

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 2019 ("FY2019" or the "Year").

MARKET REVIEW

This financial year has been a very challenging year. The medium-term outlook remains weak with overarching challenges and uncertainties looming over the global political and economic environment that require close attention, like the Brexit deadlock, China's economic growth prospects, the normalisation of US interest rates and most recently the further escalation in trade tensions between the US and Mainland China. The market sentiment and the general operating environment for businesses in the city has become increasingly cautious and enterprises should be well-prepared for any potential impact from the industry especially the rippling effect of the recent political turmoil. In view of the recent social instability in Hong Kong, our laundry services business is impacted by the plummeted tourist arrivals and low room occupancy rates. As in previous years, the Group has also encountered a multitude of challenges, mainly keen competition in the marketplace and dwindling numbers of skilled workers that affect the profit margin. Talent development is also an essential element and a prerequisite for the sustainable growth of the Group. Therefore, 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. Amidst the rising external headwinds on the Hong Kong economy, the Group should remain vigilant and prepare itself to drive the development of each of its business segments to the fullest extent possible. For the year under review, coupled with the satisfactory performance achieved by the maintenance services business driven by the increased demand in term contracts, renovation and systems upgrading works in the commercial and institution sectors, the Group's profit attributable to equity holders reached HK\$247.5 million, testimony to its resilience and capability to continuously grow its businesses. The Board has proposed a final dividend of HK11.9 cents per share for the Year. Including the interim dividend of HK10.1 cents per share for the six months ended 31 December 2018, the total dividend payout for the Year is HK22.0 cents per share, equivalent to a payout ratio of 40.0%.

E&M ENGINEERING Hong Kong

Overall building and construction activity is expected to further expand albeit at a slower pace in 2019 on the back of strategic infrastructure and private construction investment despite the prevailing local economic and political uncertainty that may lead to delay of the approval of public works. Given the government's sustained effort, the total E&M construction works expenditure for the fiscal year 2019/20 is expected to exceed HK\$25.0 billion for the public sector and more than HK\$27.0 billion for the private sector. Recently, the Hong Kong Government has proactively taken forward the eight land supply options tendered by the "Task Force on Land Supply" in order to build a land reserve to help resolve the challenge of a land supply shortage for the long-term development of Hong Kong. In view of the above, the Group's E&M engineering business currently enjoys being one of the top two dominant players in the Hong Kong market and it is adequately prepared to take on different sizeable infrastructure and building projects in the marketplace. Notable among these are two of our major submitted tenders, Relocation of Wan Chai Immigration Headquarters and the mega development SKYCITY at Hong Kong International Airport, which are currently under negotiation. Preparations are also underway for the tenders for the additional District Cooling System at the Kai Tak Development, the second 10-year plan of in-situ hospital re-development, re-provisioning of the existing government facilities in Kwun Tong and Kowloon Bay, Lok Ma Chau Loop development and the New Town Extension projects at Kwu Tung North, Fanling North and Hung Shui Kiu. Towards that end, in order to accommodate the Construction 2.0 initiative of the Government which advocates innovation, professionalisation 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. We are committed to contributing to the transformation of the industry and strongly believe that new technologies will facilitate operational efficiency and foster new innovative products and services that reap financial benefits for the Group.

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Mainland China

The year 2019 is a year to remain cautious and highly alert to signals on where China's economy is headed. In the context of the recent escalating trade tensions causing jitters in the economic environment, the Chinese government continues to introduce moderate growth-supportive measures to alleviate the pressure from the precarious economic situation and further liberalize the economy and implement fiscal stimulus as needed. Coupled with the continuous human-centered urbanization at the national level to upgrade coastal cities and a neutral and prudent monetary policy, this strategic multifaceted transitional rebalancing should unleash a stable demand for housing and related commercial developments, presenting fresh opportunities to the construction and E&M engineering industry. Thanks to the geographical proximity as well as strong cultural and historical ties, the Greater Bay Area development represents another strategically significant initiative with potentially abundant land resources and 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 forging ties with selected partners to expand its footprint in this crucial market and lay a solid foundation for future development. As in previous years, the Group will work hard at extending its presence in Mainland China, adhering to a disciplined approach in its business development.

Macau

The economy in Macau has dragged at the beginning of 2019 due to sluggish growth in gaming spending and reduced level of investment. However, we are optimistic about its long-term growth and development and anticipate another wave of financial investments will be made by gaming concessionaires and sub-concessionaires before licence renewal in 2022 to further position Macau as a world-class tourism center. As stated 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 strengthening non-gaming leisure and entertainment provisions. This strategic direction is aimed at facilitating greater diversity in Macau's economy and should boost E&M engineering business opportunities in the short-to-medium term. Together with the ongoing Greater Bay Area integration initiatives, Macau could look forward to significantly improved accessibility as well as enhanced market growth under this new paradigm.

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

Waihong and NCL are both principally engaged in the provision of facility services including cleaning and laundry services. Waihong is one of the top three players whilst NCL is one of the largest players in the Hong Kong environmental hygiene services market and laundry services market respectively. Despite the slowdown of Hong Kong's economy, the demand for Waihong's specialist cleaning services in Hong Kong is healthy and stable. In view of the progressive transformation of the Hong Kong economy towards higher value-added activities, high-end residential and commercial buildings will be the key growth driver in a number of new completions during the coming years. The greater number of commercial and residential buildings and hotels in Hong Kong, along with 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, and the increasing need for outsourcing environmental services will raise the demand for environmental services from property management companies and property owners. From a public hygiene perspective, due to past outbreaks of disease, the Hong Kong Government will place considerable emphasis on environmental and hygiene control and allocate funds for reinforcing related policies including waste management and recycling. By capitalizing on its extensive experience, quality and customized services and distinctive brand, Waihong will have competitive advantages to win new tenders or attain a high renewal rate for its existing contracts related to the above-mentioned business opportunities. Strategically, the company also plans to expand current service capacity including government contracts and broaden the spectrum of premiere clients in order to increase market penetration and expand its

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market share. In view of the industry risk profile, the environmental hygiene services is labour-intensive and Waihong is nevertheless facing the challenges of labour shortages that could result in higher costs. Furthermore, there has been a decrease in the number of insurance companies that insure against environmental risks in recent months that has led to soaring insurance premiums. To meet these challenges, Waihong must maintain a stable experienced management team in supervising the labour force, implementing an effective cost control management and controlling the overall quality of services and workplace safety. Last but not least, in view of the challenges for our laundry services business, NCL will intensify its focus on key accounts, efficient and effective cost management, ensuring customer satisfaction and sustainable growth of its business. Besides, NCL will continue to invest and upgrade our advanced and innovative laundry equipment to enhance our operational efficiency and provide value-added services to our clients.

CONCLUSION

With our solid and healthy financial position, the Group will continue to dedicate efforts and seek business opportunities to further expand our business and maximize our 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, 26 September 2019