

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 2023 ("FY2023" or the "Year").

Substantial Revenue and Profit Growth Since The Company's Listing

The year 2023 marks the seventh anniversary of the Company's listing in Hong Kong. Since then, we have remained committed to driving organic growth, diversifying our service offerings through proactive marketing efforts and ensuring effective cost management, highlighting the resilience of our businesses and enabling us to better withstand current challenges.

At a strategic level, this business ecosystem is central to our future development, which is based on essential governance and diversification. The Group will be uniquely positioned to provide high-quality and complementary integrated services, create cross-selling opportunities, and leverage advanced technologies and smart solutions such as Artificial Intelligence ("AI") and the Internet of Things ("IoT") to enhance the satisfaction of our valued customers.

In addition to our asset-light structural approach, service quality has been the cornerstone of the Group's development. On this basis, we have been able to rapidly diversify our business lines through organic growth and acquisitions, and optimise our management team as part of a succession plan to reposition the Group as a large and unique lifestyle services conglomerate offering the following comprehensive range of services to clients:



Property & Facility Management Services

including Property & Facility Management, Carparks Management and Sales & Leasing



City Essential Services including Cleaning & Pest Control, Technical Support & Maintenance, Security Guarding & Event Services, Insurance Solutions and Environmental Solutions



E&M Services including Engineering Works, Design & Consultancy

In 2023, the pandemic has largely subsided and the city's operating environment is gradually improving. Compared with our financial performance for the year ended 30 June 2016, the Group achieved more than doubled consolidated revenue, more than tripled profit attributable to shareholders, and increased earnings per share by more than 170% for FY2023. The increase in revenue was primarily driven by our established business ecosystem which creates cross-selling synergies and strengthens customer loyalty. This enabled us to achieve our goal of balancing growth in scale with cash flow. The Property & Facility Management Services and City Essential Services segments accounted for more than half of the Group's revenue, gross and net profit for the Year. The Group has continued to practise prudent financial management. It had a zero net gearing ratio during the Year.

To support the continued growth of our businesses, we have broadened our management bandwidth by optimising organisational structures within our various business units. Under our people-centred approach, we are actively

promoting occupational health and safety and will continue to invest in our people through diversified and targeted training to develop our colleagues, especially young talents.

As a result of adopting appropriate risk management strategies and the efforts of our management team, the Group achieved profit attributable to shareholders of HK\$522.9 million for FY2023 and maintained a net cash position at the end of the Year. Excluding the impact of government grants in both years, the Group's adjusted net profit for the Year would have increased by 7.5%. The Board has proposed a final dividend of HK21.3 cents per share for the Year. Including the interim dividend of HK24.5 cents per ordinary share for the six months ended 31 December 2022, the total dividend payout for the Year is HK45.8 cents per ordinary share, representing a payout ratio of 40.1%.



The Group achieved more than doubled consolidated revenue and more than tripled profit attributable to shareholders for FY2023 compared to FY2016.

Property & Facility Management Services

Our Property & Facility Management Group, which comprises Urban, International Property Management and Kiu Lok, is one of the largest independent property and car park management service providers in Hong Kong. We currently have more than 300 property management contracts covering no less than 140,000 residential units, 3.1 million square metres of commercial property and 60,000 car park spaces. With the paradigm shift and the normalisation of the pandemic, it is expected that there will be a growing trend of outsourcing non-core operations in the real estate sector.

With more than 50 years of experience, we are able to improve people's living conditions through property management services, building renovation and refurbishment, and leasing and tenancy management, some of which provide significant cross-selling opportunities for our City Essential Services segment. With the Hong Kong Government determined to increase housing and land supply, the property management market is expected to expand in line with the increase in property development in Hong Kong. Urban renewal is another government priority that will drive the growth momentum of the property management industry in the coming years. The Group has one of the strongest and most professionally qualified service teams with over 300 Tier 1 and Tier 2 property management professionals, making it well prepared to capitalise on business opportunities and fully compliant with the Property Management Services Ordinance.

To meet the growing customer demand for smart, sustainable and green living, our Property & Facility Management Group is committed to the continuous application of new and modern management standards and information technology in its operations.



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City Essential Services

Building on our recognisable brands, high service quality and strong cross-selling synergies created by our business ecosystem, the Group continued to successfully promote its City Essential Services during the Year:

Cleaning & Pest Control Services – Waihong is one of the top two players in the environmental hygiene services market in Hong Kong. With the current emphasis on hygiene and environmental control, the Hong Kong Government is currently issuing cleaning service contracts worth an estimated HK\$5 billion per year. Against this backdrop, Waihong has strategically allocated more resources to strengthen its competitiveness in this sector. It has recently been awarded several sizeable contracts from the Food and Environmental Hygiene Department and the Leisure and Cultural Services Department totalling over HK\$1,700 million for the provision of cleaning and pest control services, thereby diversifying its revenue sources and increasing the proportion of revenue from the government and quasi-government sectors to more than 50%. The value of these newly awarded contracts almost equates the annual revenue of Waihong in FY2023. In addition, the Group has adopted new information technology and robotic applications in its operations to improve efficiency and work safety.

With its extensive experience, high-quality customised services and distinctive brand, Waihong will continue to increase its participation in the green waste disposal business to better align with the Hong Kong Government's environmental policies. In addition, with the implementation of the Solid Waste Charging Scheme in 2024 and the government's promotion of the Waste Blueprint 2035 and the Climate Action Plan 2050, we are exploring different recycling business opportunities. Given the increasing public awareness of environmental hygiene and demand for preventive disinfection services, we are optimistic about the future of the industry.

Technical Support & Maintenance Services – A research by the Urban Renewal Authority reported that there are more than 10,000 buildings in Hong Kong that are over 50 years old, in addition to no less than 300 hotels and 50 shopping malls. Thus, this division, which comprises Far East Engineering Services and Turning Technical Services, anticipates a growing demand for term maintenance

contracts, major alterations, additions and system upgrades for various commercial and residential buildings, hospitals, government properties and educational institutions. This division will also continue to play a complementary role in supporting our Property & Facility Management Services business.

Security Guarding & Event Services – General Security holds all three licences for security services companies in Hong Kong and is one of the top two players in the security guarding services sector. The demand for security services has grown steadily over the years, most notably in the residential sector, and is likely to expand at a similar pace. However, the highly localised and labour-intensive nature of these services has led to industry-wide difficulties in recruitment. As a result, automation and effective staff deployment will be required to improve operational efficiency. With the revival of the exhibition and entertainment industry, Perfect Event is actively responding to demand for services in the conference, convention, exhibition and leisure and cultural sectors. It aims to acquire service contracts for large-scale events in the events and exhibitions sector. Technological advances have also created more demand for advanced electronic security equipment such as alarm controls and video surveillance cameras. To capture these business opportunities, the Group will expand the product range of its security systems business. It will also widely adopt cloud technology and AI for patrol and manpower planning to improve operational efficiency.

Insurance Solutions – Nova is the leading local insurance broker in Hong Kong in terms of gross insurance brokerage revenue. It provides one-stop risk management and insurance solutions to corporate and individual clients, including but not limited to property, casualty, construction and employee benefits. During the Year, Nova secured several sizeable contracts for construction-related and general insurance solutions from new corporate clients. Earlier this year, the government released a development

roadmap for the insurance sector, outlining its vision and mission, as well as targeted policy initiatives to strengthen the city's status as a global risk management centre and sophisticated insurance hub. Given Nova's extensive experience, the large number of construction projects expected in the near term, and the strong demand for specialty insurance such as cyber insurance and professional indemnity insurance, the Group expects to see further growth in its insurance solutions business.



The Group uniquely positioned to provide high-quality and complementary integrated services, create cross-selling opportunities, and leverage advanced technologies and smart solutions such as AI and IoT to enhance the satisfaction of our valued customers.

Environmental Solutions – The Hong Kong Government has placed great emphasis on green development and this is a key development focus for the Group. Environmental Solutions, which comprises three business lines: Environment Solutions, Smart Solutions and Green Solutions, intends to seize the numerous opportunities arising from the growing public awareness of environmental issues. Recognising the demand for high standards of living environment and hygiene, the Group will focus on developing integrated facility management solutions, including smart offices, smart toilets, real-time indoor air quality ("IAQ") monitoring and rodent control.

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

Furthermore, in view of the government's consistent greening policies, urban planning initiatives and various support schemes, as a landscape service provider, we are able and willing to contribute to the development of the industry by providing high-quality arboriculture and horticulture services to our prestigious clients.

E&M Services

Hong Kong

With the Hong Kong Government's initiatives to boost economic growth and its commitment to maintaining a stable supply of commercial and residential land, the average expenditure on E&M construction works is expected to exceed HK\$29 billion in the public sector and HK\$24 billion in the private sector in the fiscal year 2023/24, according to data from the Construction Industry Council. The Group's E&M Services segment, which comprises Young's Engineering Group, Majestic Engineering Group and FSE Engineering Group, is currently one of the two dominant players in the Hong Kong market. Although the Group has large-scale projects in the pipeline, including the Kai Tak Sports Park, the Immigration Headquarters in Tseung Kwan O, the District Court at Caroline Hill Road, expansion of the Legislative Council Complex and the New Public Markets in Tin Shui Wai, it is well positioned to take on even larger infrastructure and construction projects. Among the more notable of our major design and construction bid is the District Cooling System at Kwu Tung North New Town Extension, which is currently under negotiation. Tender preparations are also underway for the new MTR

Railway Lines and Light Public Housing. In addition, the Northern Metropolis Development Strategy, which provides opportunities to upgrade the city's urban space, is set to become the most important urban development initiative. The Group will continue to leverage its technological strengths and differentiated competencies, such as Building Information Modelling ("BIM") and Modular Integrated Construction ("MiC"), to expand its signature contracting business in the future.

Mainland China

In Mainland China, the overall business sentiment, which had been affected by the pandemic, recovered rapidly in early January 2023 as the spread of the disease subsided, contributing to the economic recovery along with the increasing urbanisation rate. Given our proximity to the Greater Bay Area, another strategic focus of the Chinese government, the Group expects its business to gain new growth momentum. As one of the few Hong Kong-based E&M general engineering contractors with Class I Qualification in Mainland China, the Group is well positioned to optimise its project coverage in this vast market. In addition, with its experience accumulated over 30 years, extensive goodwill and reputable brands, the Group has a strong platform to win new contracts in this market. Its Qianhai and Guangzhou projects are progressing well and are nearing completion, which will help strengthen the Group's foundation for future development. In addition,



The Group has large-scale projects in the pipeline, and it is well positioned to take on even larger infrastructure and construction projects.

over the past year, we have secured sizeable mixed-use development projects in other major cities such as Shanghai, Hangzhou, Kunming and Ningbo. To this end, the Group will continue its efforts to strengthen its business presence in Mainland China, driven by its dual-core engine, supply/installation and project management expertise and well-established brand. With extensive E&M experience in Mainland China, the Group is also exploring opportunities in the Greater Bay Area through strategic collaborations and mergers and acquisitions.



The Group will continue to seek new business opportunities to expand its operations and maximise shareholder value.

Macau

Macau's economy stands at a new starting point in 2023 with the relaxation of mandatory quarantine measures, the resumption of ferry and air services and, most importantly, the granting of new 10-year concessions to six casino companies. These six companies have subsequently agreed to jointly invest nearly US\$15 billion to help rebalance the local economy towards international tourism. We expect this new investment and related E&M tenders to be underway soon. In addition, the increased use of the Hong Kong-Zhuhai-Macau Bridge will fuel economic recovery and related construction contracts in Macau.

As one of the major players in Macau's E&M industry for over 20 years, we are well positioned to capture business opportunities as they arise.

CONCLUSION

It is expected that the pandemic will continue to subside, which will be beneficial to Hong Kong's economic recovery. In this new development phase in the post-pandemic era, the Group 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 sincere gratitude to all shareholders, customers and business partners for their unwavering support of the Group. I would also like to thank the management team and all staff members for their tireless efforts. As always, we remain fully committed to ensuring the Group's long-term development and providing fair returns to our shareholders.

Dr. Cheng Kar Shun, Henry
Chairman

Hong Kong, 27 September 2023