

Chairman's Statement



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To Our Shareholders:

On behalf of the board of directors (the "Board") of FSE Lifestyle Services Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual results of the Company for the year ended 30 June 2022 ("FY2022" or the "Year").

Thanks to a Tightly-Knitted Business Ecosystem

The year 2022 marks the sixth anniversary of the Company's listing in Hong Kong. Despite the multiple waves of pandemic outbreak and the complicated economic environment, with a solid foundation for growth, the Group's businesses had proven to be resilient in FY2022. By continuing to diversify its range of service offerings with proactive marketing efforts, the Group broadened its revenue streams, improving the stability of our operation, enabling us to be better positioned to cushion against the impacts of the epidemic.

Service quality is the cornerstone of the Group's development. With that to build on, during the Year, we rationalised our business lines and optimised our organisational structure and management teams, as part of our succession planning, and repositioned the Group as a large-scale and unique lifestyle services conglomerate offering the following comprehensive range of services to clients:

- i. **Property & Facility Management Services**
- ii. **City Essential Services** including Cleaning, Pest Control & Disinfection, Technical Support & Maintenance, Security Guarding & Event Services, Insurance Solutions and Environmental Solutions
- iii. **E&M Services**

When compared financial performance to our listing in the year ended 30 June 2016, the Group doubled the consolidated revenue and more than tripled the profit attributable to shareholders for the financial year ended 30 June 2022, and earnings per share increased by more than 160%.

The increase in revenue was owed primarily to our acquisition strategy creating cross-selling synergies and strengthening customer loyalty. This business ecosystem has successfully allowed us to hit the goal of balancing growth in scale and cash flow. The property & facility management services and city essential services segments accounted for more than half of the gross profits and net profits of the Group for the Year. Practising prudent financial management at all times, the Group kept its net gearing ratio unchanged at 0%. During the Year, amid the prevailing pandemic, there was a steady demand for professional and branded services, and we see this phenomenon to continue presenting the Group with abundant business opportunities.

Looking ahead, our roadmap for growth would be to focus on our recognisable brands, our service quality, our sustainability efforts, our use of technology and our sound corporate governance, delivering cost effectiveness to our clients. The Group boasts its unique capability in providing high quality complementary integrated services and creating cross-selling opportunities, with the use of advanced technologies and smart solutions as Artificial Intelligence (“AI”) and Internet of Things (“IoT”), to increase the satisfaction of our valued customers. To support the growth of our businesses, we will continue to invest in people and upgrade our colleagues, in particular young talents with diverse and tailored training. Thanks to the above efforts, the Group’s FY2022 profit attributable to shareholders reached HK\$502.9 million, with a net cash position maintained at the end of the Year. Although reported net profit was 14% less than the HK\$586.9 million for FY2021, if excluding the effects of government grants for both years and the one-off non-recurring items, the Group’s adjusted net profit for the Year would have increased by 35%. The Board has proposed a final dividend of HK24.1 cents per share for the Year. Including the interim dividend of HK20.9 cents per ordinary share for the six months ended 31 December 2021, the total dividend payout for the Year is HK45.0 cents per ordinary share, equivalent to a payout ratio of 41.0%.

Property & Facility Management Services

Our Property & Facility Management Group, which comprises Urban, International Property Management Limited and Kiu Lok, is one of the largest independent service providers in property and car park management service markets in Hong Kong. We currently have more than 300 property management contracts covering not less than 150,000 residential flats, 3.2 million square metres of commercial properties and 70,000 car parks. During the volatile pandemic, there has been a growing demand for one-stop, high-quality comprehensive property and facility management services.

We help improve people’s living conditions including property pre-management services, building renovation and rejuvenation, leasing and tenancy management, some of which present ample cross-selling opportunities to our city essential services segment. With the Hong Kong Government’s determination to sustain housing and land supply, the property management market is expected to expand alongside growing number of property developments in Hong Kong. Urban renewal is another key government priority that will fuel the growth momentum of the property management industry in coming years.

Furthermore, armed with extensive E&M experience in Mainland China, the Group is also exploring opportunities in the Greater Bay Area via strategic collaboration and mergers and acquisitions. To satisfy the rising customer demand for smart, sustainable and green living, our Property & Facility Management Group is committed to, continuing application of new and modern management standards and information technologies in its operations.

City Essential Services

Building on the excellent brand reputation of our property and facility management services and E&M services, the Group has continued to successfully promote its city essential services in the year:

Cleaning Services – Waihong is a top three player in the Hong Kong environmental hygiene services market. Amid the pandemic, the Hong Kong Government has emphasised hygiene and environmental control. Against that backdrop,

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Waihong recently secured contracts from the Leisure and Cultural Services Department and the Department of Health, hence diversified its revenue sources and expanded by more than 40% the proportion of revenue from the Government and Quasi-government sector.

Equipped with extensive experience, high-quality customised services and a distinctive brand, Waihong will continue to increase participation in green waste disposal business to better accommodate the Hong Kong Government's environmental policy. Furthermore, with the solid waste-charging scheme to be implemented in 2023, together with the government pushing the Waste Blueprint 2035 and Climate Action Plan 2050, we are looking at different recycling business opportunities. Given the increasing public awareness of environmental hygiene and demand for disinfection service for fighting COVID-19, we are optimistic about the future of the industry.

Technical Support & Maintenance Services – Research from the Urban Renewal Authority revealed that there are more than 10,000 buildings aged 50 years or above in Hong Kong. Thus, this division envisages a growing demand for term maintenance contracts, large-scale alterations, additions and system retrofits in different commercial and residential buildings, hospitals, government properties and educational institutions. Besides, this division will continue its complementary role in supporting our property & facility management services business.

Security Guarding & Event Services – General Security holds all the three licenses for a security service company in Hong Kong and is a top two player in the security guarding services. Over the years, demand for security services has grown steadily and most noticeably in the residential sector. Amid the pandemic, we won ad-hoc contracts for manpower to conduct pandemic prevention procedures. Moreover, our Event Services division has been delivering and actively targeting the service needs of meeting, incentive, convention and exhibition sector, and leisure and cultural activities. It aims to capture large-scale event services in the event and exhibition sector. Technological advancement has also created more demand for advanced electronic security devices like alarm controls, video surveillance cameras. To capture this business opportunity, the Group will expand

the product range of its security system business. Cloud technology and AI will also be widely adopted for patrol and manpower planning to heighten operational efficiency.

Insurance Solutions – Nova is the leader among local insurance brokers in Hong Kong in terms of gross insurance brokerage income. It offers to corporate and individual clients one-stop risk management and insurance solutions for, including but not limited to, property, casualty, construction and employee benefits. Given Nova's wealth of experience, with a large number of construction projects expected in the near term, and a strong demand for specialty insurances such as cyber insurance and professional indemnity insurance, the Group expects to see further growth of its insurance solutions business.

Environmental Solutions – The Hong Kong Government has placed much emphasis on green development, which is an important focus of development for the Group. We intend to seize the numerous opportunities brought by the growing public awareness of environmental issues. Aware of the high living environment and hygiene standards expected, the Group will focus on development of integrated facility management solutions including smart office, smart toilet, real time indoor air quality ("IAQ") monitoring and rodent control.

The extra-low voltage team of the division will apply advanced technologies such as AI, IoT and various 5G mobile applications to develop new innovative business and strengthen our building management and environmental monitoring system to help enhance building sustainability and environmental quality.

Furthermore, given the government's consistent greening policies, town planning initiatives and various support schemes, as a landscape service provider, we can and are ready to contribute to development of the industry and provide high-quality arboriculture and horticulture services to our prestigious clients.

E&M Services

Hong Kong

The Hong Kong Government has pledged to maintain a stable commercial and residential land supply, with average E&M construction work expenditure for the fiscal

year 2022/23, according to Construction Industry Council data, expected to exceed HK\$27 billion in the public sector and HK\$23 billion in the private sector. The Group's E&M services segment is currently one of two dominant players in the Hong Kong market. Despite the large-scale projects on hand, including the Kai Tak Sports Park, the Immigration Headquarters in Tseung Kwan O and 11 SKIES in Chek Lap Kok, the Group is adequately prepared to take on more sizeable infrastructure and building projects. Among the major design and construction tenders we have submitted, the more notable ones included the District Court on Caroline Hill Road, the Public New Markets in Tin Shui Wai and Expansion of the Legislative Council Complex, all of which are currently under negotiation. Preparation is also underway in relation to tenders for the District Cooling System at Tung Chung New Town Extension East and projects in the 10-year Hospital Development Plan. In addition, the Northern Metropolis Development Strategy, which is centered around urban-rural integration, is set to become the most important city development initiative. The Group will continue to march forward applying its technological strengths and differentiated competencies, such as Building Information Modelling ("BIM") and Modular Integrated Construction ("MiC"), to expand its featured contracting business. Finally, the Group will closely monitor and navigate the operational risks brought by the recurrent waves of pandemic, particularly supply chain interruption, via responsible financial planning and flexible resource deployment.

Mainland China

In Mainland China, with the pandemic resurging in recent months, the operating environment for the Group has become more challenging. However, mainland authorities have introduced a series of relevant regulatory and credit policies and insisted on pursuing the all-important common prosperity objective of promoting quality growth, social well-being, and environmental sustainability. Furthermore, thanks to its proximity to the Greater Bay Area, another significant strategic focus of the Chinese government, the Group expects to see new growth impetus for its businesses. 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 its project coverage in

this sizable market. In addition, with substantial experience accumulated over 30 years, extensive goodwill and trusted brands, the Group has a strong platform for winning new contracts in this market. Its Qianhai and Zengcheng projects are in good progress approaching completion, which will help consolidate the foundation of the Group for future development. As in previous years, the Group will continue to strive to bolster its business presence in Mainland China, with its dual-core engine driving, plus supply/installation and project management expertise and well-established brand.

Macau

The pandemic-related travel restrictions and recurrence of COVID-19 outbreaks has impacted the number of visitors to Macau and adversely affected the Macau economy in 2022. Nevertheless, we remain optimistic about Macau's long-term development. We anticipate new investments and related E&M works after the award of the gaming licences. The increased usage of the Hong Kong-Zhuhai-Macau Bridge will also fuel economic recovery and related contracting works in Macau.

Conclusion

Despite the challenges posed by the pandemic in Hong Kong, the Group has and will continue to grow. It will also continue to seek new business opportunities to expand its operations and maximise shareholder value.

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

Dr. Cheng Kar Shun, Henry

Chairman

Hong Kong, 5 September 2022