



FSE Services Announces 2020/21 Interim Results
Profit Attributable to Shareholders Increased to HK\$329.1 million

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Announces Acquisition of a Target Group Engaged in the Provision of
Security Guarding & Event Services,
Insurance Solutions and Landscaping Services

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Proposes Change of Company Name to FSE Lifestyle Services Limited

Financial Highlights

	For the six months ended 31 December		
	2020	2019	% Change
	HK\$M	HK\$M	
Revenue	2,758.8	2,420.3	+14.0%
Gross profit	553.9	372.9	+48.5%
Profit attributable to shareholders of the Company	329.1	144.0	+128.5%
Basic earnings per share	HK\$0.72	HK\$0.32	+125.0%

The Board declared the payment of an interim dividend of HK28.9 cents (Six months ended 31 December 2019: HK12.8 cents) per ordinary share to the ordinary shareholders of the Company for the six months ended 31 December 2020⁽ⁱ⁾.

Note (i) The interim dividend for the six months ended 31 December 2020 of HK28.9 cents (Six months ended 31 December 2019: HK12.8 cents) per ordinary share to be paid in March 2021 represents a dividend payout ratio of 40.0% (Six months ended 31 December 2019: 40.1%), calculated based on the Group's adjusted profit for the six months ended 31 December 2020 attributable to ordinary shareholders of HK\$324.8M (Six months ended 31 December 2019: HK\$143.7M) (i.e. after excluding preferred distribution to the holder of convertible preference shares of HK\$4.3M (Six months ended 31 December 2019: HK\$0.3M) from profit attributable to shareholders of the Company for the six months ended 31 December 2020 of HK\$329.1M (Six months ended 31 December 2019: HK\$144.0M)).

26 February 2021, 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 4 major competences: electrical & mechanical engineering (“E&M”), environmental services, cleaning and waste management as well as property and facility management, has today announced its interim results for the six months ended 31 December 2020 (the “period under review”).

For the period under review, the Group's revenue increased by 14.0% to HK\$2,758.8 million and profit attributable to shareholders increased by 128.5% to HK\$329.1 million, mainly resulted from an increase in new contracts awarded in facility/property management, and ad-hoc cleaning and disinfection projects following the outbreak of COVID-19 and the receipt of subsidies under the Employment Support Scheme of the Hong Kong SAR Government.

As at 31 December 2020, the Group had total cash and bank balances of HK\$822.0 million (30 June 2020: HK\$700.9 million). The Group maintained a healthy liquidity position throughout the reporting period. As at 31 December 2020, HK\$804.2 million (30 June 2020: HK\$959.1 million) 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 HK28.9 cents (Six months ended 31 December 2019: HK12.8 cents) per ordinary share to the ordinary shareholders of the Company for the six months ended 31 December 2020.

Segmental performance

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

	For the six months ended 31 December			
	2020	2019	Change	% change
	HK\$'M	HK\$'M (restated)	HK\$'M	
E&M engineering & environmental services	131.3	102.2	29.1	28.5%
Integrated property & facility services	212.3	56.4	155.9	276.4%
Unallocated corporate expenses and finance costs*	(14.5)	(14.6)	0.1	(0.7%)
Total	329.1	144.0	185.1	128.5%

* Unallocated corporate expenses and finance costs comprise the Company's corporate expenses of HK\$12.2 million (Six months ended 31 December 2019: HK\$13.8 million) and interest expenses of HK\$2.3 million (Six months ended 31 December 2019: HK\$0.8 million). The corporate expenses in the period under review included legal and professional fees of HK\$10.0 million incurred for the Group's contemplated acquisition of a group of businesses engaged in the provision of guarding & event services, insurance solutions and landscaping services, whereas the amount for the same period of last year included legal and professional fees of HK\$11.6 million incurred for the acquisition of property and facility management services business.

E&M engineering & environmental services

Segment revenue of HK\$1,777.6 million (Six months ended 31 December 2019: HK\$1,520.6 million) for the period under review composed of revenue from the provision of E&M engineering & environmental services amounting to HK\$1,743.5 million (Six months ended 31 Dec 2019: HK\$1,484.1 million) and HK\$34.1 million (Six months ended 31 December 2019: HK\$36.5 million) respectively. Segment revenue increased by 16.9% to HK\$1,777.6 million, mainly reflecting an increase in revenue contribution from Hong Kong and Macau. The increased revenue contribution mainly reflected a number of E&M engineering installation and renovation projects, including 11 SKIES and District Cooling System at Kai Tak Development Phase III in Hong Kong and St. Regis Service Apartment in Macau, which had substantial progress this period.

During the period under review, this segment contributed gross profit of HK\$226.4 million (Six months ended 31 December 2019: HK\$223.0 million (restated)) which accounted for 40.9% (Six months ended 31 December 2019: 59.8% (restated)) of the Group's total gross profit and remained stable, with its gross profit margin decreased to 12.7% from 14.7%, mostly due to the significant cost savings of E&M engineering installation projects in Hong Kong and Macau in the prior year which are not repeated in the period under review.

During the period under review, the Group submitted tenders for 393 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\$12,125 million and was awarded new contracts with a total value of HK\$1,519 million, which included 86 contracts (with a net contract sum equal to or exceeding HK\$1 million for each project) with a total net contract sum of HK\$1,422 million. Among these contracts, 3 of them are major projects (with net contract sum equal to or exceeding HK\$100 million for each project), which include a public housing development at Tai Po, 11 SKIES commercial development in Chek Lap Kok and Chow Tai Fook Finance Tower in Shenzhen Qianhai.

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. During the period under review, the Group submitted tenders for 15 environmental service contracts (with a contract sum equal to or exceeding HK\$1 million for each contract, if awarded) with a total tender sum of HK\$55 million and was awarded new contracts with a total value of HK\$38 million.

As at 31 December 2020, this business segment has a total gross value of contract sum of HK\$10,676 million with a total outstanding contract sum of HK\$7,570 million.

Integrated property & facility services

Segment revenue of HK\$981.2 million (Six months ended 31 December 2019: HK\$899.7 million (restated)) for the period under review comprises provision of cleaning services, laundry services and property and facility management services amounting to HK\$612.3 million (Six months ended 31 December 2019: HK\$550.7 million), HK\$29.1 million (Six months ended 31 December 2019: HK\$71.4 million) and HK\$339.8 million (Six months ended 31 December 2019: HK\$277.6 million), respectively and grew 9.1%. Such growth was mainly attributable to contributions from a number of new general cleaning service contracts, which encompassed a wide range of buildings and facilities, including shopping malls, government buildings, residential and commercial properties and an exhibition centre, additional ad-hoc intensive disinfection cleaning contracts following the outbreak of COVID-19 and higher revenue from the property and facility management services business, mainly driven by a newly awarded property management contract for the government buildings in the New Territories and epidemic-induced additional works.

During the period under review, this segment contributed gross profit of HK\$327.5 million (Six months ended 31 December 2019: HK\$149.9 million (restated)) which accounted for 59.1% (Six months ended 31 December 2019: 40.2% (restated)) of the Group's total gross profit, with its gross profit margin increased to 33.4% from 16.7%, mostly attributable to an increase in new contracts awarded in facility/property management, and ad-hoc cleaning and disinfection projects following the outbreak of COVID-19 and the receipt of COVID-19 related government grants.

Since the outbreak of COVID-19, New China Laundry Group ("NCL")'s business has been adversely affected. As it 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 prospect of NCL is far from being optimistic in the near future, in particular, in view of the continued adverse impact of the COVID-19 outbreak on the general economy of Hong Kong. In view of the above, the Group disposed of NCL at a consideration of HK\$4.0 million on 31 December 2020. The disposal provides the Group with a good opportunity to dispose of its loss-making operation and to redeploy its resources to other profitable business divisions.

Outlook

For the E&M engineering services business, the Hong Kong government targets to maintain an annual works expenditure of over \$100 billion in the next few years as stated in its 2020 Policy Address. According to the construction expenditure forecast provided by the Construction Industry Council in September 2020, expenditure in E&M construction works each year will amount to over HK\$25 billion for the public sector and over HK\$23 billion for the private sector over the next five years. The Group will continue to focus on applying its core competencies to raise customer satisfaction and ensure sustainable growth and profitability of its business. It shall give first priority to large-scale projects including design and construction contracts

from the government, public infrastructure works, hospital development projects, public housing and subsidised housing projects, as well as private commercial and residential building projects.

For the cleaning business, following the enhancement in preventive infection measures for public and private facilities required during the period of COVID-19 outbreak in Hong Kong, there are currently tremendous demands of antiviral coating and sterilisation services in our society. The Group also reaps benefit from providing numerous sterilisation service orders by clients. The Group believes that such kind of disinfection services would keep in high demand in the market until the pandemic is under control by effective vaccines around the world. The Group will seek for opportunities to provide more one-off service orders of antiviral coating and sterilisation services which generate higher profit and expand its market share in the government sector.

For the property and facility management services business, 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. Extended services include property pre-management services, project planning and management, building renovation and rejuvenation services, leasing and tenancy management, facility re-commissioning, and other value-added services. Under the foreseeable unstable economic situation, the Group believes 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 the Group.

Despite the challenges and operational difficulties we face in this financial year, in particular those arising from the outbreak of COVID-19, the Group's operations remained stable and the Group was able to record a remarkable growth in its profit in the period under review. 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. The Group is confident that it will continue to grow.

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Acquisition of a Target Group engaged in the provision of security guarding & event services, insurance solutions and landscaping services

The Group is pleased to announce that it has reached an agreement today to acquire a group of businesses engaged in the provision of security guarding & event services, insurance solutions and landscaping services (the "Target Group") at a total consideration of HK\$840.60 million (subject to adjustments, if any), comprising a non-cash consideration of HK\$442.65 million settled through the proposed disposal of certain properties held by the Group and a cash consideration of HK\$397.95 million payable in cash by the Company.

The Target Group's Security Guarding & Event Services arm of business is ranked as the No. 2 in Type I security services provider in Hong Kong in terms of revenue for the financial year ended 30 June 2020. It mainly offers security guarding services such as physical guarding of property and person, security management and planning, and armoured transportation. Event services are also provided that combine security guarding services and customer services to optimise the guest experience without compromising the safety of event participants or the integrity of critical assets. Other related services include concierge services, alarm installation and maintenance.

The Target Group's Insurance Solutions arm of business is ranked as the No. 1 general insurance broker among local insurance brokers and the No. 5 general insurance broker among local and international insurance brokers in Hong Kong in terms of gross insurance brokerage income for the financial year ended 30 June 2020. It mainly offers general insurances brokerage services related to property and casualty, construction projects and employee benefits. Other insurance brokerage services include director and officers liability, prospectus liability, cyber risk liabilities.

The Target Group's Landscaping Services arm of business is a leading player in the landscaping services industry in Hong Kong. It offers services related to planting and maintenance of landscapes and sales of plants and related materials.

The Group believes that, this acquisition can (i) increase its scale and profit and provide higher return to its shareholders as it represents a good investment for the Group to utilize its existing cash on hand and proceeds from disposing the Group's properties, which will allow the Group to engage in businesses that could enhance recurring profit in the long term and lead to an accretion to the Company's earning per share, while using the proceeds from disposing the Group's properties as part of the consideration would provide more flexibility in managing the Group's cashflow, maintain a good capital structure and better utilize the less liquid assets in its balance sheet, (ii) mitigate its cyclical risks by diversifying its revenue streams and expanding financial scale as the Target Group has a diversified services offering and client base which could potentially improve the stability of operation of the enlarged Group with more diversified revenue streams, (iii) increase cross-selling synergies that would allow the Group to offer "one-stop-shop" comprehensive solutions to clients that differentiates the Group from its competitors, which enables higher customer loyalty by providing integrated lifestyle services as well as better deployment of human resources given the increased flexibility to allocate human resources across more business lines after the acquisition, (iv) enhance the Group's leading position by adding more market-leading players in its portfolio and (v) re-position the Group into a comprehensive lifestyle services company to reflect the Group's vision and long-term strategy and become a premier organization for delivery of all aspects of lifestyle services to create aspirational and sustainable developments for the city community.

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Proposed change of Company name

The Group's exposure in integrated services continue to increase over the years and has become an important growth driver of the Group with more significant profit contribution. The proposed acquisition would also further enhance the contribution of its integrated services business. In view of the Group's exposure in integrated services and its continue diversification in services related to servicing the city community, the Group proposed to change the Company name into "FSE Lifestyle Services Limited".

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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 a leading diversified service provider in Hong Kong, which has 4 major competences: electrical & mechanical ("E&M") engineering, environmental services, cleaning and waste management as well as property and facility management.

The Group's competences are being delivered through 4 major groups of companies which have all been the market leaders in respective industry. They include: FSE Engineering Group, FSE Environmental Technologies Group, Waihong Services Group and FSE Property and Facility Management Services Group which comprises Urban Group and Kiu Lok Service Management Group. 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 the entertainment and travel industries in Hong Kong, Macau and the Mainland China.

Our clientele include the HK SAR Government, multinational corporations, owners and investors of intelligent buildings and premises, universities and 5-Star hotels which cover all kinds of private and public facilities. The Group devises for the prestigious clients the optimal choices in creating cost efficiency and service excellence at all stages of their developments and operations.

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