Management Discussion and Analysis

BUSINESS REVIEW

During the six months ended 31 December 2021 (the "period under review"), the Group recorded revenue amounting to HK$3,351.0 million, representing an increase of HK$198.3 million or 6.3%, as compared with HK$3,152.7 million (restated) for the six months ended 31 December 2020 (the "same period last year"). Profit attributable to shareholders for the period under review was HK$238.5 million, representing a decrease of HK$232.9 million or 49.4% as compared with HK$471.4 million (restated) for the same period last year, mainly resulted from a decrease in government grants under the Employment Support Scheme (the "ESS Scheme") of the HKSAR Government, 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 period. Details of the government grants recognised by the Group are set out in Note 7 to the condensed consolidated interim financial statements.

If excluding the effects of government grants under the ESS Scheme in the Group's results for both periods and item (iii) mentioned above in the Group's prior period 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 period under review of 16.5% to HK$226.2 million (i.e. after excluding ESS government grants of HK$12.3 million from profit attributable to shareholders of the Company of HK$238.5 million for the period under review) as compared to its adjusted net profit of HK$194.2 million for the same period last year (i.e. after excluding (a) ESS government grants of HK$333.0 million, (b) losses related to laundry business of HK$45.8 million and (c) one-off professional fees for acquisition of HK$10.0 million from profit attributable to shareholders of the Company of HK$471.4 million (restated) for the six months ended 31 December 2020).

Property & Facility Management Services

Number of staff
Over
5,600

Service contracts
Over
300

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.

Our Property & Facility Management Group is expert in six core property and facility management pillars: (i) residential property assets management; (ii) facilities management and operations, including both public and private sectors; (iii) commercial, retail and industrial premises operations; (iv) project management; (v) leasing and tenancy management and (vi) car park operations and management. Its property asset and facility services cover all kinds of property and facility assets including government offices and quarters, academic campus and educational institutes, service apartments, Grade A intelligent buildings and commercial complexes, modern industrial premises, composite residential developments 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 vertical integration of services, strong pool of professional talents and partnership approach towards customers. Innovation keeps our Property & Facility Management Group at the forefront of the industry. It has been pioneering in the introduction of modern international standards and service models in property and facility management in Hong Kong.

During the period under review, our Property & Facility Management Group submitted tenders for 14 service contracts (with a contract sum not less than HK$1 million for each service contract) with a total tender sum of HK$116 million and, combining the submitted tenders from previous months, was awarded 16 service contracts (with a net contract sum not less than HK$1 million for each service contract) with a total contract sum of HK$69 million. Among these 16 service contracts, 1 of them is a major service contract (with net contract sum not less than HK$20 million) for a residential estate in Shatin.

As at 31 December 2021, the property & facility management services segment has a total gross value of contract sum of HK$2,058 million with total outstanding contract sum of HK$1,346 million.

City Essential Services

Number of staff
Over
12,900

Service contracts
Over
8,300

Cleaning Services

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

Facing with the uncertain economic environment in recent years, the demands for specialist cleaning services in Hong Kong are still full of challenges and opportunities. Waihong has seized the prime opportunity to widen its services in different market segments. On one hand, Waihong has successfully secured a number of new service contracts and attain a high renewal rate for the existing contracts during the period under review. On the other hand, there was a reduction in the demand for ad-hoc sterilisation services. Nevertheless, Waihong has still maintained certain amount of preventive sterilisation services from different clients during the period under review.

During the period under review, Waihong has grasped the government's change in tender evaluation criteria to accept higher price with innovated proposal instead of only awarding the lowest bidder. For instance, bidders who propose higher hourly wages to constitute a competent frontline team with quality services may get higher evaluation scores and have a higher chance of winning the contract. As a result, Waihong's revenue and profit has grown considerably by successfully adopting such tender strategies to win service contracts from different government departments. Such achievements demonstrated Waihong's competitive edge through applying one of the Group's core values of pursuing "Quality" in the services it provides. Waihong's current government contracts account for about 10% of its overall revenue. Waihong will continue to allocate more resources to bid for service contracts launched by various government departments. Waihong is convinced that it still has a lot of room to expand its market share in the government segment.

During the period under review, Waihong submitted tenders for 198 cleaning service contracts (with a contract sum not less than HK$1 million for each service contract) with a total tender sum of HK$2,779 million and, combining the submitted tenders from previous months, was awarded 55 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$558 million. Among these 55 service contracts, 6 of them were major service contracts (with net contract sum not less than HK$20 million for each service contract), which include 2 residential estates in Ma On Shan and Quarry Bay, a shopping mall in Shatin, an international bank's branches and office facilities, a cross-border transport system in West Kowloon and Shek Kong and clubhouses in Happy Valley.

Technical Support & Maintenance Services

The Group's technical support & maintenance services business covers renovation projects for replacement of chiller units, upgrade of electrical supply systems, modification and enhancement of fire services and plumbing and drainage systems, system maintenance and repairing works, testing and commissioning, periodic inspection, testing and certification of electrical installation works, consultancy, and heat, air ventilation, and cooling central plant room routine operation and maintenance services in Hong Kong, Mainland China and Macau.

During the period under review, the Group submitted tenders for 246 maintenance service contracts (with a contract sum not less than HK$1 million for each contract) with a total tender sum of HK$2,166 million and, combining the submitted tenders from previous months, was awarded 44 projects (with a net contract sum not less than HK$1 million for each project) with a total net contract sum of HK$465 million. Among these 44 projects, 4 of them are major projects (with net contract sum not less than HK$20 million), which include chillers replacement for an exhibition centre in Wai Chai, provision of term worker service for an integrated development project in Chek Lap Kok and refurbishment/improvement works for a hotel in Tsim Sha Tsui and a youth association headquarters in Yau Ma Tei.

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. Perfect Event's main clients are property developers and provides services for their property sales events.

General Security holds all three types of licences required for operating as a security company in Hong Kong, including Type I Licence for provision of security guarding services, Type II Licence for providing armoured transportation services and Type III Licence for installation, maintenance and/or repairing of a security device and/or designing a security system incorporating a security device.

Perfect Event provides comprehensive one-stop support services for event activities covering service design and planning, provision of customer service ambassadors and concierge services, security guarding and system, alarm installation and maintenance, cleaning, insurance brokerage, electrical and mechanical supporting, landscaping and IT services.

During the period under review, General Security and Perfect Event submitted tenders for 36 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$808 million and, combining the submitted tenders from previous months, was awarded 17 service contracts (with a net contract sum not less than HK$1 million for each project) with a total contract sum of HK$256 million. Among these 17 service contracts, 3 of them were major service contracts (with net contract sum not less than HK$20 million for each service contract) in respect of a residential estate in Shatin, 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. With a highly professional team of brokers and specialists, Nova serves many clients who are leaders within their respective industries including international hotel chains, listed companies, property developers, public transportation companies, manufactories, trading companies, telecommunication companies, governmental departments/ organisations and non-governmental organisations.

During the period under review, Nova has secured placement for a number of sizeable construction projects. Nova also managed to get a number of new accounts, including property managers of residential development, listed companies and non-governmental organisations. In addition, it has also handled more trade credit insurance business and received more enquiries on cyber insurance. Nova's client retention ratio has always been over 90% and this ensure us a stable income.

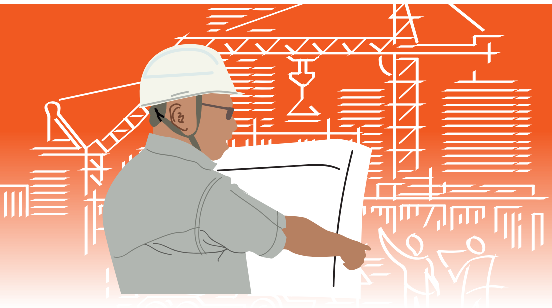
During the period under review, Nova submitted tenders for 9 service contracts (with a contract sum not less than HK$1 million for each service contract) with a total tender sum of HK$15 million and all of them were awarded .

Environmental Solutions

The Group's environmental solutions business (i) provides environmental assessment and energy efficient solutions to assist its customers in achieving their environmental protection and energy conservation objectives and landscape management and maintenance services to a diversified business portfolio, (ii) provides information and technology infrastructure and advanced technologies to enhance building sustainability and environmental quality with smart facility management solutions to property developers and (iii) engages in the trading of retail sales of wall and floor tiles, E&M engineering equipment and materials and other building materials.

During the period under review, the Group submitted tenders for 28 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$117 million and, combining the submitted tenders from previous months, was awarded 6 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$19 million and 5 ELV service contracts with a total contract sum of HK$57 million (with a net contract sum not less than HK$1 million for each contract). In addition, the Group submitted 18 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$47 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 31 December 2021, the city essential services segment has a total gross value of contract sum of HK$6,857 million with a total outstanding contract sum of HK$4,190 million.



E&M Services

Number of staff
Over
1,100

Service contracts
Over
100

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 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 has integrated operating and control procedures, strong networks of well-established customers and suppliers, and an experienced and well-trained workforce to support all of its operations. Thus, the Group has strong confidence in securing and undertaking integrated E&M projects in Hong Kong, Mainland China and Macau.

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

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

As at 31 December 2021, 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.

During the period under review, the Group submitted tenders for 86 E&M engineering projects (with a contract sum not less than HK$1 million for each project) with a total tender sum of HK$9,792 million and, combining the submitted tenders from previous months, was awarded 25 contracts (with a net contract sum not less than HK$1 million for each project) with a total net contract sum of HK$1,515 million. Among these contracts, 6 of them are major projects (with net contract sum not less than HK$100 million for each project), which include 2 residential developments in Ho Man Tin Station and Kai Tak, 2 subsidised housing developments in Anderson Road and Pak Wo Road, a public housing development at Yip Wong Road and AIA Campus Redevelopment.

As at 31 December 2021, the E&M services segment has a total gross value of contract sum of HK$9,401 million with a total outstanding contract sum of HK$5,596 million.

FINANCIAL REVIEW

Revenue

During the period under review, the Group's revenue increased by HK$198.3 million or 6.3% to HK$3,351.0 million from HK$3,152.7 million (restated) for the same period last year, reflecting higher revenue from the E&M services segment, city essential services segment and property & facility management services segment amounting to HK$139.4 million, HK$43.7 million and HK$15.2 million respectively.

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

	For the six months ended 31 December			
	2021 HK$'M	**% of total revenue**	2020 (restated) HK$'M	% of total revenue
Property & facility management services*	**343.4**	**10.2%**	328.2	10.4%
City essential services*	**1,591.4**	**47.5%**	1,547.7	49.1%
E&M services*	**1,416.2**	**42.3%**	1,276.8	40.5%
Total	**3,351.0**	**100.0%**	3,152.7	100.0%

* Segment revenue does not include inter-segment revenue.

	For the six months ended 31 December			
	2021 HK$'M	**% of total revenue**	2020 (restated) HK$'M	% of total revenue
Hong Kong	**2,922.8**	**87.2%**	2,868.2	91.0%
Mainland China	**270.5**	**8.1%**	153.1	4.8%
Macau	**157.7**	**4.7%**	131.4	4.2%
Total	**3,351.0**	**100.0%**	3,152.7	100.0%

- *Property & facility management services*: This segment, which principally provides services in Hong Kong, contributed 10.2% (2020: 10.4% (restated)) of the Group's total revenue.

  Segment revenue grew by 4.6% or HK$15.2 million to HK$343.4 million from HK$328.2 million (restated). 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.

- *City essential services*: This segment contributed 47.5% (2020: 49.1% (restated)) of the Group's total revenue. Segment revenue of HK$1,591.4 million (2020: HK$1,547.7 million (restated)) comprises provision of cleaning services of HK$674.9 million (2020: HK$612.3 million), technical support & maintenance services of HK$421.9 million (2020: HK$435.6 million (restated)), security guarding & event services of HK$325.9 million (2020: HK$336.7 million (restated)), insurance solutions of HK$50.8 million (2020: HK$44.9 million (restated)), environmental solutions of HK$117.9 million (2020: HK$89.1 million (restated)) and no revenue (2020: HK$29.1 million) from the laundry services. Such revenue reflected an increase in revenue contribution from Hong Kong amounting to HK$86.1 million, partly offset by a decrease in revenue contributions from Macau and Mainland China of HK$41.8 million and HK$0.6 million respectively.

Segment revenue grew by 2.8% or HK$43.7 million to HK$1,591.4 million from HK$1,547.7 million (restated) and 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, residential and commercial properties; (ii) higher revenue from its environmental solutions business, especially in respect of its provision of ELV device installation services, largely contributed by the 11 SKIES project in Chak Lap Kok in this period and (iii) 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 after the substantial completion of St. Regis Service Apartment in Macau same period last year.

- *E&M services*: This segment contributed 42.3% (2020: 40.5% (restated)) of the Group's total revenue. Segment revenue increased by 10.9% or HK$139.4 million to HK$1,416.2 million from HK$1,276.8 million (restated) and reflected an increase in revenue contributions from Mainland China and Macau by HK$118.0 million and HK$68.1 million respectively, partly offset by a reduction in revenue contribution from Hong Kong amounting to HK$46.7 million.

  The increased revenue contribution from Mainland China and Macau reflected a number of E&M 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 period, partly offset by a lower revenue contribution from Hong Kong, mainly Vehicle Examination Centre in Tsing Yi and the temporary quarantine facilities in Penny's Bay which were substantially completed same period last year, despite the higher revenue contributed by the Inland Revenue Tower project in Kai Tak during the period under review. It should be noted that, under contract terms, only the management fees and reimbursable costs are reflected in the revenue of the Kai Tak Sports Park project.

Gross profit

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

	For the six months ended 31 December 2021		
	Gross profit HK$'M	**% of total gross profit**	**Gross profit margin %**
Property & facility management services	**118.5**	**23.9%**	**34.5%**
City essential services	**221.3**	**44.6%**	**13.9%**
E&M services	**156.6**	**31.5%**	**11.1%**
Total	**496.4**	**100.0%**	**14.8%**

	For the six months ended 31 December 2020 (restated)		
	Gross profit HK$'M	% of total gross profit	Gross profit margin %
Property & facility management services	148.3	20.2%	45.2%
City essential services	437.0	59.6%	28.2%
E&M services	148.1	20.2%	11.6%
Total	733.4	100.0%	23.3%

During the period under review, the Group's property & facility management services segment, city essential services segment and E&M services segment contributed 23.9% (2020: 20.2% (restated)), 44.6% (2020: 59.6% (restated)) and 31.5% (2020: 20.2% (restated)) of its gross profit respectively. The Group's gross profit decreased by HK$237.0 million or 32.3% to HK$496.4 million from HK$733.4 million (restated) for same period last year, with an overall gross profit margin decreased to 14.8% from 23.3% (restated), mainly reflecting a decrease in COVID-19 related government grants. If excluding the effects of these grants in the Group's gross profit for both periods (i.e. HK$21.7 million for the period under review and HK$307.5 million (restated) for the six months ended 31 December 2020) to better illustrate the Group's performance without such effects, its adjusted gross profit margin increased to 14.2% from 13.5% (restated) for same period last year.

The property & facility management services segment recorded a decrease in its gross profit of HK$29.8 million to HK$118.5 million from HK$148.3 million (restated), with its gross profit margin decreased to 34.5% from 45.2% (restated), reflected a decrease in COVID-19 related government grants.

The city essential services segment recorded a decrease in its gross profit of HK$215.7 million to HK$221.3 million from HK$437.0 million (restated), with its gross profit margin decreased to 13.9% from 28.2% (restated), reflected a decrease in COVID-19 related government grants and a lower gross profit contribution from its technical support and maintenance services following the substantial completion of St. Regis Service Apartment in Macau in the same period last year, partly mitigated by the effects of an increase in new general cleaning and insurance service contracts and the losses related to laundry business disposal in December 2020 which did not recur this period.

The gross profit of the E&M services segment increased by HK$8.5 million or 5.7% to HK$156.6 million from HK$148.1 million, principally reflected a higher gross profit margin from its ongoing E&M installation projects in Hong Kong, partly offset by a decrease in COVID-19 related government grants, while its gross profit margin decreased to 11.1% from 11.6% (restated).

General and administrative expenses

General and administrative expenses of the Group for the period under review increased HK$15.0 million, or 7.5% to HK$215.3 million compared to HK$200.3 million (restated) for the same period last year, reflected a decrease in COVID-19 related government grants, partly mitigated by the effects of a successful cost saving campaign, reduced depreciation of properties and leasehold improvements and the one-off professional fees for acquisition which did not recur in this period. If excluding the effects of government grants in the Group's general and administrative expenses for both periods (i.e. HK$0.6 million for the period under review and HK$32.8 million (restated) for the six months ended 31 December 2020) to better compare their amounts without such effects, its adjusted general and administrative expenses decreased 7.4% to HK$215.9 million compared to HK$233.1 million (restated) for the same period last year.

Other income/(expenses), net

Other net income of HK$0.7 million was recorded by the Group during the period under review compared to other net expenses of HK$28.3 million (restated) recorded in the same period last year.

The other net income recorded during the period under review mainly represented gratia payments from the government for retirement of motor vehicles and the receipt of COVID-19 related government grants in Macau. The other net expenses recorded in the same period last year mainly represented the Group's losses related to disposal of its laundry business of HK$26.2 million.

Finance income

The Group recorded finance income of HK$0.8 million (2020: HK$1.4 million (restated)). The decrease mainly reflected lower average interest rate and principal sum of the Group's bank deposits during the period.

Finance costs

The Group's finance costs of HK$2.4 million (2020: HK$3.1 million (restated)) for the period under review included interest expenses of (i) HK$1.0 million (2020: HK$2.3 million) for the Group's bank loan financing its acquisition of property

& facility management services business in December 2019, (ii) HK$0.7 million (2020: HK$0.8 million (restated)) for lease liabilities and (iii) HK$0.7 million (2020: Nil) for other bank borrowings.

Income tax expenses

The effective tax rate of the Group increased by 8.8% to 15.2% (2020: 6.4% (restated)), mainly attributable to a reduction in the non-taxable COVID-19 related government grants.

Profit for the period attributable to shareholders of the Company

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

	For the six months ended 31 December			
	2021	2020 (restated)	Change	% Change
	HK$'M	HK$'M	HK$'M	
Property & facility management services	**61.3**	106.8	(45.5)	(42.6%)
City essential services	**103.9**	295.2	(191.3)	(64.8%)
E&M services	**76.5**	83.9	(7.4)	(8.8%)
Unallocated corporate expenses and finance costs*	**(3.2)**	(14.5)	11.3	(77.9%)
Total	**238.5**	471.4	(232.9)	(49.4%)

* Unallocated corporate expenses and finance costs comprise the Company's corporate expenses of HK$2.2 million (2020: HK$12.2 million) and interest expenses of HK$1.0 million (2020: HK$2.3 million). The corporate expenses for same period last year included legal and professional fees of HK$10.0 million incurred for the acquisition of the Business Investments Group.

The Group's profit for the period under review decreased by 49.4% or HK$232.9 million to HK$238.5 million compared to HK$471.4 million (restated) for same period last year. The decrease mainly resulted from the decrease in government grants under the ESS Scheme of the HKSAR Government, 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 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 period. Details of the government grants recognised by the Group are set out in Note 7 to the condensed consolidated interim financial statements. The net profit margin of the Group reduced to 7.1% for the period under review from 15.0% (restated) for same period last year.

If excluding the effects of government grants under the ESS Scheme in the Group's results for both periods and item (iii) mentioned above in the Group's prior period 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 period under review of 16.5% to HK$226.2 million (i.e. after excluding ESS government grants of HK$12.3 million from profit attributable to shareholders of the Company of HK$238.5 million for the period under review) as compared to its adjusted net profit of HK$194.2 million for the same period last year (i.e. after excluding (a) ESS government grants of HK$333.0 million, (b) losses related to laundry business of HK$45.8 million and (c) one-off professional fees for acquisition of HK$10.0 million from profit attributable to shareholders of the Company of HK$471.4 million (restated) for the six months ended 31 December 2020).

Other comprehensive income

The Group recorded other comprehensive income for the period under review of HK$3.5 million (2020: HK$20.6 million (restated)), reflected a favorable exchange reserve movement of HK$4.9 million (2020: HK$12.5 million) recorded during the period under review following an appreciation of the Renminbi ("RMB") for conversion of the Group's net investments in Mainland China, remeasurement losses on long service payment liabilities of HK$1.3 million (2020: gains of HK$6.1 million (restated)) and defined benefit retirement scheme of HK$0.1 million (2020: gains of HK$2.0 million (restated)).

Liquidity and financial resources

The Group's finance and treasury functions are centrally managed and controlled at its headquarters in Hong Kong. As at 31 December 2021, the Group had total cash and bank balances of HK$608.1 million (30 June 2021: HK$549.9 million), of which 74%, 20% and 6 % (30 June 2021: 91%, 7% and 2% (restated)) were denominated in Hong Kong dollars, RMB and other currencies respectively, and total borrowings of HK$383.4 million (30 June 2021: HK$383.8 million) denominated in Hong Kong dollars. The Group's net cash balance increased by HK$58.6 million to HK$224.7 million as at 31 December 2021 as compared to HK$166.1 million (restated) as at 30 June 2021 mainly reflecting the net cash inflow from operating activities, partly offset by the distribution of the Company's final dividend for the year ended 30 June 2021 of HK$72.5 million and preferred distribution on the convertible preference shares of HK$8.5 million, the Group's payments for principal portions of lease liabilities of HK$17.6 million. The Group's net gearing ratio was maintained at zero as at 31 December 2021 (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 31 December 2021, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$2,757.1 million (30 June 2021: HK$2,754.3 million). As at 31 December 2021, the Group has no banking facilities guaranteed by FSE Management Company Limited ("FMC") (30 June 2021: HK$100 million guaranteed by FMC), a direct wholly-owned subsidiary of FSE Holdings Limited. As at 31 December 2021, HK$881.3 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 31 December 2021, the Group's total debts amounted to HK$383.4 million (30 June 2021: HK$383.8 million), of which HK$150.0 million matures in June 2023 and HK$233.4 million matures in December 2024. The Group has managed its debt maturity profile to minimise it 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 arises.

As part of the Group's business is carried out in Mainland China, some of its assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in Mainland China operations with net assets of HK$122.3 million as at 31 December 2021 (30 June 2021: HK$121.2 million). The foreign currency translation arising from translation of these Mainland China operations' financial statements from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the Group's presentation currency) does not affect the Group's profit before and after tax and will be recognised in other comprehensive income.

During the period under review, the fluctuation of RMB against Hong Kong dollars was 2.8% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the period under review).

As at 31 December 2021, if the Hong Kong dollars had strengthened/weakened by another 2.8% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$3.4 million lower/higher.

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 31 December 2021, 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 31 December 2021 HK$M	Unutilised amount as at 31 December 2021 HK$'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	0.7	0.9
Upgrade of corporate information technology system and software	8.0	5.9	2.1	2.1	–	–
General working capital	25.0	25.0	–	–	–	–
Total	264.5	131.0	133.5	131.9	0.7	0.9

The Group has utilised HK$263.6 million of the net proceeds from Global Offering in December 2015, of which HK$0.7 million was utilised during the period under review with the actual usage consistent with the usage as intended and previously disclosed by the Company. The Group expects that the remaining balance of the IPO proceeds in the amount of HK$0.9 million will be utilised in accordance with the manner as shown in the table above within 2 years up to 2023. The Group held the unutilised net proceeds mainly in short-term deposits or time deposits with licensed banks and authorised financial institutions in Hong Kong.

Capital commitments

As at 31 December 2021, the Group had capital commitments of HK$2.5 million (30 June 2021: HK$1.7 million) in relation to purchase of equipment and acquisition of right-of-use assets.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2021 and 30 June 2021.

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, within a period of 10 years after their date of issue of 16 December 2019 (the "Issue Date") and (ii) redeemable by the Company at its sole discretion at a redemption price equals to the Issue Price together with all outstanding preferred distributions accrued to the date fixed for redemption at any time after 10 years following the Issue Date. The convertible preference shares are treated as contingently issuable potential ordinary shares under Hong Kong Accounting Standard ("HKAS") 33 "Earnings per Share" and, since the conditions for their conversion were not met as at 31 December 2021, the effect of their conversion is not included in the calculation of the diluted earnings per share for six months ended 31 December 2021 and 2020 pursuant to HKAS 33's requirements as described in Note 9 to the condensed consolidated interim financial statements. Assuming that all of the outstanding convertible preference shares were converted as at the end of the period under review of 31 December 2021 and assuming their conditions for conversion were met, the Company's earnings per share after taking into account of the dilutive impact of such conversion for the six months ended 31 December 2021 would be HK$0.48 per share, calculated as the Group's profit attributable to shareholders of the Company of HK$238.5 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.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group had a total of 19,802 employees (31 December 2020: 19,013 (restated)), including 7,984 (31 December 2020: 7,821 (restated)) 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 period under review, including salaries and benefits, was HK$1,362.4 million (2020: HK$986.5 million (restated)). 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 maintains a share option scheme, which aims at providing incentives to the eligible participants (including the employees of the Group) to contribute to the Group and enables us to recruit high-caliber employees and attract human resources that are valuable to the Group. As at the date of this report, no share options under this scheme have been granted.

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

OUTLOOK

Property & Facility Management Services Segment

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

Based on our Property & Facility Management Group's over 50 years of substantial experience, the Group is able to provide quality management services to preserve and add value to 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 one-stop and full-service professional property and facility management services. Extended services include property pre-management services, project planning and management, building renovation and rejuvenation services, leasing and tenancy management, facility re-commissioning, and other value-added services. Under the current unstable 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 them.

Apart from 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 in the territory. It obtains its competitive advantages by creating economies of scale and bargaining power for its clients to achieve cost-effectiveness and operational efficiency at all times. Most importantly, it is able to provide the most cost-effective services to them at the optimum price levels.

Management Discussion and Analysis

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

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

Our Property & Facility Management Group has been maintaining one of the strongest operation teams in the Hong Kong property and facility management services industry. It has over 5,000 professionally trained and qualified staff in the areas of property and facility management, technical and engineering, customer relations and security services. Following the enactment of the Property Management Services Ordinance (Cap. 626 of the Laws of Hong Kong), apart from the licensing of property management companies, there are also statutory requirements on the number of qualified and licensed property management professionals and practitioners being employed by property management companies as a proportion to their management portfolios. Our Property & Facility Management Group has been well prepared for the statutory requirements with over 500 staff who are fully qualified for the Tier 1 and Tier 2 licences, which is believed to be one of the largest service teams in the industry. With such a strong team of professionals, it has maintained good competitive advantages over its rival companies in new tendering and business development activities in future. Moreover, it has a strong technical and engineering team to fulfill the market demands on the day-to-day repairs and maintenance services of its clients as well as the building renovation and rejuvenation projects to enhance the asset values of the properties and facilities.

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

Apart from the statutory requirements, 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. With the implementation of the ISO 14001 environmental management system, Urban is contributing to a greener living environment by applying green measures and control mechanisms into its daily operations. All along, Urban is a household name of "Hong Kong's Premier Community Manager" through organising and participating in over 100 CSR activities annually. More importantly, Urban's well-defined and comprehensive risks and crisis management system covers an extensive spectrum of crises, from the operational suspension of building services and systems breakdowns, to the territory-wide pandemic diseases.

City Essential Services Segment

Ample cross-selling opportunities with our other two services segments, the benefits created by the economies of scale and cross synergies have gradually become increasingly pertinent.

1. **Cleaning Services**

   The Hong Kong local COVID-19 cases has been getting stable for several months which resulted in sharply decreased demands of ad-hoc disinfection services. As citizens increase their awareness of virus prevention and personal hygiene, the demands of preventive disinfection services have been moderately growing. Nevertheless, the Omicron variant of COVID-19 has been spreading in many countries around the world recently. Hong Kong is inevitably affected by it. Waihong management believes that routine disinfection services will keep in mass demands in the market until Hong Kong residents are mostly vaccinated. Waihong continues to promote antiviral coating and preventive sterilisation services as these kinds of services can generate higher profit for it.

   Waihong foresees that the rebound of economy will benefit the Hong Kong business community, in particular, tourism, retail and catering service industries, after resumption of cross border travels between Hong Kong and Mainland China in the coming future. Waihong may also benefit from rising demands of quality cleaning services in the market by tightening hygienic measure for tourism points, exhibition venues, cross-border and public facilities. Waihong has to invest more resources to strive for bidding mega service contracts from different market segments. By capitalising on its extensive experience, systematic and customised services with brands, Waihong has competitive advantages catering with the market needs to sustain its business growth.

   With a view to increasing its competitiveness to retain its current service contracts, Waihong strives to lower its operating costs in every aspect and introduce smart innovative equipment to enhance its service quality for attracting more clients. Waihong has succeeded in acquiring some service contracts in high-end market, including shopping mall and residential properties from well-known developers, prestige international colleges, government properties etc.

   The waste-charging scheme was passed by the LegCo in August 2021 and will be implemented in the year of 2023. It will create more business opportunities to Waihong's waste management sector for commercial waste disposal and recycling services. For existing business expansion, Waihong may seize the opportunity to expand the scale of fleet for different kinds of vehicles providing food waste, clinical waste and municipal solid waste disposal services. For new business expansion, Waihong will consider establishing an environmental recycle team to perform collection and logistic services for recycling materials in the coming years.

   Looking forward to the new business opportunities, Waihong will advocate a diversified business development strategy, actively expand its business scope adding high-quality living elements to premium clients. Waihong will strengthen the promotion of premium home services providing exclusive expert and superior services from a team of dedicated professionals to lux home owners with our bespoke sanitation hygienic management, pest control, disinfection and formaldehyde volatile organic compounds (VOC) removal treatment services.

   In recent years, Waihong has actively introduced innovative ideas and technologies, and has adopted Artificial Intelligence ("AI") smart systems to improve its daily management and operations. Waihong has introduced Internet of Things ("IoT") smart toilet management systems for customers in some commercial buildings and also introduced different types of robotic devices to handle disinfection, carpet vacuum, floor cleaning and polishing in different worksites. Waihong also utilises in-house developed mobile inspection App for improving work efficiency. Waihong will continue to seek for strategic partnerships with high-tech and smart solutions to provide innovative tools, machines and systems to its clients.

2. **Technical Support & Maintenance Services**

Hundreds of new buildings will be constructed each year. Over 80% of existing commercial floor areas and more than 70% of residential units are aged over 20 years in Hong Kong. The local economy remains on track for recovery recently. The Group's technical support & maintenance services section envisages a continuous demand for the term maintenance contracts from different prestigious commercial and residential buildings, hospitals, the public sector and educational institutions seeking the services of quality contractors to assist them in maintaining their properties in the best possible condition. Besides, large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the Group's technical support & maintenance services section.

3. **Security Guarding & Event Services**

Demand for security services had grown at a steady pace over the years and most noticeably at the residential sector, creating huge demands for security services. General Security is a major player in the security industry with a long history for providing high end professional services.

Amid the recent pandemic situation, there is either a cancellation or postponement of the scheduled exhibition events. However, unique business opportunities still exist for the industry, including demands for manpower conducting temperature screening in all sorts of settings. In addition, the exhibition venue near the airport was converted into a medical facility and resulted in the need for round the clock security services. General Security was able to grasp these non-regular demands by means of its professionalism and capacity in providing manpower.

Despite the significantly reduced activities in the events and exhibitions industry under the pandemic, Perfect Event offers its bespoke concierge services to several renowned clients during the period under review, including but not limited to prestigious clubhouses and event organisers for the first International Property Management and Procurement Expo in Hong Kong and one of the major Canto-Pop award presentations. Perfect Event is well positioned to capture the opportunities when the pandemic eases and the events and exhibitions industry resumes to normal.

Regarding the security system business, the clients' sentiments are still cautious under the pandemic outspread and certain planned installation works are deferred. However, we continue to explore opportunities to diversify the business by means of expanding product range as well as clientele, including grasping cross-selling opportunities to the other corporate clients of our Group. Several projects were picked up during the period under review including the upgrading works for a prestigious hotel and security system installation works for the election day at Hong Kong Convention and Exhibition Centre.

4. **Insurance Solutions**

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 and employee benefits such as group medical and MPF schemes. Nova will also focus more on specialty products with higher yields and where in-depth professional skills and knowledge is required such as cyber insurance and trade credit insurance. By taking advantage of its international broker networks, Nova will continue to penetrate clients in Hong Kong who have overseas investments.

5. **Environmental Solutions**

Increasing public awareness of the importance of sustainable environment has fueled the demand for environmental engineering services and products. The Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) enacted in 2012 continues to support the business development of the Group's environmental consultancy services. Its seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively have brought steady growth to its environmental engineering business. Our laboratory has been accredited by the Hong Kong Accreditation Service under the Hong Kong Laboratory Accreditation Scheme (HOKLAS) since 2015 which complement the work of the environmental engineering business. The Group has also been approved as an Accredited Indoor Air Quality ("IAQ") Certificate Issuing Body (CIB). The inspection works of IAQ further strengthen the Group's environmental consultancy services.

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

Since the establishment of the new ELV division, the Group has been awarded several ELV projects including four projects on Sai Yuen Lane, Sheung Heung Road, Luk Hop Street and Waterloo Road, two public housing projects on Texaco Road in Tsuen Wan and Tung Chung, an office development project at King's Road in North Point, an Aviation Training Centre at Chek Lap Kok, Inland Revenue Tower at Kai Tak, Immigration Headquarters at Tseung Kwan O, Kai Tak Sports Park and 11 SKIES commercial development at Chep Lap Kok.

With the technological advancement, the Group will keep abreast of the market trends and facilitate identification of new products. We 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, 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 valued 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 our Group's 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. We embrace technology to enhance our business operation efficiency. Systems such as landscape management apps and automated irrigation system will be used in our operation to cope with the dynamic business environment.

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

E&M Services Segment

> **Continue to make strides in accommodating the Hong Kong Government's Construction 2.0 initiative, which primarily promotes innovation, professionalism and revitalisation.**

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 June 2021, expenditure in E&M construction works each year will amount to over HK$24 billion for the public sector and over HK$22 billion for the private sector over the next five years.

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. The supply of land mainly comes from Tung Chung New Town Extension, Kai Tak Development Area, Anderson Road Quarry, Hung Shui Kiu/Ha Tsuen, Kwu Tung North/Fanling North, etc. 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. The Government will also conduct a further review of the "Green Belt" zone and unlocking Tso/Tong Islands in the New Territories.

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, and the redevelopment of three urban squatter areas in Cha Kwo Ling Village, Ngau Chi Wan Village and Chuk Yuen United Village (8,700 units) and Tai Hang Sai Estate (3,300 units). Furthermore, the Housing Authority had decided to redevelop its four factory estates into 4,800 public housing units in the next 10 years.

The Hong Kong Government has also increased the funding to HK$11.6 billion to build 20,000 transitional housing units by non-government organisations (NGOs) with the use of the MiC method starting from 2020 for the coming few years.

For private residential and commercial developments, the redevelopments 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 including West Kowloon High Speed Rail Station, LOHAS Park Station, Wong Chuk Hang Station, Ho Man Tin Station, Kam Sheung Road Station, etc. 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 covering, among others, the construction of a new acute hospital at Kai Tak and the redevelopment or expansion of various hospitals such as Prince of Wales Hospital, North District Hospital, Princess Margaret Hospital, Our Lady of Maryknoll Hospital and Grantham Hospital.

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.

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

Apart from the above, construction of the Shatin to Central Link, investments in the West Kowloon Cultural District, expansion of convention and exhibition venues in Wan Chai, development of university hostel, and revitalisation of industrial buildings in Kwun Tong and Wong Chuk Hang will definitely help boost the construction industry in Hong Kong in the coming decade. The Hong Kong Government has also successfully transformed Kowloon East (namely the vicinity of Kwun Tong, Kowloon Bay and Kai Tak) into the second core business district under the "Energising Kowloon East" Initiative, thereby increasing the commercial gross floor area to about 3.5 million square metres, making the scale comparable with the core business district in Central.

The Hong Kong Government, in its 2020 Policy Address, strives to implement seven new railway projects in a proactive manner: the MTRC is embarking on the detailed planning and design for the Tung Chung Line Extension and the Tuen Mun South Extension; and will commence the planning and design of the Northern Link shortly. The MTRC will also submit the South Island Line (West) project proposal to the Government.

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. These include the construction of a three-runway system (2022) and modification North Runway (2024), the expansion of the existing Terminal 2 (2024), the development of a high value-added logistics centre at the South Cargo Precinct (2023), the 11 SKIES development projects (2022 - 2025) and the development of phase two of AsiaWorld-Expo at the Hong Kong International Airport.

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. Feasibility, design and construction studies of DCS continue in all future new development areas, such as in Hung Shui Kiu/Ha Tsuen and Tseung Kwan O industrial estate.

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. Since the promulgation of the Smart City Blueprint for Hong Kong in late 2017, the Hong Kong Government has released over 130 smart city initiatives in the Smart City Blueprint for Hong Kong 2.0 in 2020.

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 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 include 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, 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 leads to an increase in premium rates for certain types of insurances due to poor claims experience caused by the pandemic, which is positive to 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 soften retail market. Our landscape and building material trading businesses have applied stringent cost controls to mitigate the above adverse impacts caused by the pandemic.

Regarding our E&M business, as a result of the government's measures to contain the spread of the virus, our construction projects have experienced disruptions mainly caused by delay in the supply and distribution channels and shortage of labour force consequent to the mandatory quarantine measures.

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; 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 period under review. 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.