Chairman's Statement

To Our Shareholders:

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

ACQUISITION OF WAIHONG CLEANING AND NEW CHINA STEAM LAUNDRY

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

MARKET REVIEW

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

Chairman's Statement

E&M ENGINEERING

Hong Kong

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

Mainland China

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

Macau

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

ENVIRONMENTAL MANAGEMENT SERVICES

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

FACILITY SERVICES

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

CONCLUSION

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

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

Dr. Cheng Kar Shun, Henry
Chairman

Hong Kong, 26 September 2018