

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 2019.

ACQUISITION OF PROPERTY AND FACILITY MANAGEMENT SERVICES GROUP

The Company has consistently sought opportunities to further expand its business scale and diversify its revenue streams. This year 2019 marked another important milestone for its development with the successful completion of the acquisition on 16 December 2019 of Urban and Kiu Lok ("FSE Property and Facility Management Services Group") both principally engaged in the provision of property and facility management services in Hong Kong and Mainland China. Discounting service companies owned by property developers, FSE Property and Facility Management Services Group is the largest independent services provider in the residential, non-residential and car park property management markets in Hong Kong. The Group believes that the acquisition can realise cross-selling synergies and better deployment of human resources, thereby increasing profitability and providing higher return to shareholders, and, more importantly, re-position the Group into a leading diversified city services provider in Hong Kong.

MARKET REVIEW

This financial year has been a very challenging year in the face of heightened and rising uncertainty. The medium-term outlook remains soft with overarching challenges and uncertainties looming over the global political and economic environment that continue to exert a drag in 2020, like the hard Brexit, China's economic growth prospects, the movement of US interest rates and phase two trade negotiation between the US and Mainland China. Under the bleak global economic outlook, the market sentiment and the general operating environment for businesses in the city has been susceptible to an economic slowdown and enterprises should be well-prepared for any potential impact in the industry. In view of the social instability and the outbreak of Coronavirus in Hong Kong, our laundry services business has also been affected by the plummeting tourist arrivals and low hotel room occupancy rates. Besides, given this situation, progress for some of our E&M engineering projects have been affected by site suspension of works; delayed delivery of parts and materials, as well as delays in Legislative Council's funding approvals for new public works. Nevertheless, we are confident that our management shall mitigate the operational impacts by taking relevant measures, including proactive reviews of our projects' execution work plans and continuing cost management. Moreover, as in previous years, the Group has encountered a multitude of challenges, mainly keen competition in the marketplace and dwindling numbers of skilled workers that can reduce the profit margin. Amidst the rising external headwinds on the Hong Kong economy, thanks to our resilience, the Group remains vigilant and has prepared itself to drive the development of each of its business segments to the fullest extent possible and strive for strategic goals on growth, enhanced customer experience, higher profits, cost efficiencies and innovation. Talent development is also an essential element and a prerequisite for the sustainable growth of the Group. Therefore, we continue to invest in nurturing talents; provide diversified and tailor-made learning, as well as training and development opportunities offering good career prospects for our young people. For the period under review, coupled with the satisfactory performance achieved by the maintenance services business driven by the increased demand in renovation and systems upgrading works in the commercial and institution sectors, the Group's profit attributable to shareholders reached HK\$144.0 million, testimony to its resilience and capability to continuously grow its businesses. The Board has declared an interim dividend of HK12.8 cents per share for the six months ended 31 December 2019, equivalent to a payout ratio of 54.1%.

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E&M ENGINEERING

Hong Kong

Overall building and construction activity is expected to further expand albeit at a slower pace in 2020 on the back of strategic infrastructure and private construction investment despite the prevailing local economic and political uncertainty that may lead to delay in the approval of public works. Given the government's sustained effort, the total E&M construction works expenditure for the fiscal year 2020/21 is expected to exceed HK\$26.5 billion for the public sector and be more than HK\$25.5 billion for the private sector according to the construction expenditure forecast provided by the Construction Industry Council. The Hong Kong Government will continue to increase land supply through a multi-pronged approach along with 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 the position as 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: the mega development SKYCITY Phase 1B & 2 at Hong Kong International Airport and the office development at Murray Road, which are currently under negotiation. Preparations are also underway for the tenders for the additional District Cooling System at the Kai Tak Development, Water Supplies Department and Correctional Services Department Headquarters building in Chai Wan, the second 10-year plan of in-situ hospital re-development, Lok Ma Chau Loop development and the New Town Extension projects at Kwu Tung North, Fanling North and Hung Shui Kiu. Innovation and technology are the key to delivering the infrastructure of tomorrow. Towards that end, in order to accommodate the Construction 2.0 initiative of the Government which advocates innovation, professionalism 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.

Mainland China

The year 2020 is a year to remain cautious and highly alert to signals on where China's economy is headed. Domestically, the Chinese government continues to introduce moderate growth-supportive measures to alleviate the pressure from the precarious economic situation and further liberalise the economy and implement fiscal stimulus as needed. Coupled with the continuous human-centred urbanisation at the national level to upgrade coastal cities and a neutral and prudent monetary policy, this national 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.

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Macau

Despite the potential downside risks and the overall economic slowdown of the surrounding region, 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 centre. The rollout of the Light Rail Transit system throughout Macau in the second half of 2019 will further enhance the connectivity in the city. 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 strategic direction.

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 is one of the top three players whilst NCL is one of the top two players in the Hong Kong environmental hygiene services market and laundry services market respectively. Despite the slowdown of Hong Kong's economy, the Group expects the demand for the environmental hygiene and related services to remain stable. From a public hygiene perspective together with advancing to a low carbon and green economy, 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 for a greener and healthier living environment. 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 for the number of new completions during the coming years. In fact, there are many 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. The increasing need for outsourcing environmental services for these and other projects will raise the demand for environmental services from property management companies and property owners. By capitalising on its extensive experience, quality and customised 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 will continue to expand its current service capacity including government contracts and broaden the spectrum of premiere clients in order to increase market penetration and expand its market share. In view of the industry risk profile, environmental hygiene services are labour-intensive and Waihong is nevertheless facing the challenges of labour shortages that could result in higher costs. To meet these challenges, Waihong must maintain a stable experienced management team in supervising the labour force, implementing effective cost control management and controlling the overall quality of services and workplace safety. Last but not least, in view of the social instability and the outbreak of Coronavirus in Hong Kong, our laundry services business has also been affected by declined business activities as mentioned earlier. To cope with this, NCL will intensify its focus on key accounts and effective cost management. Despite the situation, NCL will continue to upgrade our laundry equipment when needed to enhance our operational efficiency.

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PROPERTY AND FACILITY MANAGEMENT SERVICES

Urban and Kiu Lok, with a well-established strong brand as "Hong Kong's Premier Community Manager", is the largest among all independent players in the residential, non-residential and car park property management markets in Hong Kong. Based on our over 50 years of substantial experience and professional capabilities, the Group's property and facility management services group shall consistently provide quality management services to preserve and add value to our large and extensive property and facility management portfolio. Along with the strong operational synergies generated from other Group companies after completion and the extensive partnerships with professional service suppliers and contractors in the territory, Urban and Kiu Lok have enhanced cost-effectiveness and operational efficiency to the fullest extent and are reaping benefits from M&A activity. Regarding the industry outlook, it is expected that the property management market is expanding in parallel to the growing number of properties in Hong Kong, supported by the expediting of land supply and the strong demand of housing. Apart from the Hong Kong market, the level of urbanisation and per capita disposal income in the PRC have increased significantly in recent years and have accelerated the growth of the property management industry. The promulgation of the Outline Development Plan for the Greater Bay Area to become an international first-class bay area and world-class city cluster presents a unique opportunity for Hong Kong which offers great institutional advantage. Leveraging the extensive E&M experience in Mainland China, the property management group companies are exploring and accelerating their expansion by means of organic growth, strategic collaboration and mergers and acquisitions into the Greater Bay Area so as to realise its full potential and expand the scale of the property management business geographically.

CONCLUSION

Despite the challenges we face from the Coronavirus and civil unrests in Hong Kong, with our solid financial position and proven track record, the Group will overcome the difficult market situation. As well, it will continue to seek business opportunities to further expand 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, 26 February 2020