

Chairman's Statement

To Our Shareholders:

On behalf of the board of directors (the "Board") of FSE Services Group Limited (the "Company", together with our subsidiaries, the "Group"), I am pleased to present the annual results of the Company for the year ended 30 June 2020 ("FY2020" or the "Year").

MARKET REVIEW

Started in January 2020, the outbreak of the novel coronavirus ("COVID-19") pandemic has brought an unprecedentedly severe impact to the global economic dynamism. The remaining period of 2020 will undoubtedly be a difficult time in the face of heightened uncertainty looming over the global political and economic environment, including the resurgence of pandemic, the escalating tensions between China and US, the hard Brexit, China's economic growth prospects, the global quantitative easing and the ultra-low interest rate environment. Since the pandemic has dampened economic activities globally, the market sentiment and the general operating environment for businesses in Hong Kong are susceptible to a slowdown. As a result of the social unrests and outbreak of pandemic occurred in the city during the Year, our laundry services business was dealt a blow by the plummeting tourist arrivals and exceptionally low hotel room occupancy rates. Besides, some of our E&M engineering projects have also been hindered by the suspension of site works, delayed delivery of parts and materials as well as Legislative Council's funding approvals for new public works. Nevertheless, our management has adopted various immediate measures to cope with this situation, including proactive reviews of project execution and continuing cost management, which we believe can help the Group navigate the crisis. In addition, we achieved another milestone of successfully completing the acquisition of Urban and Kiu Lok ("FSE Property and Facility Management Services Group") on 16 December 2019 which enabled the Group to expand its business scale, diversify its revenue stream and increase its profitability as planned, despite the current pandemic environment. With the above efforts, the Group's FY2020 profit attributable to shareholders reached HK\$309.6 million, including HK\$81.0 million (equivalent to 26.2% of the Group's FY2020 profit or HK\$0.18 of earnings per share) contributed by FSE Property and Facility Management Group acquired during the Year, a testimony to its resilience and capability for sustainable business growth, while maintaining a net cash position at the end of the Year. The Board has proposed a final dividend of HK14.4 cents per ordinary share to its ordinary shareholders for the Year. Including the interim dividend of HK12.8 cents per ordinary share for the six months ended 31 December 2019, the total dividend payout for the Year is HK27.2 cents per ordinary share, representing an increase of 23.6% compared with last year's and a dividend payout ratio of 45.7%.

E&M ENGINEERING & ENVIRONMENTAL SERVICES

Hong Kong

Although building and construction activities are expected to suffer in 2020 due to the lingering impacts of the pandemic and prevailing political uncertainty that may lead to delayed approvals for public works and declining market sentiment on private construction investments, we remain optimistic towards the construction and E&M engineering industry. Given the Hong Kong Government's effort on increasing infrastructure investment and maintaining steady land supply, the total E&M construction works expenditure for the fiscal year 2020/21 is expected to exceed HK\$23 billion for the public sector and over HK\$25 billion for the private sector according to the medium-term construction expenditure forecast provided by the Construction Industry Council. The Group's E&M engineering business currently enjoys the position as one of the two dominant players in the Hong Kong market and is adequately prepared to take on different sizeable infrastructure and building projects. Notable among these are our major submitted tenders: the additional District Cooling System at the Kai Tak Development and the mixed-used developments at former Kai Tak runway and MTRC Wong Chuk Hang station, currently under negotiation. Preparations are also underway for the tenders for the Government Chinese Medicines Testing Institute and Chinese Medicine Hospital in Tseung

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Kwan O, the second 10-year plan of in-situ hospital re-development covering a total of 18 hospital projects, Lok Ma Chau Loop development and the New Town Extension projects at Kwu Tung North, Fanling North and Hung Shui Kiu. Innovation and technology are instrumental to delivering the infrastructure of tomorrow. Towards that end, in order to accommodate the Construction 2.0 initiative of the Government which advocates innovation, professionalism and revitalisation, the Group strives to maintain a stable and professional E&M team complemented by advanced technological capabilities in areas including Building Information Modelling (BIM) and Modular Integrated Construction (MiC) technology. Through these capabilities, the Group can enhance engineering designs and both work quality and productivity to meet the requirements of these potential projects.

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

Mainland China

Despite the current pandemic, the economic fundamentals of China's economy have not changed. Domestically, the Chinese government continues to introduce moderate growth-supportive measures to alleviate pressure from the precarious economic situation and further support the economy and implement fiscal stimulus as needed. Thanks to the geographical proximity, the Greater Bay Area development represents another strategically significant initiative which undoubtedly injects a new growth impetus into the Group. As one of the few Hong Kong-based E&M general engineering contractors with Class I Qualification in Mainland China, the Group has an advantage in optimising project coverage in this crucial market, with Qianhai and Zengcheng projects in the pipeline, and laying a solid foundation for future development. As in previous years, the Group will strive to extend its presence in Mainland China with our dual-core engine, supply/installation and project management expertise.

Macau

Like other regions, the pandemic has disrupted the economic environment of Macau. Nevertheless, we are still optimistic about its long-term development and anticipate another wave of financial investments from the gaming concessionaires and sub-concessionaires before the licence renewal in 2022 to further position Macau as a world-class tourism centre. The rollout of Macau's Light Rail Transit system in late 2019 and the on-going expansion of the China High Speed Rail routes to Zhuhai border gate from key cities in China will further enhance the connectivity in the city. Together with the ongoing Greater Bay Area integration initiatives, Macau could look forward to significantly improved accessibility as well as enhanced market growth along this strategic direction.

INTEGRATED PROPERTY & FACILITY SERVICES

Waihong is one of the top three players whilst NCL is one of the top two players in the Hong Kong environmental hygiene services market and laundry services market respectively. Owing to the recent pandemic, the Hong Kong Government has stressed on environmental and hygiene control and allocated funds for reinforcing related policies including waste management and recycling for a greener and healthier living environment. Waihong is expected to benefit from the escalated demand for pandemic prevention and disinfection works in the coming months. Once the pandemic gets under control, the progressive transformation of Hong Kong economy towards higher value-added activities, high-end residential and commercial buildings will definitely be the key growth driver to Waihong's business in the coming years. Capitalising on its extensive experience, quality and customised services and distinctive brand, Waihong will continue to expand its current service capacity and broaden the spectrum of its premier clients in order to expand its market share. As a result of the pandemic outbreak and social unrests in Hong Kong, our laundry services business has also been severely impacted by declined business activities as mentioned earlier. To cope with this, NCL will continue to focus more on key accounts and adopt effective cost management.

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Urban and Kiu Lok, with a well-established brand as “Hong Kong’s Premier Community Manager”, is the largest among all independent players in the residential, non-residential and car park property management markets in Hong Kong after discounted service companies owned by property developers. Regarding its industry outlook, the property management market is expected to expand in parallel to the growing number of properties in Hong Kong, supported by the expediting of land supply and strong demand for housing. Moreover, after the promulgation of Property Management Services Ordinance on the licensing regime on 22 May 2020 coupled with the aftermath of the pandemic, it will boost the demand for high-quality property management services like ours, which generally outperform the industry peers without fulfilling the licensing requirements. Proclamation of the Outline Development Plan for the Greater Bay Area to become an international first-class bay area and world-class city cluster presents a unique opportunity for Hong Kong with great institutional advantage. Leveraging the Group’s extensive E&M experience in Mainland China, its property and facility management group companies are exploring and accelerating their expansion by means of organic growth, strategic collaboration and mergers and acquisitions into the Greater Bay Area, so as to realise its full potential and expand its scale of property and facility management business geographically.

CONCLUSION

Despite the challenges from the pandemic and social unrests in Hong Kong, the Group will surmount the difficulty with its solid financial position and proven track record. It will also continue to seek business opportunities to further expand and maximise shareholders’ value.

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

Dr. Cheng Kar Shun, Henry

Chairman

Hong Kong, 25 September 2020