



FSE Services Announces 2019/20 Interim Results
Profit Attributable to Shareholders Increased to HK\$144.0 million

Financial Highlights

	For the six months ended 31 December			
	2019	2018		2018
	HK\$M	(restated) ⁽ⁱ⁾ HK\$M	Change	(as previously reported) ⁽ⁱⁱ⁾ HK\$M
Revenue	2,420.3	2,532.6	-4.4%	2,291.7
Gross profit	372.9	372.2	+0.2%	291.7
Profit attributable to shareholders of the Company	144.0	138.9	+3.7%	113.5
Basic earnings per share	HK\$0.32	HK\$0.31	+3.2%	HK\$0.25

The Board declared the payment of an interim dividend of HK12.8 cents (For the six months ended 31 December 2018: HK10.1 cents) per ordinary share to the ordinary shareholders of the Company for the six months ended 31 December 2019⁽ⁱⁱⁱ⁾.

Note (i) Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control as a result of its completion of acquisition of the property and facility management services business on 16 December 2019.

Note (ii) As previously reported in the Group's condensed consolidated interim financial statements for the same period last year.

Note (iii) The interim dividend for the six months ended 31 December 2019 of HK12.8 cents per share to be paid in March 2020 represents a dividend payout ratio of 54.1%, calculated based on the Group's adjusted profit for the six months ended 31 December 2019 attributable to ordinary shareholders of HK\$106.4M (i.e. after excluding the profit of HK\$37.3M made by the property and facility management services business during the period from 1 July 2019 to 16 December 2019, the day of completion of the Group's acquisition of the property and facility management services business and preferred distribution to the holder of convertible preference shares of HK\$0.3M for the six months ended 31 December 2019 from profit attributable to shareholders of the Company of HK\$144.0M) (For the six months ended 31 December 2018: 40.0%, calculated based on the Group's profit for the six months ended 31 December 2018 attributable to shareholders of the Company of HK\$113.5M as previously reported in the Group's condensed consolidated interim financial statements for the six months ended 31 December 2018 which does not include the profit of HK\$25.4M made by the property and facility management services business during the six months ended 31 December 2018 accounted for pursuant to its application of merger accounting for business combinations under common control as mentioned in Note (i) above).

26 February 2020, Hong Kong — **FSE Services Group Limited** ("FSE Services" or the "Company", together with its subsidiaries, the "Group") (Stock code: 331), one of the leading diversified service providers in Hong Kong, which has 5 major competences: electrical & mechanical engineering ("E&M"), environmental management services, cleaning and waste management, professional laundry services as well as property and facility management services, has today announced its interim results for the six months ended 31 December 2019 (the "period under review").

For the period under review, the Group's profit attributable to shareholders increased by 3.7% to HK\$144.0 million, mainly reflecting the stable gross profit contribution with an overall savings in general and administrative expenses despite the one-off professional fees for the acquisition of the property and facility management services business, partly offset by the higher income tax expenses. Revenue for the period was to HK\$2,420.3 million (Six months ended 31 December 2018: HK\$2,532.6 million (restated)).

As at 31 December 2019, the Group had total cash and bank balances of HK\$502.7 million (30 June 2019: HK\$562.2 million (restated)). The Group maintained a healthy liquidity position throughout the reporting period. As at 31 December 2019, HK\$919.4 million (30 June 2019: HK\$353.9 million (restated)) of the Group's banking facilities had been utilised for bank borrowings, bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet current business operation and capital expenditure requirements. The Board has resolved to declare an interim dividend of HK12.8 cents (Six months ended 31 December 2018: HK10.1 cents) per ordinary share to the ordinary shareholders of the Company for the six months ended 31 December 2019.

Segmental performance

The following table presents a breakdown of the Group's profit contribution by business segment:

	For the six months ended 31 December			
	2019	2018	Change	% Change
	HK\$'M	(restated) HK\$'M	HK\$'M	
E&M engineering	97.4	90.5	6.9	7.6%
Environmental management services	4.8	4.1	0.7	17.1%
Facility services	15.8	21.1	(5.3)	(25.1%)
Property and facility management services	40.6	25.4	15.2	59.8%
Unallocated corporate expenses and finance costs*	(14.6)	(2.2)	(12.4)	563.6%
Total	144.0	138.9	5.1	3.7%

* Unallocated corporate expenses and finance costs comprise the Company's corporate expenses of HK\$13.8 million (Six months ended 31 December 2018: HK\$2.2 million), mainly representing HK\$11.6 million of one-off professional fees as mentioned above, and interest expenses of HK\$0.8 million (Six months ended 31 December 2018: Nil) for the Group's bank loan financing its acquisition of the property and facility management services business.

E&M engineering

The Group maintained its position as one of the leading E&M engineering companies in Hong Kong and it also continued to run strong its E&M engineering operations in Mainland China and Macau. Leveraging its competitive strengths, the Group's E&M engineering business continued to be the key revenue driver of the Group and contributed 61.3% of the Group's total revenue (Six months ended 31 December 2018: 66.2% (restated)). The gross profit of the E&M engineering segment remained stable with its gross profit margin increased to 14.4% from 12.8% mostly reflecting the cost savings from the West Kowloon Government Offices project. Its profit contribution to Group for the period under review was HK\$97.4 million, representing an increase of 7.6% compared with the same period of last year.

As at 31 December 2019, the Group's E&M engineering projects have a total gross value of contract sum of HK\$9,137 million with a total outstanding contract sum of HK\$7,428 million. During the period under review, the Group submitted tenders for 349 E&M engineering projects (with a contract sum equal to or exceeding HK\$1 million for each project, if awarded) with a total tender sum of HK\$10,849 million and was awarded new contracts with a total value of HK\$3,184 million, which included 73 contracts (with a net contract sum equal to or exceeding HK\$1 million for each project) with a total net contract sum of HK\$3,083 million. Among these contracts, 5 of them are major projects (with net contract sum equal to or exceeding HK\$100 million for each project), which include Immigration Headquarters in Tseung Kwan O, SKYCITY commercial development in Chek Lap Kok, residential development projects in Kwun Tong and the Kai Tak Development Area and Resort World in Macau.

Environmental management services

During the period under review, the revenue contribution of this segment increased to HK\$36.5 million, representing a growth of 3.7%, as compared with the same period last year mainly attributable to an increase in revenue from its environmentally-related contracting and maintenance services, primarily biological deodorizing system installation services at a number of refuse collection stations of new public housing estates, shopping centres and markets. Its profit contribution to the Group for the period under review was HK\$4.8 million, representing an increase of 17.1%.

Facility services

The revenue of HK\$622.1 million (Six months ended 31 December 2018: HK\$565.9 million (restated)) for the period under review composed of revenue from provision of cleaning and laundry services amounting to HK\$550.7 million (Six months ended 31 December 2018: HK\$478.8 million (restated)) and HK\$71.4 million (Six months ended 31 December 2018: HK\$87.1 million), respectively. During the period under review, the segment revenue recorded a growth of 9.9% to HK\$622.1 million, owing mainly to the revenue contribution from a number of new cleaning service contracts, encompassed a wide range of buildings and facilities, including a large-scale public transportation facility, shopping malls, a luxury hotel, a government department, residential and commercial properties, despite a partly offset of this increase by the lower revenue from the laundry business resulting from lower hotel room occupancy rates. Its profit contribution to the Group for the period under review was HK\$15.8 million, representing a decrease of 25.1% compared with the same period of last year.

Property and facility management services

The Group's property and facility management services business group is the largest independent services provider in the residential, non-residential and car park property management markets in Hong Kong, discounting service companies owned by property developers. Revenue contribution of this business segment increased to HK\$277.6 million, representing a growth of 8.7%, as compared with the same period last year. Its profit contribution to the Group for the period under review was HK\$40.6 million, representing an increase of 59.8% compared with the same period of last year. Such increase was mainly attributable to higher revenue from its non-residential properties management contracts, including government buildings in Hong Kong and Kowloon and staff quarters of a university.

Outlook

Looking ahead, the Group will stay focused on applying its core competencies to raise customer satisfaction and to ensure the sustainable growth and profitability of its business.

For the E&M engineering segment, 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 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. The Group has been endeavoring to support the "Construction 2.0" (Innovation, Professionalisation and Revitalisation) as launched by the Government in 2019 to capitalise on future development opportunities and scale new heights.

Regarding the Extra Low Voltage ("ELV") business, with more property developers adopting IT infrastructure and advanced technologies in their projects to enhance building sustainability and energy control, this presents good opportunities to generate business revenues and profit in the ELV business segment.

For the environmental management services segment, increasing public awareness of the importance of sustainable environment has fuelled the demand for environmental engineering services and products, and the Group will continue to capitalise on this trend and provide customers with total solutions that are energy efficient as well as environmentally friendly.

For the facility services segment, due to the completion of numbers of large-scale infrastructure facilities, commercial buildings and residential buildings in succession in the years to come, the Group will focus on these newly-completed properties as its prime marketing strategy for its cleaning business. For the laundry business, in view of the social instability and the outbreak of Coronavirus in Hong Kong, the Group will intensify its focus on key accounts and effective cost management. Despite the situation, the Group will continue to upgrade its laundry equipment when needed to enhance our operational efficiency.

For the property and facility management services, it is expected that the property management market is expanding in parallel to the growing number of properties in Hong Kong, while 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. Leveraging the extensive E&M experience in Mainland China, the Group's property management business is 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.

Since the outbreak of the Coronavirus epidemic in late 2019, the works of our E&M engineering business' construction projects have already experienced some disruptions. Our laundry services business has also been affected by the dismal visitor numbers and low hotel room occupancy rates as majority of its clientele covers hotels, service apartments, theme park and airlines. Our cleaning and property and facility management services businesses have faced relatively less disruptions. The coronavirus outbreak has created more ad-hoc intensive disinfection cleaning projects. Our environmental management services business remains as usual and stable under the current situation.

Despite the challenges and operational difficulties we face in this financial year, in particular those arising from the recent outbreak of Coronavirus and civil unrests, the Group's operations remained stable and the Group was able to record a moderate growth in its profit in the period under review. The successful acquisition of the property and facility management services business in December 2019 has enabled the Group to enlarge its customer base, diversify its revenue stream and risks and enhance its profit growth potential. The Group shall endeavour to maintain a strong financial position so as to stay poised for new investment opportunities as and when they arise.

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About FSE Services Group Limited

FSE Services Group Limited ("FSE Services" or the "Company", together with its subsidiaries, the "Group") is one of the leading diversified service providers in Hong Kong, which has 5 major competences: electrical and mechanical ("E&M") engineering, environmental management, cleaning and waste management, professional laundry services as well as property and facility management services. FSE Services' competences are being delivered through 5 major groups of companies which have all been the market leaders in the respective industries. They include FSE Engineering Group, FSE Environmental Technologies Group, Waihong Service Group ("Waihong") and New China Laundry Group ("NCL") and FSE Property and Facility Management Services Group which comprises Urban Group ("Urban") and Kiu Lok Service Management Group ("Kiu Lok"). With their professionalism and expertise, together with the extensive synergies generated among the companies under FSE Services, the Group is able to build up a strong network and offer a full range of professional services to renowned clients and main contractors who are often engaged in property developments, public infrastructures, education and transportation facilities as well as entertainment and travel industries in Hong Kong, Macau and the Mainland China.

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