and smart city blueprint, using advanced technologies and smart solutions such as AI and IoT, intelligent Intellectual Property/Information Technology-based and various 5G mobile applications to strengthen the building management and environmental monitoring system to enhance building sustainability and environmental quality thereby increase the satisfaction of its customers.

The higher market demand of green elements in indoor and outdoor spaces, coupled with the customers' needs to enhance visual and ecological environment have provided more opportunities for green solutions provided by its landscape services. The greening policies, town planning initiatives and various support provided by the government will be highly beneficial to the development of the industry and our landscape services business.

With the technological advancement and emphasis of green concept, there are opportunities for its building material trading business in promoting new products with new features in these aspects. Strategic collaboration with the Group's environmental solution teams will help its building material trading business keep abreast of the market trends and facilitate identification of new products.

## E&M Services Segment



**Our E&M services business is committed to creating a greener society with the growing demand for sustainability and ESG from corporate clients and property investors.**



With the brand equity of over 45 years' of substantial experience, the Group has maintained its position as one of the leading E&M companies in Hong Kong, capable of providing a comprehensive range of E&M services, ranging from design, installation and testing and commissioning services, and continued to run its E&M operations in Mainland China and Macau.

On top of its full range of licences and qualifications and effectiveness in managing tendering risks, the Group's E&M services business has integrated operating and control procedures, a robust network of well-established customers and suppliers, and an experienced and well-trained workforce to support all of its operations. Equipped with such high service standards and modern management models, it enables the Group's E&M services business to continuously improve its operational efficiency and provide the most cost-effective service deliveries to its clients at the optimum price levels.

With the growing demand for sustainability and ESG from corporate clients and property investors, the Group's E&M services business is committed to creating a greener society. To help build a sustainable environment, it has been constantly optimising design and exploring innovative methods. At the project level, the Group incorporates the application of green building principles into building services equipment; and adopts green building design, MiC, MiMEP, DfMA to reduce energy usage, carbon footprint and construction waste.

In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as BIM, Digital Works Supervision System ("DWSS"), modularisation and prefabrication, Robotic Total Solution ("RTS") and Sky Drilling Machine ("SDM"), 3D laser scanning and mobile Apps solutions etc.

In addition, the senior executives of the Group's E&M services business have actively participated and taken key positions in Construction Industry Council ("CIC") as well as in different professional institutions such as The Hong Kong Institution of Engineers ("HKIE") and trade/industry associations such as The Hong Kong Federation of Electrical and Mechanical Contractors Limited ("HKFEMC"). The strong presence in these professional institutions and trade associations can promote the company branding and exposure and grasp the first-hand market information.

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

In Hong Kong, the government targets to maintain an annual works expenditure of over HK\$100 billion in the next few years as stated in its 2021 Policy Address. According to the construction expenditure forecast provided by the Construction Industry Council in May 2022, expenditure in E&M construction works each year will amount to over HK\$28 billion for the public sector and over HK\$24 billion for the private sector over the next five years. With such increasing demand of professional construction services, the Group will focus on the following public and private housing development, hospital development and infrastructure projects.

In its 2021 Policy Address, the Hong Kong Government has identified about 350 hectares of land to build 330,000 public housing units and about 170 hectares of land to build 100,000 private housing units to meet the demand in the coming 10 years. In addition, the Government has proposed to develop the northern part of Hong Kong which encompasses Yuen Long District and North District into a metropolitan area. This Northern Metropolis can provide a total land area of about 300 square kilometres, equivalent to the additional supply of over 500,000 housing units in the next 20 years.

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The Hong Kong Government also plans to provide in the coming 10 to 15 years over 150,000 public and private housing units along the Northern Link and Siu Ho Wan MTR Depot topside development.

For private residential and commercial developments, the redevelopments are driven by the Urban Renewal Authority and the Hong Kong Housing Society, the developments at the Kai Tak Development Area, Yau Tong and Ap Lei Chau, together with the railway property developments. The Hong Kong Government will also examine the development of Tseung Kwan O Area 137 for residential and commercial development and other relevant purposes.

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. On top of the HK\$200 billion invested in the first 10-year plan, the Hong Kong 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.

The Hong Kong Government, in its 2021 Policy Address, strives to implement seven new railway projects in a proactive manner. The Hong Kong Government also requested the Airport Authority Hong Kong to create at Lantau an Aerotropolis connecting the Greater Bay Area and the world.

Use of District Cooling Systems (“DCS”) is also one of the Hong Kong Government’s initiatives and commitment to low-carbon development. Apart from the additional DCS in the West Kowloon Cultural District, providing DCS in new development areas – Tung Chung East and Kwu Tung North have also been under tendering process.

To encourage and enhance Innovation and Technology (I&T), the Hong Kong Government will collaborate with Shenzhen in the development of Shenzhen-Hong Kong I&T Co-operation Zone under the “one zone, two parks” model. In addition, the infrastructure works of the Hong Kong-Shenzhen Innovation and Technology Park (“HSITP”) in the Lok Ma Chau Loop has commenced in June 2018, with the objective of providing the first batch of land parcels for superstructure development in 2021.

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

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

The development of the Greater Bay Area will certainly enhance the economic and social growth in 11 cities of that Area. In addition, the 3 rapidly developing Guangdong Pilot Free Trade Zones — Hengqin, Qianhai and Nansha — will bring in new business opportunities to the Group.

In recent years, the Group has been providing project management services across Mainland China to an international exhibition centre development in Shenyang, 2 high-rise building complexes in Tianjin and Guangzhou, and 2 commercial buildings in Beijing. The Group firmly believes that due to its high market recognition and strong value-added E&M project management expertise, it will be a preferred partner of foreign and Hong Kong-based developers of high-end projects in Mainland China.

### Impact of the outbreak of COVID-19 and its remedial measures

Since the outbreak of COVID-19, its resulting impact to the global economy is far-reaching and we have taken various proactive measures and contingency plans to contain the operational and financial risks which it brings to the Group. These included swapping teams workplace (i.e. Teams A and B) arrangements, setting up of alternative offices, flexible business and lunch hours, IT enhancement to sustain the business operations, provision of personal protective equipment, including face masks, rapid antigen test (RAT) kit sets, disposable gloves and protective gowns, to our frontline

staff, body temperature checking for anyone entering into our work areas and putting sanitizing hand rubs in easily accessible places in our work areas to promote their usage by our staff, workers and visitors.

Our property and facility management, cleaning, security guarding and insurance solutions businesses have faced relatively less disruptions. The COVID-19 outbreak has created additional works from the existing property and facility management contracts, more ad-hoc demands for intensive disinfection cleaning services and security services demand for new medical facility set up near the airport. In addition, COVID-19 led to an increase in premium rates for certain types of insurances due to poor claims experience caused by the pandemic, which has positively affected our insurance solutions business. Nevertheless, for the sake of containing the risks arising from the pandemic, our cleaning and property and facility management services operations have implemented various precautionary measures including the followings:

- set policies to arrange some staff to work in alternative offices or from home if there are any reported COVID-19 cases among them and designated different entrances and exits in office for different groups of staff to reduce their interactions at our cleaning services operation; and
- implemented a well-defined sanitation management process for owners and tenants of properties, users of public and private facilities and own staff at the property and facility management services operation, including prompt sanitation actions to be taken once suspected COVID-19 cases in the work areas are reported.

Our environmental services business remains as usual and stable under the current situation. Our landscape business with hotels and service apartments is however affected by the frozen tourism industry in Hong Kong. Our building material trading business is also impacted under the current soft retail market. Our landscape and building material trading businesses have applied stringent cost controls to mitigate the above adverse impacts caused by the pandemic.

The COVID-19 variant Omicron had more material impacts to our E&M business, owing to its fifth wave outbreak in Hong Kong and in Mainland China during 2022. As a result of the governments' measures to contain the spread of the virus,

the cross-border land ports were closed, the production of materials and equipment by factories located in Mainland China were suspended for a few months and just resumed recently. Logistic problem and shortage of parts and materials supplies still exist globally. Therefore, our construction projects have experienced disruptions caused by delay in the supply and distribution channels and shortage of labour force.

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

- analysed the contract provisions on extension of time and force majeure clauses and issued notifications promptly to engineers and architects for our projects on the likelihood of any delays;
- made detailed records of site activities together with their cost implications for those delayed portions;
- closely monitored the supplies of materials and considered re-scheduling works or sourcing other suppliers;
- used alternative modes of transportation, e.g. via sea-freight to overcome cross-border land port closures; and
- checked insurance arrangements on deferred material delivery and kept updating of new regulatory policies.

In conclusion, although some of our projects have encountered certain delays in contract completion due to the pandemic, which in turn deferred the revenue that could be recognised, COVID-19 has only minor financial consequences on our Group's E&M engineering business as a whole.

To cope with the persistence of COVID-19, we will closely monitor its latest development and the effectiveness of remedial measures we adopted and adjust them when required on a timely basis.

## Conclusion

Despite the challenges and operational difficulties we face in this financial year, in particular those arising from the outbreak of COVID-19, the Group's operations remained stable in the Year. In addition, the Group shall endeavour to maintain a strong financial position so as to stay poised for new investment opportunities as and when they arise. We are confident that the Group will continue to grow.