



FSE Services Announces 2019/20 Annual Results Profit Attributable to Shareholders Increased to HK\$309.6 million

Financial Highlights

	2020	2019	% Change	2019 (as previously reported) ⁽ⁱⁱ⁾
	HK\$'M	(restated) ⁽ⁱ⁾ HK\$'M		HK\$'M
Revenue	: 4,882.1	5,422.7	-10.0%	4,930.5
Gross profit	: 760.4	769.5	-1.2%	599.8
Profit attributable to shareholders of the Company	: 309.6	307.4	+0.7%	247.5
Basic earnings per share	: HK\$0.68	HK\$0.68	-	HK\$0.55

The Board recommended the declaration of a final dividend of HK14.4 cents (2019: HK11.9 cents) per ordinary share to the ordinary shareholders of the Company for the year ended 30 June 2020⁽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 consolidated financial statements for last year.

Note (iii) Together with the interim dividend of HK12.8 cents (2019: HK10.1 cents) per share paid in March 2020, total distribution of ordinary share dividends made by the Company to its ordinary shareholders for the year ended 30 June 2020 will be HK27.2 cents (2019: HK22.0 cents) per share, representing an increase of 23.6% compared with last year's and a dividend payout ratio of 45.7% (2019: 40.0%), calculated based on the Group's adjusted profit for the year ended 30 June 2020 attributable to ordinary shareholders of HK\$267.7M (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\$4.6M for the year ended 30 June 2020 from profit attributable to shareholders of the Company of HK\$309.6M) (For year ended 30 June 2019: 40.0%, calculated based on the Group's profit for the year ended 30 June 2019 attributable to shareholders of the Company of HK\$247.5M as previously reported in the Group's consolidated financial statements for the year ended 30 June 2019 which does not include the profit of HK\$59.9M made by the property and facility management services business during the year ended 30 June 2019 accounted for pursuant to its application of merger accounting for business combinations under common control as mentioned in Note (i) above).

25 September 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 (“E&M”) engineering, environmental services, cleaning and waste management, professional laundry services as well as property and facility management, has today announced its annual results for the year ended 30 June 2020 (“FY2020” or the “Year”).

In FY2020, the Group recorded revenue amounting to HK\$4,882.1 million. Profit attributable to shareholders for the Year was HK\$309.6 million, representing an increase of 0.7% year-on-year, mainly reflecting an overall savings in general and administrative expenses and lower income tax expenses, partly offset by a slight decrease in gross profit contribution, an impairment loss on non-current assets of the Group’s laundry business and one-off professional fees and finance costs incurred for the acquisition of the property and facility management services business.

As at 30 June 2020, the Group had total cash and bank balances of HK\$700.9 million (30 June 2019: HK\$562.2 million (restated)) and total borrowings of HK\$463.2 million (30 June 2019: HK\$30.0 million (restated)). The Group’s net gearing ratio was maintained at zero as at 30 June 2020 (30 June 2019: 0%). As at 30 June 2020, HK\$959.1 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. FSE Services has maintained a healthy liquidity position throughout the Year. The Board has resolved to recommend a final dividend of HK14.4 cents per ordinary share to the ordinary shareholders of the Company for the Year (2019: HK11.9 cents). Together with the interim dividend of HK12.8 cents (2019: HK10.1 cents) per ordinary share, total distribution of ordinary dividends by the Company for the Year will thus be HK27.2 cents (2019: HK22.0 cents) per share, representing an increase of 23.6% compared with last year’s and a dividend payout ratio of 45.7% (2019: 40.0%).

Segmental performance

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

	For the year ended 30 June			
	2020 HK\$’M	2019 (restated) HK\$’M	Change HK\$’M	% Change
E&M engineering & environmental services	210.3	207.1	3.2	1.5%
Integrated property & facility services	124.4	104.6	19.8	18.9%
Unallocated corporate expenses and finance costs*	(25.1)	(4.3)	(20.8)	483.7%
Total	309.6	307.4	2.2	0.7%

* Unallocated corporate expenses and finance costs comprise the Company’s corporate expenses of HK\$17.7 million (2019: HK\$4.3 million), mainly representing the one-off professional fees of HK\$12.1 million as mentioned above, and interest expenses of HK\$7.4 million (2019: Nil) for the Group’s bank loan financing its acquisition of the property and facility management business.

E&M Engineering & Environmental Services

This segment continued to be the key revenue driver of the Group and contributed 63.2% (2019: 68.9% (restated)) of the Group’s total revenue. Segment revenue of HK\$3,085.5 million (2019: HK\$3,736.9 million) for the Year composed of revenue from the provision of E&M engineering & environmental services amounting to HK\$3,015.5 million (2019: HK\$3,665.8 million) and HK\$70.0 million (2019: HK\$71.1 million) respectively.

The gross profit margin of the entire E&M engineering & environmental services segment has increased to 14.1% from 12.4% mostly reflecting cost savings from the West Kowloon Government Offices project. Its profit contribution to the Group for the year was HK\$210.3 million, representing an increase of 1.5% compared with last year’s.

The Group has maintained its position as one of the leading E&M engineering companies in Hong Kong, capable of providing a comprehensive range of E&M engineering services and continued to run its E&M engineering operations in Mainland China and Macau. During the Year, the Group was awarded contracts with a total value of HK\$4,578 million, which included 136 contracts (with a net contract sum equal to or exceeding HK\$1 million for each project) with a total net contract sum of HK\$4,393 million. Among these contracts, 8 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 projects in Chek Lap Kok, residential development projects in Kwun Tong and the Kai Tak Development Area, commercial development projects in Central and the Kai Tak Development Area, Resort World and Studio City Phase 2 in Macau.

The Group's environmental services business continues to provide environmental assessment and energy efficient solutions to assist its customers in achieving their environmental protection and energy conservation objectives.

Integrated Property & Facility Services

This segment, which presently principally provides services in Hong Kong, contributed 36.8% (2019: 31.1% (restated)) of the Group's total revenue. Segment revenue of HK\$1,796.6 million (2019: HK\$1,685.8 million (restated)) for the Year comprises provision of cleaning services, laundry services and property and facility management services amounting to HK\$1,126.9 million (2019: HK\$988.2 million (restated)), HK\$102.1 million (2019: HK\$170.4 million) and HK\$567.6 million (2019: HK\$527.2 million) respectively and such growth was mainly attributable to (i) contributions from a number of new general cleaning service contracts, which encompassed a wide range of buildings and facilities, including a large-scale public transportation facility, shopping malls, a government department, residential and commercial properties, (ii) additional ad-hoc intensive disinfection cleaning contracts following the outbreak of the novel coronavirus ("COVID-19") and (iii) higher revenue from the property and facility management services business, mainly driven by extensions of 2 non-residential property management contracts, including government buildings in Hong Kong, Kowloon and the New Territories and staff quarters of a university, partly offset by a reduction in revenue from the laundry business resulted from the plummeting tourist arrivals and lower hotel room occupancy rates following the outbreak of COVID-19 and social unrests. Its profit contribution to the Group for the year was HK\$124.4 million, representing an increase of 18.9% compared with last year's.

Growing public awareness for clean and hygienic environment after the outbreak of COVID-19 has boosted the demand of prestige service providers. During the Year, the Group's cleaning service business' revenue and net profit recorded double-digit increments compared with last year.

The Group's laundry business was adversely affected in FY2020 due to social unrests and the outbreak of COVID-19 in Hong Kong. The hard hit retail, tourism and hospitality industries have impacted the turnover of our laundries. As the Group's laundry business offers laundry, dry cleaning and linen management services to corporate customers including major high-end hotels, restaurant chains and theme parks, its business is impacted by the plummeted tourist arrivals and low hotel room occupancy rates. The unprecedented economic contraction, particularly the total shutdown of tourism and hospitality industries, has resulted in an overwhelming drop in the volume of NCL's laundry service.

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. During the Year, it was awarded 5 major service contracts with net contract sum equal to or more than HK\$10 million, including 3 government properties, staff quarters of a university and a residential estate.

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 & environmental services segment, according to the construction expenditure forecast provided by the Construction Industry Council, expenditure in E&M construction works in Hong Kong will amount to over HK\$23 billion for the public sector and over HK\$25 billion for the private sector in the fiscal year 2020/21. 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 Mainland China market, the development of the Greater Bay Area will certainly enhance the economic and social growth in eleven cities of that Area. In addition, the three rapidly developing Guangdong Pilot Free Trade Zones – Hengqin, Qianhai and Nansha will bring in new business opportunities to the Group.

The maintenance section of the Group's E&M engineering services envisages a growing demand for the term maintenance contracts from different prestigious commercial and residential buildings, hospitals, the public sector and educational institutions seeking the service of quality contractors to assist them in maintaining their properties in the best possible condition.

For the environmental services business, increasing public awareness of the importance of sustainable environment has fuelled the demand for environmental engineering services and products. Its seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively have brought steady growth to its environmental engineering segment.

There are tremendous demands of antiviral coating and sterilisation services during the period of COVID-19 outbreak in Hong Kong. The Group's cleaning services business also reaps benefit from providing numerous sterilisation service orders by its current clients and ad-hoc customers. The Group believes that such kind of disinfectant services would keep in high demand in the market until COVID-19 is completely controlled.

As a consequence of the outbreak of COVID-19 and social unrests, the laundry industry is experiencing cut-throat competition, wafer-thin margin and reduced patronage, the coming year is therefore anticipated to be full of challenges and uncertainties. In view of the current pandemic as reflected in the increasing number of worldwide confirmed COVID-19 cases and the unprecedented economic contraction, particularly its significant impact on tourism and hospitality industries, which resulted in an overwhelming drop in the volume of NCL's laundry service, the outlook of NCL remains bleak. Nevertheless, NCL will continue to maintain its service standard and operational efficiency. Its management will continue to closely monitor NCL's situation and apply appropriate remedial measures.

With the increasing expectation of the corporate clients and property investors, there is a growing demand of one-stop and full service professional property and facility management services. Under the foreseeable unstable economic situation, we believe that large corporations and multinational enterprises will continue the trend to outsource their non-core property and facility management activities to external professional agencies, which creates new business opportunities to us.

Since the outbreak of the Coronavirus epidemic in January 2020, 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 COVID-19 outbreak has created more ad-hoc intensive disinfection cleaning projects. Our environmental 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 outbreak of COVID-19 and social unrests, the Group's operations remained stable and the Group was able to record a moderate growth in its profit in the Year. 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. In addition, the Group shall endeavour to maintain a strong financial position so as to stay poised for new investment opportunities as and when they arise. We are confident that the Group will continue to grow.

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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 services, 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 Services Group (“Waihong”), 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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