

# 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 2020 (the "period under review").

## TRANSFORMATION SPANNING THE PAST FIVE YEARS

2020 marked the fifth anniversary of the Company's listing in Hong Kong. Since its listing on 10 December 2015, the Group has sought to grow and create value for its shareholders. Consequently, over the past five years, the Group has expanded its business scale by completing two strategic acquisitions, including the facility services business in April 2018 and property and facility management services business in December 2019. Such acquisitions have provided the Group with broader and more diversified revenue streams and enhanced its profit sources. Moreover, the Group has successfully transformed from a single-line engineering focused business to a multi-line leading city lifestyle services conglomerate, engaging in a comprehensive range of management services in Hong Kong. With the Group's expanded and better balanced business portfolio, its consolidated revenue and profit attributable to shareholders for the year ended 30 June 2020 significantly grew by more than 40% and 90% to HK\$4.9 billion and HK\$309.6 million respectively while its earnings per share increased more than 60%, compared with the amounts recorded for the year ended 30 June 2016, with its integrated property and facilities services segment which provides city essential services contributing more than half of its gross profit and net profit at present. Whilst the Group has completed two major acquisitions during the past five years, sound financial management remains a priority, which enabled the Group's net gearing ratio remaining unchanged at 0%. Such development has also helped the Group mitigate the cyclical risk that it was exposed to five year ago when its business was mostly focused on the engineering sector which enabled our Shareholders to enjoy a consistent dividend yield average at about 7%. Through continued mergers & acquisitions and organic growth, the Group continues to focus on developing new services lines and to create synergies amongst its existing business units.

## MARKET REVIEW — BUILDING RESILIENCY

Though 2020 marked our fifth anniversary as a public company, it was also a challenging year, with the outbreak of the novel coronavirus ("COVID-19") pandemic profoundly affecting economies all over the world. Following the outsized contraction of economic activities, the revival of local economic outlook will hinge very much on the epidemic situation and the timeliness of a successful vaccine rollout. With this in mind, our Group shall be heavily qualified with caution in the face of uncertainties. During the period under review, we took the opportunity to sell our loss-making laundry operation, enabling the Group to focus its resources on its more profitable business segments. Our management has also adopted various immediate measures to cushion the adverse impacts of the pandemic, including proactive review of project execution, a well-defined sanitation management process and continuing its effective cost management. Looking ahead, our plans for performance growth are focused on leveraging our well-established and trusted brand, embracing cost effectiveness and capitalising on innovative technologies and professional expertise. In addition, we will continue to nurture our pool of young talents with diversified and tailor-made training. Our management team is well positioned and remains fully confident that opportunity abounds even amid these challenging times, allowing us to maintain and grow the Group's performance during the post-pandemic business landscape. For the period under review, with the above efforts and support from government grants received, and despite a modest setback incurred by our E&M engineering business amid the competitive business environment, the Group's profit attributable to shareholders reached HK\$329.1 million, a testimony again to its resilience and capability for sustainable business growth, while maintaining a net cash position at the end of the period. The Board has declared an interim dividend of HK28.9 cents per ordinary share to its ordinary shareholders for the six months ended 31 December 2020, which represents an increase of 125.8% compared with last period and a dividend payout ratio of 40.0%.

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## E&M ENGINEERING & ENVIRONMENTAL SERVICES

### Hong Kong

While building and construction activities are expected to consolidate in 2021 due to the lingering impacts of the pandemic and prevailing political uncertainties, the Hong Kong Government continues to increase infrastructure investment and maintain steady land supply. Average E&M construction works expenditure for the fiscal year 2021/22 is expected to exceed HK\$25 billion for the public sector and over HK\$24 billion for the private sector according to the medium-term construction expenditure forecast provided by the Construction Industry Council. The Group's E&M engineering business currently enjoys a position as one of the two dominant players in the Hong Kong market and is adequately prepared to take on different sizeable infrastructure and building projects. Notable among these are our major submitted tenders: The Chai Wan Government Offices cum Vehicle Depot, the mixed-used developments at the former Kai Tak runway and Mass Transit Railway Corporation ("MTRC") Wong Chuk Hang station, currently under negotiations. Preparations are also underway for the tenders for the Government Chinese Medicines Testing Institute and Chinese Medicine Hospital at Tseung Kwan O, the Acute General Hospital at Kai Tak, Lok Ma Chau Loop development and the New Town Extension projects at Kwu Tung North, Fanling North and Hung Shui Kiu. The Group continues to make strides in accommodating the Hong Kong Government's Construction 2.0 initiative, which advocates innovation, professionalism and revitalisation. As a result of our highly skilled E&M team and use of advanced technologies such as Building Information Modelling (BIM) and Modular Integrated Construction (MiC) technology, our Vehicle Examination Centre project at Tsing Yi has been highly praised for both its productivity and work quality.

Regarding our Group's environmental services, we will continue to capitalise on the public's increased awareness of environmental issues, providing total solutions that are energy efficient as well as environmentally friendly.

### Mainland China

Domestically, the Chinese government continues to introduce moderate growth-supportive measures to alleviate pressure from the precarious economic situation and further support the high-quality growth of the economy. Thanks to its geographical proximity, the Greater Bay Area development represents another strategically significant initiative which will undoubtedly inject 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 optimising project coverage in this crucial market, with Qianhai and Zengcheng projects in progress, and laying a solid foundation for future development. As in previous years, the Group will strive to extend its presence in Mainland China with our dual-core engine, supply/installation and project management expertise with our established goodwill.

### Macau

The economic environment of Macau will continue to struggle in 2021 due to a severe drop in tourism following the pandemic. Nevertheless, we remain optimistic about its long-term development. We anticipate another wave of financial investments from the gaming concessionaires and sub-concessionaires before the licence renewal in 2022, and the operation of the Hong Kong-Zhuhai-Macau Bridge and high-speed rail will fuel economic recovery and further position Macau as a world-class tourism centre.

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## INTEGRATED PROPERTY & FACILITY SERVICES

Waihong is one of the top three players in the Hong Kong environmental hygiene services market. Faced with the challenge of the recent pandemic, the Hong Kong Government has emphasised hygiene and environmental control and allocated funds for reinforcing related policies including waste management and recycling. In recent months Waihong has successfully secured its presence in the government sector including Housing Authority and Hospital Authority, further diversifying its customer base. Moreover, we have also benefited from the escalated demand for pandemic prevention and disinfection works. Once the pandemic is under control, the progressive transformation of the Hong Kong economy towards higher value-added activities, high-end residential and commercial buildings, coupled with the growing public awareness for environmental and personal hygiene, will provide great growth momentum to Waihong's business in the coming years. Capitalising on its extensive experience, high quality, customised services and distinctive brand, Waihong will continue to expand its current service capacity and broaden the spectrum of its premier clients in order to expand its market share.

Urban and Kiu Lok are the largest among all independent players in the residential, non-residential and car park property and facility management markets in Hong Kong, after discounting service companies owned by property developers. Regarding its industry outlook, the property management market is expected to expand in parallel to the growing number of properties in Hong Kong, supported by the expediting of land supply and strong demand for housing. Amid the pandemic situation, there is a growing demand for one-stop and full-service property and facility management services. Moreover, after the promulgation of Property Management Services Ordinance on the licensing regime, it will boost the demand for high-quality property management services like ours, which generally outperform their industry peers without fulfilling the licensing requirements. Leveraging the Group's extensive E&M experience in Mainland China, its property and facility 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, to realise its full potential and expand its scale of property and facility management business geographically. Last but not the least, innovation and advanced technology adoption is central to the Group's future in improving the productivity and quality of the business process. Waihong is currently introducing robotic equipment and a comprehensive electronic patrol system in various workplaces. The property and facility management group, meanwhile, has been applying the innovative and fully computerised work order system and plans to launch a value-added service platform aimed at enhancing productivity, operational efficiency and service effectiveness.

## CONCLUSION

Despite the challenges from the pandemic in Hong Kong, the Group will surmount the difficulties through its solid financial position and proven track record. It will also continue to seek new business opportunities to further expand and maximise shareholders' 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 to 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 assuring the Group's long-term development and fair returns to shareholders.

**Dr. Cheng Kar Shun, Henry**  
*Chairman*

Hong Kong, 26 February 2021