

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 unaudited condensed consolidated interim results of the Group for the six months ended 31 December 2018.

MARKET REVIEW

This financial year is expected to be a very challenging year. While the full impact of political changes on the economy remains to be seen, it is expected there could be another broad-based global economic upturn of 3.7% in 2018. However, starting with the concrete data signalling the subdued momentum of global expansion in the fourth quarter of 2018, overarching challenges and uncertainties loom over the global political and economic environment that require close attention, like the ongoing Brexit negotiations, China's economic growth prospects, rising US interest rates and most recently the further escalation in trade tensions between the US and Mainland China. The general operating environment for businesses in the city still warrants caution and enterprises should be well-prepared for any potential impact from industry shifts. As in previous years, the Group encounters a multitude of challenges, mainly keen competition in the marketplace and a labour shortage of skilled workers that affect the profit margin. Talent development is also an essential element and pre-requisite 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. Amid the rising external headwinds on the Hong Kong economy, the Group must remain vigilant and prepare itself to drive the development of each of its business segments to the fullest extent. For the period under review, coupled with the satisfactory performance achieved by the maintenance services business driven 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 reached HK\$113.5 million, testimony to its resilience and capability to continuously grow its businesses. The Board has declared the payment of an interim dividend of HK10.1 cents per share for the six months ended 31 December 2018, 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 global economic uncertainty. The Hong Kong Government assisted by the "Task Force on Land Supply" is determined to identify and produce land in order to build a land reserve to help resolve the challenge of a land supply shortage. The latest public housing supply target has been announced to be 450,000 units for the 10-year period from 2019/20 to 2028/29 including 315,000 public rental housing units and 135,000 private housing flats. Moreover, the total E&M construction works expenditure for the fiscal year 2019/20 is expected to exceed HK\$24.0 billion for the public sector and more than HK\$27.0 billion for the private sector. The Group's E&M engineering business 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, especially one of our major submitted tenders, Kai Tak Sports Park, which is currently under the negotiation stage. Preparations are also underway 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, Lok Ma Chau Loop development and the New Town Extension projects at Kwu Tung North, Fanling North and Hung Shui Kiu. Towards that end, 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 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 financial benefits for the Group.

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Mainland China

Against the recent escalating trade tensions causing jitters in the economic environment and clouding the relatively benign outlook, the most important agenda for the Central Economic Work Conference in December 2018 has been to enhance countercyclical adjustments to alleviate the pressure from the cooling economy and further open up the economy and implement fiscal stimulus as needed. Together with the continuous push for urbanisation to upgrade coastal cities and a neutral and prudent monetary policy, this strategic multifaceted transitional rebalancing will unleash a stable demand for housing and related commercial developments despite increasing market uncertainties, presenting fresh opportunities to the construction and E&M engineering industry. The Greater Bay Area development represents another strategically significant initiative with potentially extensive land resources and undoubtedly provides a key growth impetus for 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 lays a solid foundation for future development. As in previous years, the Group will work hard at maintaining its presence in Mainland China, adhering to a disciplined approach in its business development.

Macau

The Macau economy has exhibited steady growth in 2018. 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, all of which will facilitate greater diversity in Macau's economy and boost E&M engineering business opportunities in the short-to-medium term. With the opening of additional infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge and the extended high speed train line, together with the ongoing integration of the Greater Bay Area within the expanded Pearl River Delta, Macau could look forward to significantly increased traffic flow and accessibility as well as enhanced market growth.

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 service market and laundry service market respectively. 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 coming years. This can be seen in the greater number of commercial, residential buildings and hotels in Hong Kong, along with mega facilities and properties to be gradually launched at the West Kowloon Cultural District, the Kai Tak development area, the Kwun Tong business area and New Town extensions. 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 capitalising on its extensive experience, quality and customised service 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. At the same time, the environmental hygiene services industry is labour-intensive and Waihong is also facing the challenges of labour shortages that could result in higher costs. To meet this challenge, Waihong maintains a stable experienced management team in

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supervising the labour force and controlling the overall quality of services. Last but not least, regarding our laundry business, it is expected that the laundry service market will experience moderate growth with a value of HK\$10.5 billion by the end of 2021. NCL intends to continue to invest and upgrade our 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 efforts and seek business opportunities to further expand our business and maximise 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, 25 February 2019