FSE Engineering Holdings Limited
豐盛機電控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 331

Interim Report 2017-2018

Contents

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Financial Highlights

	For the six months ended 31 December		
	2017	2016	% Change
	HK$M	HK$M	
Revenue:	**1,763.3**	1,769.3	(0.3%)
Gross profit:	**206.9**	195.6	5.8%
Profit attributable to equity holders:	**86.8**	82.3	5.5%
Basic earnings per share:	**HK$0.19**	HK$0.18	5.6%

The Board declared the payment of an interim dividend of HK7.8 cents per share for the six months ended 31 December 2017 (2016: HK7.4 cents).

Chairman's Statement

To Our Shareholders:

On behalf of the board of directors (the "Board") of FSE Engineering Holdings 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 2017.

MARKET REVIEW

While the economic impact of political changes remains to be seen, the global economy is expected to maintain its momentum through 2017 and carry over to the rest of this year with 3.9% growth. In the big picture of a broad-based economic upturn supported by solid employment, stable inflation environment and financial market performance, major advanced economies are likely to show further moderate expansion enhanced by elevated business confidence and corporate earnings. The mainland economy is also set to sustain notable growth, spanning from construction to manufacturing, trade and services. However, there are challenges and uncertainties in the global political and economic environment that necessitate attention, like the formal Brexit negotiations, China's economic growth prospects, further balance-sheet shrinkage and interest rate normalisation measures by the US Federal Reserve, and most recently the unclear trade and fiscal stimulus policies initiated by the US president. Within the current broadly benign global economic conditions, Hong Kong is anticipated to maintain reasonable economic growth but the operating environment at large for businesses in the city still warrants caution and enterprises should be well-prepared for any potential impact from industry volatilities. The Group also encounters a multitude of challenges mainly keen competition and labour shortage of skilled workers in the marketplace which impact the profit margin. However, backed by its extensive industry experience, a management team with proven expertise and relentless in its guiding efforts, and boasting a reputation well-appreciated by customers, the Group has managed to achieve commendable growth during the period under review. Its profit attributable to equity holders increased by HK$4.5 million, or 5.5%, testimony to its resilience and capability to continuously grow its business. The Board has declared the payment of an interim dividend of HK7.8 cents per share for the six months ended 31 December 2017, equivalent to a payout ratio of 40.5%.

E&M ENGINEERING

Hong Kong

The Hong Kong Government has set aside a total of more than HK$70 billion for the housing reserve and is committed to continuing to rezone sites, stepping up land development and conducting reviews with the aim of optimising land use. The public housing supply target for the 10-year period from 2018/19 to 2027/28 has been announced to be 280,000 units including 200,000 public rental housing units and 80,000 subsidised sale flats and the average E&M construction works expenditure for the fiscal year 2018/19 is to be more than HK$20.0 billion for the public sector and more than HK$28.0 billion for the private sector. Presuming there would not be prolonged debates by the HKSAR legislature on infrastructure projects, new public works could kick off as scheduled, and an upswing in infrastructure, public housing and private housing projects could be expected, which would in turn help drive healthier growth in the construction, E&M engineering and environmental management services sectors. To ensure adequate preparation to take on the various infrastructure projects in the pipeline and also begin planning for the tenders for hospital development, the Kai Tak Sports Park and the relocation of three government buildings in Wanchai, the Group is striving to maintain a stable and professional E&M team with our advanced technological capabilities in areas including Building Information Modelling (BIM) technology that can enhance engineering designs and work quality to meet the requirements of these projects. These efforts supported by a strong balance sheet should fortify our presence and leadership in this pillar industry of the city.

Chairman's Statement

Mainland China

Under the agenda of the 19th Communist Party Congress, the policy focus is to reinforce economic stability. With the implementation of a proactive fiscal policy together with the neutral and prudent monetary policy, the Chinese government has found a good balance between curbing financial risks and maintaining steady economic growth at 6.9% in 2017. In line with its principles of the "National New-type Urbanisation Plan, the urbanisation rate and income per capita in Mainland China have increased steadily in recent years. The Chinese government clearly stated that its continuing push for urbanisation will not only be conducive to an upgrade of coastal cities, but will also help rejuvenate construction and economic activities in urban as well as rural areas in the central and western regions of the country. This strategic shift of emphasis should encourage rebalancing of the Chinese economy and unleash the enormous demand for housing and related commercial developments, therefore presenting fresh opportunities to the construction and E&M engineering industry. As the Group is one of the few Hong Kong-based E&M general engineering contractors with Class I Qualification in Mainland China, it has an advantage in forging ties with the selected partners to expand its footprint in this crucial market. While being optimistic about our prospects in the market, we will remain vigilant and keep a close watch on any possible changes in the economic climate and potential risks along with available business opportunities in this region. Leveraging our extensive project experience and advanced information technology application, the Group intends to focus on identifying E&M engineering business opportunities in relation to the country's Belt and Road Initiative, the construction of the Greater Bay Area and the Pan-Pearl River Delta regional co-operation. As in previous years, the Group will work hard at maintaining its presence in Mainland China, adhering to a disciplined approach to its business development.

Macau

The Macau economy has continued to show signs of transitioning to a sustainable market recovery. A new Cotai ferry terminal and the Hong Kong-Zhuhai-Macao Bridge also expected to open in 2018 could significantly increase traffic flow and accessibility and further enhance market growth. As revealed under its Five-Year Development Plan (2016–2020), the Macau SAR Government wishes to attain a balance between the gaming and non-gaming sectors, developing a new urban zone, promoting development of integrated tourism and reinforcing non-gaming leisure and entertainment provisions, all of which will see more diversity in Macau's economy and, in turn, creating ample opportunities for the Group.

ENVIRONMENTAL MANAGEMENT SERVICES

Regarding our environmental management services business, growing public awareness of environmental issues is boosting demand for associated environmental management 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.

CONCLUSION

With our solid and healthy financial position, the Group will continue to dedicate our efforts to consistently seeking business opportunities that can further expand our business and maximize our shareholders' value.

On behalf of the Board, I would like to express my 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, 27 February 2018

Management Discussion and Analysis

BUSINESS REVIEW

The Group maintained its position as one of the leading E&M (electrical and mechanical) engineering companies in Hong Kong, capable of providing a comprehensive range of E&M engineering and environmental management services. It also continued to run strong its E&M engineering operations in Mainland China and Macau. On top of its full range of licences and qualifications and effectiveness in managing tendering risks, the Group has integrated operating and control procedures, strong networks of well-established customers and suppliers, and an experienced and well-trained workforce to support all of its operations. Thus, the Group has strong confidence in securing and undertaking integrated E&M engineering projects in Hong Kong, Mainland China and Macau.

In addition, the Group is committed to creating a greener society. To help build a sustainable environment, it has been constantly optimising design and exploring innovative methods. At the project level, the Group incorporates green building principles into application of building services equipment; and adopts green building design, modularisation and prefabrication to reduce energy usage, carbon emissions and construction waste. In order to help improve its operational efficiency and project management, the Group invests in innovative construction technologies such as Building Information Modelling (BIM), laser scanning and mobile solutions. The Group's environmental management services business, a new growth driver, continues to provide environmental assessment and energy efficient solutions to assist its customers in achieving their environmental protection and energy conservation objectives.

Going ahead, 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.

Financial performance

Leveraging on its competitive strengths as described above, the Group delivered a solid financial performance with revenue amounting to HK$1,763.3 million for the period under review, decreased by HK$6.0 million or 0.3%, as compared to HK$1,769.3 million for the same period last year. Profit attributable to equity holders for the period under review was HK$86.8 million, representing an increase of HK$4.5 million or 5.5% against HK$82.3 million for the same period last year.

As at 31 December 2017, the Group's projects encompassed a wide range of buildings and facilities, including offices, shopping malls, convention and exhibition centres, hotels, integrated resorts, residential properties, universities, hospitals, airport and public transportation facilities buildings with a total outstanding contract sum of HK$5,609.7 million. For the period under review, the Group submitted tenders for 273 E&M engineering and environmental management services projects (with a contract sum equal to or exceeding HK$1.0 million for each project, if awarded) with a total tender sum of HK$9,218.4 million. During the period under review, the Group was awarded new contracts with a total value of HK$1,570.9 million, which include 64 contracts (with a net contract sum equal to or exceeding HK$1.0 million for each project) with a total net contract sum of HK$1,440.5 million. Among these 64 contracts, five of them are major projects (with net contract sum equal to or more than HK$100.0 million for each project): Hong Kong: Electrical and ELV installation package B for the LOHAS Park (Package 7), Mechanical ventilation and air-conditioning and Fire services installation (Podium Portion) for Tai Wai Station Property Development, Mechanical ventilation and air-conditioning and Electrical installation for Hong Kong Sanitorium Hospital Eastern District Advance Medical Centre, and Plumbing & drainage installation (Residential Portion) Phase 2 for Tai Wai Station Property Development; Mainland China: Heating, ventilation and air-conditioning (Fitting Out) installation (Supplemental Agreement) for Tianjin Chow Tai Fook Financial Centre.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

During the period under review, the Group's revenue slightly dropped by HK$6.0 million or 0.3% to HK$1,763.3 million from HK$1,769.3 million for the same period last year, attributable mostly to the decline in revenue of HK$9.1 million of the E&M engineering segment.

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

	For the six months ended 31 December			
	2017 HK$'M	**% of total revenue**	2016 HK$'M	% of total revenue
E&M engineering*	**1,729.4**	**98.1%**	1,738.5	98.3%
Environmental management services*	**33.9**	**1.9%**	30.8	1.7%
Total	**1,763.3**	**100.0%**	1,769.3	100.0%

* Segment revenue does not include inter-segment sales.

- *E&M (electrical and mechanical) engineering:* This segment continued to be the key turnover driver of the Group and contributed 98.1% of the Group's total revenue (2016: 98.3%). Segment revenue dropped slightly by 0.5% from HK$1,738.5 million to HK$1,729.4 million for the period ended 31 December 2017, owing mainly to the reduced revenue contribution from a number of E&M projects in Hong Kong and Mainland China which had been substantially completed in the same period last year. The decrease was partly mitigated by the increase in contribution from Macau with electrical installation for Morpheus Hotel at City of Dreams which had significant progress in the period under review.

- *Environmental management services:* The revenue contribution of this business segment increased from HK$30.8 million to HK$33.9 million, representing a growth of 10.1% as compared with the same period last year. The increase was mainly attributable to the increase in revenue from environmentally-related contracting and maintenance services, primarily water treatment services.

The following table presents a breakdown of our Group's revenue geographically:

	For the six months ended 31 December			
	2017 HK$'M	2016 HK$'M	Change HK$'M	% change
Hong Kong	**1,326.5**	1,381.6	(55.1)	(4.0%)
Mainland China	**249.6**	274.3	(24.7)	(9.0%)
Macau	**187.2**	113.4	73.8	65.1%
Total	**1,763.3**	1,769.3	(6.0)	(0.3%)

Hong Kong: Revenue from Hong Kong decreased by HK$55.1 million or 4.0% to HK$1,326.5 million for the period under review from HK$1,381.6 million for the same period last year. The decline mainly resulted from the reduced revenue contribution from Gleneagles Hong Kong Hospital in Wong Chuk Hang which had been substantially completed in the corresponding period last year. Also, works in relation to a number of sizeable installation projects, including West Kowloon Government Office in Yau Ma Tei, Hong Kong Airlines Aviation Training Centre at Chek Lap Kok and two residential developments at LOHAS Park, were at an early stage and yet to contribute significant revenue.

Mainland China: Revenue from Mainland China decreased by 9.0% from HK$274.3 million for the six months ended 31 December 2016 to HK$249.6 million for the period under review with its geographical contribution slightly decreased from 15.5% to 14.2%. The decrease of HK$24.7 million was mainly attributable to reduction in revenue contribution from two major installation projects, an office building development and a hotel development in Wuhan which had been substantially completed in the same period last year whereas the two sizeable installation projects, including a commercial complex development in Kunming and Tianjin Chow Tai Fook Financial Centre, had yet to contribute significant revenue.

Macau: Revenue from Macau increased by 65.1% from HK$113.4 million for the six months ended 31 December 2016 to HK$187.2 million for the period under review. The increase of HK$73.8 million was primarily the substantial revenue contribution from electrical installation for Morpheus Hotel at City of Dreams which made significant progress during the period under review and lifted Macau's contribution to the Group's total revenue from 6.4% to 10.6%.

Gross profit

The Group's overall gross profit increased by HK$11.3 million or 5.8% from HK$195.6 million for the six months ended 31 December 2016 to HK$206.9 million for the period under review, whereas overall gross profit margin remained relatively stable at 11.7% (31 December 2016: 11.1%). The increase in gross profit was driven by the E&M engineering business recording an increase in gross profit during the period under review with segment gross profit margin improved from 10.8% to 11.5%. The gross profit margin of the environmental management services segment remained relatively stable at 25.7% (31 December 2016: 26.6%) with gross profit rose by 6.1% from HK$8.2 million for the six months ended 31 December 2016 to HK$8.7 million for the period under review, mainly attributable to higher revenue contribution from water treatment maintenance services.

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

	For the six months ended 31 December			
	2017		2016	
	Gross profit HK$'M	**Gross profit margin %**	Gross profit HK$'M	Gross profit margin %
E&M engineering	**198.2**	**11.5**	187.4	10.8
Environmental management services	**8.7**	**25.7**	8.2	26.6
Total	**206.9**	**11.7**	195.6	11.1

Other gains/losses, net

For the period under review, other net gains, which amounted to HK$2.6 million (31 December 2016: other net losses of HK$0.2 million), mainly included the net foreign exchange gain.

Finance income

The Group recorded finance income of HK$9.8 million (31 December 2016: HK$6.8 million). The increase was mainly due to the interest income from investment in available-for-sale financial assets and financial assets at fair value through profit or loss.

General and administrative expenses

General and administrative expenses of the Group for the period under review increased by 12.5% to HK$112.6 million, compared to HK$100.1 million for the same period last year. The increase of HK$12.5 million was mainly attributable to the increase in staff cost from annual salary increment and employment of additional staff to cope with business expansion, and additional depreciation charges for property and associated leasehold improvement for the Group's office acquired in last year.

Taxation

The effective tax rate of the Group slightly declined from 19.3% to 18.7% as compared with the same period last year resulted from the higher profit contribution from Macau which has relatively lower applicable corporate income tax rate.

Profit attributable to equity holders

As a result of the foregoing, our profit for the period under review increased by 5.5% or HK$4.5 million to HK$86.8 million, compared to HK$82.3 million for the last corresponding period. The increase was mainly the combined result of higher gross profit contribution mostly from our core business segment and the increase in finance income, partly offset by the increase in general and administrative expenses due to additional depreciation charges and staff costs. The net profit margin of the Group remained stable at 4.9% for the period under review (31 December 2016: 4.7%).

Other comprehensive gain

The Group recorded other comprehensive gain of HK$8.1 million for the period under review, reflective of the increase in exchange reserve from the appreciation of the Renminbi ("RMB") for conversion of the net investments in Mainland China operations.

Management Discussion and Analysis

Liquidity and financial resources

The Group's finance and treasury functions are centrally managed and controlled at its headquarters in Hong Kong. As at 31 December 2017, the Group had total cash and bank balances of HK$765.9 million, of which 57%, 37% and 6% were denominated in Hong Kong dollars, RMB and other currencies respectively (30 June 2017: 55%, 33% and 12% respectively). As compared to HK$978.3 million as at 30 June 2017, the Group's cash and bank balances decreased by HK$212.4 million to HK$765.9 million, which was primarily due to the distribution of final dividend of HK$36.5 million for the year ended 30 June 2017, net investment in available-for-sale financial assets and financial assets at fair value through profit or loss in sum of HK$90.4 million and the increase in net cash outflow from operating activities.

Adopting a prudent financial management approach in implementing its treasury policies, the Group maintained a healthy liquidity position throughout the reporting period with no bank borrowings and outstanding borrowings as at 31 December 2017 (30 June 2017: Nil), hence its gearing ratio (being our total borrowings divided by our total equity) was maintained at zero as at 31 December 2017. As at 31 December 2017, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$1,286.7 million (30 June 2017: HK$1,091.0 million), of which HK$267.6 million (30 June 2017: HK$323.7 million) had been utilised for bank guarantees and trade finance. The Group believes it has sufficient committed and unutilised banking facilities to meet current business operation and capital expenditure requirement.

Foreign currency exposure

The Group operates primarily in Hong Kong, Macau and Mainland China and is not exposed to significant exchange risk. The Group does not have a foreign currency hedging policy and foreign currency risk is managed by closely monitoring the movement of the foreign currency rates. It will consider entering into forward foreign exchange contracts to reduce exposure should the need arise.

As part of our business is carried out in Mainland China, part of our assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in Mainland China operations with net assets of HK$204.0 million as at 31 December 2017. The foreign currency translation arising from translation of these Mainland China operations' financial statements from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the group's presentation currency) does not affect the Group's profit before and after tax, and will be recognised in its other comprehensive income.

During the period under review, the fluctuation of RMB against Hong Kong dollars was 5.3% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the period under review).

As at 31 December 2017, if the Hong Kong dollars had strengthened/weakened by another 5.0% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK$10.2 million lower/higher.

Management Discussion and Analysis

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 31 December 2017, the net proceeds of HK$264.5 million received from the Global Offering (referred to in the prospectus issued by the Company on 26 November 2015) were applied as follows:

	Net proceeds from Global Offering HK$'M	Utilised HK$'M	Unutilised HK$'M
Investment in/acquisition of companies engaged in the installation and maintenance of ELV system	81.6	3.8	77.8
Development of environmental management business	51.0	2.8	48.2
Operation of E&M engineering projects on hand and prospective projects	47.4	47.4	–
Staff-related additional expenses	20.0	14.2	5.8
Development and enhancement of design capability	19.3	15.8	3.5
Enhancement of quality testing laboratory	12.2	3.8	8.4
Upgrade of corporate information technology system and software	8.0	4.7	3.3
General working capital	25.0	25.0	–
Total	264.5	117.5	147.0

During the period under review, the Group utilised HK$8.4 million of the net proceeds. The Group held the unutilised net proceeds mainly in short-term deposits or time deposits with licensed banks and authorised financial institutions in Hong Kong.

Capital commitments

The Group had capital commitments of approximately HK$16.0 million as at 31 December 2017 in relation to the purchase of property, plant and equipment (as at 30 June 2017: HK$0.2 million).

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2017 (as at 30 June 2017: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had a total of 1,736 employees (31 December 2016: 1,622). Staff cost for the period under review, including salaries and benefits, was HK$302.3 million (six months ended 31 December 2016: HK$276.0 million). The increase in total headcount was to cope with business operation.

Remuneration package including salaries, bonuses granted to employees according to individual performance and are reviewed according to general market conditions every year. Tailored and structured training programmes were provided to employees continuously, to enhance their skills and abilities and foster employee loyalty.

The Company adopted a share option scheme on 20 November 2015, aiming at providing incentives to the eligible participants (including the employees of the Group) that they would be encouraged to contribute to the Group. The scheme also enables us to attract and recruit high-calibre employees with knowledge, talents and experience that are valuable to the Group.

All the employees of the Group in Hong Kong have joined a mandatory provident fund scheme. The scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The Group has complied with relevant laws and regulations, and has made relevant contributions in accordance with those relevant laws and regulations.

OUTLOOK

Overview

Leveraged on its market leadership and buttressed by a proven track record, a well-established customer network and ample financial reserves, the Group will be able to continuously seek acquisition opportunities and engage competent professional talent to help it explore new market opportunities and expand geographical coverage in Hong Kong, Macau and Mainland China.

The Group will stay focused on applying its core competencies to raise customer satisfaction and ensure the sustainable growth and profitability of its business. The Board is confident that the Group, through its unwavering efforts, can maximise shareholders' value, enhance its corporate image as well as its position in the E&M engineering industry.

Currently, the E&M engineering segment in Hong Kong, which accounts for over 70% of the Group's total revenue, remains the core business of the Group. However, while proud of its performance in this segment in Hong Kong, the Group is striving to bolster its market presence in other regions.

Extra low voltage ("ELV") Business

Regarding the 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 early 2016, the Group set up an ELV division which complements the work of the E&M engineering segment and provide valued customers in the property development one-stop ELV service solutions — from concept development to design and to commissioning.

Holding the Security Company Licence (Type III) governed by the Security and Guarding Services Industry Authority (SGSIA) under the Security Bureau, the Group is carrying out Installation, Maintenance, Repairing and Design of Security Systems. The Group is also qualified on the Development Bureau's List of Approved Suppliers of Materials and Specialist Contractors for Broadcast Reception Installation (BRI) and Burglar Alarm and Security Installation (BAS) for public works.

Since the establishment of the new ELV division, the Group has several ELV projects including one residential project on Sai Yuen Lane in Sai Ying Pun, two public housing projects on Texaco Road in Tsuen Wan and Tung Chung Area 27 respectively, an office development project at King's Road in North Point and an Aviation Training Centre at Chek Lap Kok.

Looking ahead, the Group will keep working with vendors to customise those systems according to the specific needs of customers, using advanced technologies such as intelligent IP/IT-based and mobile Apps systems. The Group believes that with a highly qualified and experienced staff and sound project management skills, it can fulfill its commitment of delivering quality and professional services to all its valued customers.

E&M engineering segment

1. **Hong Kong**

   As the Hong Kong Government has unveiled a series of new policies and initiatives in the public and infrastructure projects, the construction industry accounted for 5.2% of Hong Kong's total gross domestic profit in 2016. According to the construction expenditure forecast provided by the Construction Industry Council, E&M construction works expenditure will amount to over HK$20 billion for the public sector and over HK$28 billion for the private sector over the next few years. Projects in these two sectors will together create a large number of jobs, particularly crucial for Hong Kong in times of economic uncertainty.

   Long-term Housing Strategy

   The long-term housing strategy of the Hong Kong Government, as stated in the 2017 Policy Address, aims at continuing its ongoing efforts in increasing the land and housing supply. According to the government projection, 460,000 residential flats will be provided in the next decade including 200,000 public housing units, 80,000 subsidised-sale units, and 180,000 private housing units.

   As at 2016, the proposed major public housing developments include those developments at Lin Cheung Road in Sham Shui Po, Queen's Hill in Fanling, Diamond Hill and Anderson Road in Kwun Tong. The proposed major subsidised-sale housing developments include those developments at Diamond Hill, Ping Shan in Yuen Long and Sham Shui Po. In addition, the Hong Kong Government has proposed the affordable "Starter Homes", and planned to launch a pilot scheme by the end of 2018 using a residential site at Anderson Road in Kwun Tong on the Hong Kong Government's Land Sale Programme to provide about 1,000 residential units.

   For private residential developments, according to the preliminary assessment of known to have or soon to be started on disposed sites as at June 2017, it is projected that the private sector will provide a historically high record of about 98,000 units in the coming three to four years. The proposed major private housing developments include those developments at Kai Tak development area, Cha Kwo Ling, Pak Shek in Ma On Shan, Pak Shek Kok in Taipo and Ap Lei Chau, together with railway property developments including LOHAS Park Station, Tai Wai Station, Wong Chuk Hang Station, Ho Man Tin Station, Kam Sheung Road Station, etc.

New Development Frontiers

In addition, the Hong Kong Government is pushing full steam ahead with the new development areas and the extension of new towns, including Kwu Tung North, Fanling North, Tung Chung, Hung Shui Kiu and Yuen Long South, which are expected to provide, all together, about 198,100 residential flats. The Hong Kong Government will also examine the development of Tseung Kwan O Area 137 for residential and commercial development and other relevant purposes.

Other Public Facilities & Infrastructure Developments

To prepare for the challenges brought by the aging population, the Hong Kong Government earmarked HK$200 billion in 2016 for a ten-year hospital development plan covering, among others, the redevelopment of Queen Mary Hospital, Kwong Wah Hospital, United Christian Hospital and Kwai Chung Hospital, construction of a new acute hospital at the Kai Tak Development Area and the redevelopment or expansion of various hospitals such as the Tuen Mun Hospital Operating Block, Prince of Wales Hospital, North District Hospital, Princess Margaret Hospital and Grantham Hospital. The above projects will together provide 5,000 additional public hospital beds and 94 new surgical theatres in the next ten years. In addition, the Hong Kong Government has decided to finance construction of a Chinese medicine hospital in Tseung Kwan O in 2019.

To promote sport in the community and maintain Hong Kong as a centre for major international sporting events, the Hong Kong Government will spend a total of HK$20 billion in the coming five years to launch 26 projects to develop new or improve existing sports and recreation facilities. Besides, the Kai Tak Sports Park, the largest sport project with an investment over HK$31 billion, is expected to be completed in 2022/2023.

Apart from the above, construction of the Shatin to Central Link, investment in the West Kowloon Cultural District, urban renewal redevelopment projects, residential, commercial and hotel developments in the Kai Tak Development Area, expansion of convention and exhibition venues in Wanchai, HK$12 billion University hostel development, construction of a third runway system, expansion of the existing Terminal 2 and the SKYCITY development projects at the Hong Kong International Airport, the Lantau development projects associated with the Hong Kong-Zhuhai-Macao Bridge, and the "Energising Kowloon East" Initiative as a smart city pilot area (including Kwun Tong redevelopment and the revitalisation of industrial buildings) will definitely help boost the construction industry in Hong Kong in the coming decade.

Looming Challenges

Of course, the construction engineering sectors in Hong Kong are also facing a multitude of problems and serious challenges. According to the forecast, there will be a severe labour shortage of skilled workers in the E&M engineering services industry over the next few years, which coupled with the aging workforce, are going to push up labour wages and hence construction cost. The filibustering in the Legislative Council has delayed the award of new public works contracts, which adds to the rising construction cost. The Group has thus strived to maintain a relatively stable workforce and retain loyal staff members so as to preserve its competitiveness.

Maintenance Services

As reflected in the statistics available, there are currently over 65% of the existing buildings (approximately 42,000) in Hong Kong including 1,700 commercial buildings, 1,600 industrial buildings and 24,000 residential buildings aged over 20 years. Thus, 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 shape. The Group expects an increase in revenue from fitting-out works, system upgrade and replacement works following the implementation of the Mandatory Building Inspection Scheme (MBI Scheme) on 30 June 2012. Large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the maintenance section.

More than half (around 55%) of Hong Kong's total annual energy end-use is in the form of electricity consumption and buildings take up about 90% of our total electricity consumption. It is imperative to reduce the use of electricity in buildings to help us combat climate change and global warming. Following the implementation of the Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) in September 2012, Electrical and Mechanical Services Department (EMSD) is also actively pursuing the cost-effective program of "Retro-commissioning" to develop a scientific based optimisation scheme and make continuous improvement to further encourage energy conservation works in existing buildings. The Group expects favourable returns from the system upgrade and replacement works to improve energy saving for building owners and the industry.

Building Material Trading

The Group's Building Material Trading section has also generated stable income. The Group offers a wide variety of tiles imported from Europe to its customers at four retail stores in Hong Kong and one in Macau. It also supplies E&M engineering equipment and products including cast iron and stainless steel pipes and fittings, various gauges, building automation systems, heating elements, ventilation and air-conditioning parts, heat exchangers, filters, smoke and gas sensors, etc. All of these supplied building materials are sourced from a large number of suppliers in the US, Europe, South East Asia and Mainland China in accordance with the related distribution agreements or purchase orders that the Group has entered into with the suppliers.

Way Forward

Moving forward, the Group will continue to focus on capturing large-scale projects including design and construction contracts from the government, public infrastructure works, hospital development projects, public rental and subsidised housing projects, private commercial and residential building projects. The Group also targets to secure more term maintenance contracts and alteration and addition works in the maintenance service market.

2. **Macau**

For the year 2017, the Macau gaming market with 39 casinos is expected to generate total gross revenues of MOP 265 billion, about five times that of Las Vegas. As a result, the construction and E&M engineering sectors in Macau performed very well in the past few years. However, with substantial sizable casino projects completed in 2017 and the flagging tourism and the gaming industry, the construction and engineering sectors in Macau are expected to go through a stage of consolidation.

Nevertheless, there is a constant demand for renovation and improvement works for hotels and casinos. In addition, the robust demand for public and private residential housing, the development of Galaxy Macau Phase 3 and 4 (about a HK$43 billion investment), the construction of the Islands District Medical Complex, and the renewal of casino licences in 2020 and 2022 are expected to create emerging business opportunities for the Group in the coming few years.

Ongoing Housing and Tourism Development

The Macau SAR Government has launched its first Five-year Development Plan and initiated the reclamation project for New Urban Zone Area A and the Zhuhai-Macao man-made islands in association with the Hong Kong Zhuhai-Macao Bridge, which are expected to provide land for 28,000 public housing units and 4,000 private housing units. Conductive to the growth of its tourism industry, the city projected that it will be able to offer 44,000 hotel rooms by 2019 versus 37,100 hotel rooms in November 2017.

Reinforcing Leadership in Gaming and Tourism

The positioning of Macau as a world exemplary tourism and leisure center addresses that region's need for adequate economic diversification and sustainable development. The Macau SAR Government is expected to keep track of the pace of development of the gaming industry, and at the same time actively foster growth of integrated tourism in the city by reinforcing its non-gaming facilities.

3. **Mainland China**

For this market, the Group has followed a disciplined business development approach focusing on the provision of E&M engineering services to major property developments of Hong Kong and foreign investors. Apart from the two core bases in Beijing and Shanghai, the Group has also established its presence in other first- and second-tier cities in Mainland China such as Tianjin, Dalian, Shenyang, Chengdu, Wuhan, Changsha and Nanjing.

"One Belt, One Road" Initiative

In the 1990s and 2000s, the Group completed several projects in Southeast Asia including Singapore, Thailand, Malaysia, Vietnam and the Philippines. In the advent of China's "One Belt, One Road" initiative elaborated in her 13th Five-Year Plan, the Group is actively seeking to participate in related construction and infrastructure projects backed by the Asian Infrastructure Investment Bank (AIIB) in ten member states of Association of Southeast Asia Nations (ASEAN).

Guangdong Pilot Free Trade Zones

In addition, the three rapidly developing Guangdong Pilot Free Trade Zones — Hengqin, Qianhai and Nansha will bring in new business opportunities to the Group.

Project Management Services

In recent years, the Group has been providing project management services in Mainland China to an international exhibition centre development in Shenyang, two high-rise building complexes in Tianjin and Guangzhou, and two commercial buildings in Beijing. The Group firmly believes that due to its high market recognition and armed with strong value-added E&M engineering project management expertise in the areas of, among others, integrated services coordination, coordinated services drawing production, Building Information Modelling (BIM) techniques, project planning, quality assurance and system testing and commissioning, the Group will be a preferred partner of foreign and Hong Kong-based developers of high-end projects in Mainland China. Leveraging its abundant E&M installation experience in Mainland China, the Group plans to extend our E&M engineering project management services to cover high-end projects in Mainland China so as to generate an additional stable source of income.

Environmental management services

Increasing public awareness of the importance of a clean environment has fuelled the demand for environmental management services and products. The 2017 Policy Address for Hong Kong highlights the Hong Kong Government's determination to promote energy efficiency and development of renewable energy for buildings. "Going green" is an obvious trend to the Group spurring a demand to provide customers with total solutions for energy saving and the use of renewable energy and environmentally-friendly technologies.

The Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) enacted in 2012 continues to support the business development of our environmental consultancy services. Our seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively continue to bring steady growth to our environmental management services segment. Through relentless effort, our laboratory has been accredited by the Hong Kong Accreditation Service under the Hong Kong Laboratory Accreditation Scheme (HOKLAS) since 2015, and can provide testing that complements the work of the E&M engineering and environmental management services segments.

The Group has an automated odour-free food waste processor available in a wide range of sizes to provide a total solution in converting food waste into environmentally-safe water effluent to address the public attention on waste management and disposal with the aim to alleviate the tremendous pressure on landfills.

The Group is actively working with strategic partners and vendors to invest in strengthening our technological capabilities with a focus on air, water and waste treatment. The Group had collaborated with Nano and Advanced Materials Institute Limited to invest and develop nano-bubble technology which garnered a gold medal at the 45th International Exhibition of Inventions of Geneva 2017.

Conclusion

As the Group can provide a comprehensive range of E&M engineering and environmental management services and run well-established E&M engineering operations in Hong Kong, Mainland China and Macau, it is ready to grasp the ample business opportunities that the different above-mentioned infrastructure and large-scale projects are expected to bring. We shall endeavour to maintain a strong financial position to stay poised for new investment as well as exploring for alternative business opportunities as and when they arise.

Report on Review of Interim Financial Information

pwc 羅兵咸永道

TO THE BOARD OF DIRECTORS OF FSE ENGINEERING HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 18 to 43, which comprises the condensed consolidated statement of financial position of FSE Engineering Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2017 and the related condensed consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 February 2018

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Condensed Consolidated Income Statement — Unaudited

	Note	For the six months ended 31 December 2017 HK$'000	2016 HK$'000
Revenue	5	**1,763,335**	1,769,315
Cost of sales		**(1,556,387)**	(1,573,761)
Gross profit		**206,948**	195,554
Other gains/(losses), net	6	**2,625**	(212)
General and administrative expenses		**(112,570)**	(100,142)
Operating profit	7	**97,003**	95,200
Finance income		**9,794**	6,766
Profit before income tax		**106,797**	101,966
Income tax expenses	8	**(20,017)**	(19,666)
Profit for the period attributable to equity holders of the Company		**86,780**	82,300
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in HK$ per share) — basic and diluted	9	**0.19**	0.18

Condensed Consolidated Statement of Comprehensive Income — Unaudited

	For the six months ended 31 December	
	2017	2016
	HK$'000	HK$'000
Profit for the period	**86,780**	82,300
Other comprehensive income:		
Items that may be subsequently reclassified to condensed consolidated income statement:		
Currency translation differences	**8,038**	(16,264)
Reclassification of revaluation reserve to profit or loss upon maturity of available-for-sale financial assets, net of tax	**60**	–
Fair value change of available-for-sale financial assets	**3**	–
Deferred tax on fair value change of available-for-sale financial assets	**(1)**	–
Other comprehensive income, net of tax	**8,100**	(16,264)
Total comprehensive income for the period and attributable to equity holders of the Company	**94,880**	66,036

Condensed Consolidated Statement of Financial Position

	Note	At 31 December 2017 HK$'000 (unaudited)	At 30 June 2017 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	**372,830**	382,754
Land use rights	11	**21,590**	21,655
Intangible assets	11	**35,681**	34,951
Deferred income tax assets		**12,074**	11,725
Available-for-sale financial assets		**94,672**	47,654
		536,847	498,739
Current assets			
Inventories		**31,747**	23,034
Amounts due from customers for contract works		**281,126**	141,678
Trade and other receivables	12	**894,706**	830,792
Financial assets at fair value through profit or loss		**93,768**	31,489
Available-for-sale financial assets		**–**	20,327
Cash and bank balances	13	**765,911**	978,322
		2,067,258	2,025,642
Total assets		**2,604,105**	2,524,381
EQUITY			
Share capital	14	**45,000**	45,000
Reserves		**925,938**	867,508
Total equity		**970,938**	912,508
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**18,993**	17,493
Current liabilities			
Amounts due to customers for contract works		**311,124**	417,597
Trade and other payables	15	**1,265,479**	1,125,626
Taxation payable		**37,571**	51,157
		1,614,174	1,594,380
Total liabilities		**1,633,167**	1,611,873
Total equity and liabilities		**2,604,105**	2,524,381
Net current assets		**453,084**	431,262
Total assets less current liabilities		**989,931**	930,001

Condensed Consolidated Statement of Changes in Equity — Unaudited

	Share capital HK$'000	Reserves HK$'000	Total HK$'000
At 1 July 2017	**45,000**	**867,508**	**912,508**
Profit for the period	**–**	**86,780**	**86,780**
Other comprehensive income:			
Reclassification of revaluation reserve to profit or loss upon maturity of available-for-sale financial assets, net of tax	**–**	**60**	**60**
Fair value change of available-for-sale financial assets, net of tax	**–**	**2**	**2**
Currency translation differences	**–**	**8,038**	**8,038**
Total comprehensive income	**–**	**94,880**	**94,880**
Transactions with owners:			
Dividends	**–**	**(36,450)**	**(36,450)**
At 31 December 2017	**45,000**	**925,938**	**970,938**
At 1 July 2016	45,000	777,841	822,841
Profit for the period	–	82,300	82,300
Other comprehensive income:			
Currency translation differences	–	(16,264)	(16,264)
Total comprehensive income	–	66,036	66,036
Transactions with owners:			
Dividends	–	(42,300)	(42,300)
At 31 December 2016	45,000	801,577	846,577

Condensed Consolidated Statement of Cash Flows — Unaudited

	Note	For the six months ended 31 December 2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	16 (a)	**(73,720)**	75,117
Hong Kong profits tax paid		**(12,667)**	(8,980)
Mainland China and Macau income tax paid		**(20,063)**	(3,585)
Net cash (used in)/generated from operating activities		**(106,450)**	62,552
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,670)**	(6,360)
Deposits paid for the acquisition of a property holding group		**–**	(28,500)
Proceeds from disposal of property, plant and equipment		**–**	16
Decrease in time deposits — original maturities over three months		**10,000**	42,000
Proceeds from disposal of available-for-sale financial assets upon maturity		**20,311**	–
Addition to other intangible assets		**(915)**	–
Purchase of available-for-sale financial assets		**(47,000)**	–
Purchase of financial assets at fair value through profit or loss		**(63,722)**	–
Interest received		**9,794**	6,766
Net cash (used in)/generated from investing activities		**(74,202)**	13,922
Cash flows from financing activities			
Dividend paid		**(36,450)**	(42,300)
Net cash used in financing activities		**(36,450)**	(42,300)
Net (decrease)/increase in cash and cash equivalents during the period		**(217,102)**	34,174
Cash and cash equivalents at beginning of period		**968,322**	1,273,926
Exchange differences	16 (b)	**14,691**	(18,123)
Cash and cash equivalents at end of period		**765,911**	1,289,977
Cash and bank balances		**765,911**	1,299,977
Time deposits — original maturities over three months		**–**	(10,000)
Cash and cash equivalents		**765,911**	1,289,977

Notes to the Condensed Consolidated Interim Financial Statements

1 GENERAL INFORMATION

FSE Engineering Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 22 June 2015. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in provision of mechanical and electrical engineering services, trading of building materials, and trading of environmental products and provision of related engineering and consultancy services in Hong Kong, Mainland China and Macau. The ultimate holding company of the Company is FSE Holdings Limited incorporated in the Cayman Islands. The directors consider Mr. Doo Wai Hoi, William to be the ultimate controlling shareholder (the "Ultimate Controlling Shareholder").

The Company has its listing on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated.

This condensed consolidated interim financial information has been approved for issue by the board of directors of the Company (the "Board") on 27 February 2018.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information for the six months ended 31 December 2017 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2017, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies applied are consistent with those set out in the annual report for the year ended 30 June 2017.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Adoption of amendments to standards

For the six months ended 31 December 2017, the Group adopted the following amendments to existing standards which are effective for the accounting periods beginning on or after 1 January 2017 and relevant to the Group's operations:

HKAS 7 Amendment	Disclosure initiative
HKAS 12 Amendment	Recognition of deferred tax assets for unrealised losses
HKFRS 12 Amendment	Disclosure of interests in other entities

The adoption of the above amendments to standards has no material effect on the results and financial position of the Group nor any substantial changes in the Group's accounting policies and the presentation of the consolidated financial statements.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

(b) New standards and amendments and interpretations to existing standards that have been issued but not yet effective and have not been early adopted by the Group

The following new standards and amendments and interpretations to existing standards, that are relevant to the Group's operation, have been issued but not yet effective for the financial year of the Group beginning on 1 July 2017 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 Amendment	Clarifications to HKFRS 15	1 January 2018
HK(IFRIC) — Int 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 9 Amendment	Prepayment features with negative compensation and modifications of financial liabilities	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) — Int 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 10 and HKAS 28 Amendments	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact to the Group and considered that there will not be any substantial changes to the Group's significant accounting policies and presentation of consolidated financial statements, except for the following set out below:

HKFRS 9, "Financial instruments"

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces a new impairment model for financial assets. The Group has decided not to adopt HKFRS 9 until it becomes mandatory for the year ending 30 June 2019.

The Group expects the adoption will have possible change in classification of the Group's financial assets. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. The Group expects there will not be any material effect on the results and financial positions in the impairment provision of financial assets.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

(b) New standards and amendments and interpretations to existing standards that have been issued but not yet effective and have not been early adopted by the Group *(Continued)*

HKFRS 9, "Financial instruments" *(Continued)*

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15, "Revenue from contracts with customers"

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 July 2018.

Based on preliminary assessment conducted, the Group expects there will not be any material effect on the results and financial positions, but will need to present more disclosures in the financial statements.

HKFRS 16, "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$40.5 million. The adoption of HKFRS 16 will result in the recognition of an asset and a liability for future payments, and the Group expects there will not be any material effect on the profit or loss.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk, foreign exchange risk and price risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 30 June 2017 annual financial statements.

There have been no changes in the risk management policies since year end.

3.2 Fair value estimation

The table below analyses the Group's financial instruments carried at fair values by level of inputs to valuation techniques to measure fair values. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities that are measured at fair values:

	At 31 December 2017 Level 1 HK$'000	At 30 June 2017 Level 1 HK$'000
Assets		
Financial assets at fair value through profit or loss	**93,768**	31,489
Available-for-sale financial assets	**94,672**	67,981
	188,440	99,470

The Group uses quoted market prices for financial assets included in level 1. The quoted price which is used, is the price within the bid-ask spread that is most representative of the fair value.

There were no transfers of financial instruments between levels in the hierarchy for the period ended 31 December 2017.

At 31 December 2017, the carrying amounts of other financial assets and liabilities approximate their fair values due to the short-term maturities of these assets and liabilities. There is no other financial instrument requiring disclosure of fair value measurement by level on fair value measurement hierarchy.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2017.

5 REVENUE AND SEGMENT INFORMATION

The executive directors are the Group's chief operating decision-makers ("CODM"). Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

The Group's revenue represents the electrical and mechanical ("E&M") engineering services income, environmental services income and income from trading of building materials. An analysis of the Group's revenue is as follows:

	For the six months ended 31 December	
	2017	2016
	HK$'000	HK$'000
Revenue		
Contracting	**1,651,264**	1,648,355
Maintenance services	**62,522**	56,058
Sales of goods	**49,549**	64,902
	1,763,335	1,769,315

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

The CODM considers the business from product and service perspectives and the Group is organised into two major business segments according to the nature of products and services provided:

(i) E&M engineering — Provision of engineering services and trading of building materials; and

(ii) Environmental management services — Trading of environmental products and provision of related engineering and consultancy services.

The CODM assesses the performance of the operating segments based on each segment's operating profit. The measurement of segment operating profit excludes the effects of unallocated corporate expenses and non-recurring events. In addition, finance income and costs are not allocated to segments.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated corporate expenses.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowances that are reported as direct offsets in the statement of financial position. Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, deferred income tax assets, inventories, amounts due from customers for contract works, trade and other receivables and cash and bank balances.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include other liabilities that are incurred for financing rather than operating purposes unless the segment is engaged in financing activities.

As at 31 December 2017, unallocated assets and unallocated liabilities represented the assets and liabilities not arising from the operation of the operating segments.

Capital expenditure comprises mainly additions to property, plant and equipment (Note 11).

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) As at and for the six months ended 31 December 2017

The segment results for the six months ended 31 December 2017 and other segment items included in the condensed consolidated income statement are as follows:

	E&M engineering HK$'000	Environmental management services HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue — external	1,729,483	33,852	–	1,763,335
Revenue — internal	6	1,004	(1,010)	–
Total revenue				1,763,335
Operating profit before unallocated corporate expenses	95,826	3,344	–	99,170
Unallocated corporate expenses				(2,167)
Operating profit				97,003
Finance income				9,794
Profit before income tax				106,797
Income tax expenses				(20,017)
Profit for the period				86,780
Other items				
Depreciation (Note 11)	11,819	1,025	–	12,844
Amortisation of intangible assets (Note 11)	185	–	–	185
Amortisation of land use rights (Note 11)	300	–	–	300

The segment assets and liabilities as at 31 December 2017 and capital expenditure for the six months ended 31 December 2017 are as follows:

	E&M engineering HK$'000	Environmental management services HK$'000	Total HK$'000
Segment assets	2,078,061	35,906	2,113,967
Unallocated assets			490,138
Total assets			2,604,105
Segment liabilities	1,616,003	14,071	1,630,074
Unallocated liabilities			3,093
Total liabilities			1,633,167
Capital expenditure	2,487	183	2,670
Unallocated capital expenditure			–
Total capital expenditure			2,670

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) For the six months ended 31 December 2016 and as at 30 June 2017

The segment results for the six months ended 31 December 2016 and other segment items included in the condensed consolidated income statement are as follows:

	E&M engineering HK$'000	Environmental management services HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue — external	1,738,482	30,833	–	1,769,315
Revenue — internal	4	2,391	(2,395)	–
Total revenue				1,769,315
Operating profit before unallocated corporate expenses	94,230	3,211	–	97,441
Unallocated corporate expenses				(2,241)
Operating profit				95,200
Finance income				6,766
Profit before income tax				101,966
Income tax expenses				(19,666)
Profit for the period				82,300
Other items				
Depreciation (Note 11)	4,748	1,054	–	5,802
Amortisation of intangible assets (Note 11)	185	–	–	185
Amortisation of land use rights (Note 11)	301	–	–	301

The segment assets and liabilities as at 30 June 2017 and capital expenditure for the year then ended are as follows:

	E&M Engineering HK$'000	Environmental management services HK$'000	Total HK$'000
Segment assets	2,092,580	35,950	2,128,530
Unallocated assets			395,851
Total assets			2,524,381
Segment liabilities	1,596,093	12,877	1,608,970
Unallocated liabilities			2,903
Total liabilities			1,611,873
Capital expenditure	32,408	1,025	33,433
Unallocated capital expenditure			–
Total capital expenditure			33,433

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue from external customers by geographical areas is based on the geographical location of the customers.

Revenue is allocated based on the regions in which the customers are located as follows:

	For the six months ended 31 December	
	2017	2016
	HK$'000	HK$'000
Revenue		
Hong Kong	**1,326,504**	1,381,569
Mainland China	**249,628**	274,353
Macau	**187,203**	113,393
	1,763,335	1,769,315

The non-current assets excluding deferred tax assets are allocated based on the regions in which the non-current assets are located as follows:

	At 31 December 2017	At 30 June 2017
	HK$'000	HK$'000
Non-current assets, other than deferred tax assets		
Hong Kong	**468,101**	430,481
Mainland China	**25,997**	25,572
Macau	**30,675**	30,961
	524,773	487,014

6 OTHER GAINS/(LOSSES), NET

	For the six months ended 31 December	
	2017	2016
	HK$'000	HK$'000
Exchange gain/(loss), net	**3,929**	(160)
Loss on disposal of property, plant and equipment, net	**–**	(291)
Fair value loss on financial assets at fair value through profit or loss	**(1,443)**	–
Reclassification of revaluation reserve to profit or loss upon maturity of available-for-sale financial assets	**(72)**	–
Sundries	**211**	239
	2,625	(212)

7 OPERATING PROFIT

	For the six months ended 31 December	
	2017	2016
	HK$'000	HK$'000
Operating profit is stated after charging/(crediting):		
Changes in inventories of finished goods and work in progress	**25,783**	36,611
Raw materials and consumables used	**418,225**	406,707
Subcontracting fees	**820,782**	831,773
Provision for inventories	**721**	285
Reversal of provision for inventories	**(487)**	–
Reversal of impairment loss on trade receivables	**(104)**	(40)
Amortisation of land use rights	**300**	301
Amortisation of intangible assets	**185**	185
Depreciation of property, plant and equipment	**12,844**	5,802
Operating lease rental for land and buildings	**15,449**	16,020
Less: Operating lease rental capitalised under contracts in progress	**(2,065)**	(1,993)
Staff costs (including directors' emoluments)		
Salaries and allowances	**289,821**	264,272
Pension cost on defined contribution schemes	**12,503**	11,770
Add: Recognition of staff costs previously capitalised under contracts in progress	**6,731**	656

8 INCOME TAX EXPENSES

	For the six months ended 31 December	
	2017	2016
	HK$'000	HK$'000
Current income tax		
Hong Kong profits tax	**7,785**	8,973
Mainland China taxation	**9,124**	8,169
Macau taxation	**1,969**	1,440
Under-provision in prior years	**–**	119
Deferred income tax expense	**1,139**	965
	20,017	19,666

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit. Taxation on Mainland China and Macau profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the jurisdictions in which the Group operates. These rates range from 12% to 25% for the six months ended 31 December 2016 and 2017.

9 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 31 December 2017 and 2016.

	For the six months ended 31 December	
	2017	2016
	HK$'000	HK$'000
Profit attributable to owners of the Company	**86,780**	82,300
Weighted average number of ordinary shares in issue (shares in thousands)	**450,000**	450,000
Basic earnings per share (HK$)	**0.19**	0.18

(b) Diluted

As the Company did not have any dilutive potential ordinary shares during the six months ended 31 December 2017 and 2016, the diluted earnings per share equals the basic earnings per share.

10 DIVIDENDS

The Board has resolved to declare an interim dividend of HK7.8 cents per share for the six months ended 31 December 2017 (2016: HK7.4 cents per share). The interim dividend will be paid in cash.

11 PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS, AND INTANGIBLE ASSETS

	Property, plant and equipment HK$'000	**Land use rights HK$'000**	**Other intangible assets HK$'000**
Six months ended 31 December 2017			
Opening net book value as at 1 July 2017	**382,754**	**21,655**	**34,951**
Additions	**2,670**	**–**	**915**
Exchange differences	**250**	**235**	**–**
Depreciation and amortisation charges	**(12,844)**	**(300)**	**(185)**
Closing net book value as at 31 December 2017	**372,830**	**21,590**	**35,681**

11 PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS, AND INTANGIBLE ASSETS *(Continued)*

	Property, plant and equipment HK$'000	Land use rights HK$'000	Other intangible assets HK$'000
Six months ended 31 December 2016			
Opening net book value as at 1 July 2016	94,414	23,087	35,321
Additions	6,360	–	–
Disposals	(307)	–	–
Exchange differences	(247)	(237)	–
Depreciation and amortisation charges	(5,802)	(301)	(185)
Closing net book value as at 31 December 2016	94,418	22,549	35,136

12 TRADE AND OTHER RECEIVABLES

	At 31 December 2017 HK$'000	At 30 June 2017 HK$'000
Trade receivables		
Third parties	**160,567**	121,525
Related companies (Note 17(c))	**88,548**	71,400
	249,115	192,925
Less: provision for impairment		
Third parties	**(3,861)**	(3,972)
	245,254	188,953
Retention receivables		
Third parties	**158,983**	143,322
Related companies (Note 17(c))	**221,969**	216,398
	380,952	359,720
Accrued contract revenue	**234,442**	243,341
Other receivables and prepayments	**34,058**	38,778
	649,452	641,839
	894,706	830,792

Generally, no credit period was granted to retail customers for trading of building materials. The credit periods generally granted to other customers at 30-60 days for E&M engineering and Environmental management services.

12 TRADE AND OTHER RECEIVABLES *(Continued)*

The ageing analysis of the Group's trade receivables (including amounts due from related parties of trading in nature), based on the invoice due date, and net of provision for impairment, is as follows:

	At 31 December 2017 HK$'000	At 30 June 2017 HK$'000
Current to 90 days	**221,136**	167,333
91–180 days	**16,127**	12,264
Over 180 days	**7,991**	9,356
	245,254	188,953

13 CASH AND BANK BALANCES

	At 31 December 2017 HK$'000	At 30 June 2017 HK$'000
Time deposits — original maturities within three months	**632,777**	808,705
Time deposits — original maturities over three months	**–**	10,000
Other cash at bank and in hand	**133,134**	159,617
	765,911	978,322

14 SHARE CAPITAL

The numbers of the Company's shares authorised and issued are as follows:

	Number of shares	HK$'000
Ordinary shares, authorised:		
As at 30 June 2017 and 31 December 2017	1,000,000,000	100,000
Ordinary shares, issued and fully paid:		
As at 30 June 2017 and 31 December 2017	450,000,000	45,000

15 TRADE AND OTHER PAYABLES

	At 31 December 2017 HK$'000	At 30 June 2017 HK$'000
Trade payables		
Third parties	**227,566**	62,711
Bills payable		
Third parties	**–**	9,355
Retention payables		
Third parties	**222,973**	207,815
Accrued expenses	**60,404**	91,888
Provision for contracting costs	**669,679**	660,915
Other creditors and accruals	**84,857**	92,942
	1,265,479	1,125,626

The ageing analysis of the Group's trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	At 31 December 2017 HK$'000	At 30 June 2017 HK$'000
1–90 days	**218,332**	55,094
91–180 days	**4,544**	6,227
Over 180 days	**4,690**	1,390
	227,566	62,711

16 NOTES TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to cash (used in)/generated from operations:

	For the six months ended 31 December	
	2017	2016
	HK$'000	HK$'000
Profit before income tax	**106,797**	101,966
Interest income	**(9,794)**	(6,766)
Amortisation of land use rights	**300**	301
Amortisation of intangible assets	**185**	185
Depreciation of property, plant and equipment	**12,844**	5,802
Provision for inventories	**721**	285
Reversal of provision for inventories	**(487)**	–
Reversal of impairment loss on trade receivables	**(104)**	(40)
Loss on disposal of property, plant and equipment	**–**	291
Loss on disposal of available-for-sale financial assets upon maturity	**72**	–
Fair value loss on financial assets at fair value through profit or loss	**1,443**	–
Unrealised exchange differences	**(3,440)**	(2,092)
Operating cash flows before changes in working capital	**108,537**	99,932
Changes in working capital:		
— Inventories	**(8,947)**	2,127
— Net amounts due to customers for contract works	**(248,839)**	(197,321)
— Trade and other receivables	**(56,629)**	117,697
— Trade and other payables	**132,158**	52,682
Cash (used in)/generated from operations	**(73,720)**	75,117

(b) The exchange differences of cash and cash equivalents during the period are mainly arising from the remeasurement of the Group's foreign currency denominated cash and bank balances at the period end exchange rate.

17 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated interim financial information, the Group undertook the following transactions with related parties, which in the opinion of the directors of the Company, were carried out in the normal course of business during the six months ended 31 December 2016 and 2017.

(a) The directors of the Company are of the view that the related parties that had transactions with the Group are listed below:

Name	Relationship
DMI Development Limited	Note i
Fung Seng Diamond Company Limited	Note i
General Security (H.K.) Limited	Note i
Great City Developments Company Limited	Note i
Hong Kong Island Landscape Company Limited	Note i
International Property Management Limited	Note i
Kenbase Engineering Limited	Note i
Kiu Lok Service Management Company Limited	Note i
New China Laundry Limited	Note i
Nova Insurance Consultants Limited	Note i
Onglory International Limited	Note i
Power Estate Investments Limited	Note i
The Dynasty Club Limited	Note i
Urban Property Management Limited	Note i
Urban Management Services Limited	Note i
Waihong Environmental Services Limited	Note i
Waihong Integrated Green Services Limited (Formerly known as Waihong Pest Control Services Limited)	Note i
上海豐昌物業管理有限公司	Note i
上海上實南洋大酒店有限公司	Note i
上海上實南洋大酒店有限公司上海四季酒店	Note i
上海新尚賢坊房地產發展有限公司	Note i
新豐福貿易(上海)有限公司	Note i
Anway Limited	Note ii
ATL Logistics Centre Hong Kong Limited	Note ii
Broadway-Nassau Investments Limited	Note ii
Bright Link Engineering Limited	Note ii
Build King Construction Ltd	Note ii
Chow Tai Fook Jewellery Company Limited	Note ii
Chow Tai Fook Jewellery and Watch Company (Macau) Limited	Note ii
Chow Tai Fook Enterprises Limited	Note ii
Discovery Park Commercial Services Limited	Note ii
East Concept Investments Limited	Note ii
Ever Light Limited	Note ii
Gammon — Hip Hing Joint Venture	Note ii
GH Hotel Company Limited	Note ii
Head Step Limited T/A Pentahotel HK Kowloon	Note ii
HH — CW Joint Venture	Note ii

17 RELATED PARTY TRANSACTIONS *(Continued)*

(a) The directors of the Company are of the view that the related parties that had transactions with the Group are listed below: *(Continued)*

Name	Relationship
Hip Hing Joint Venture	Note ii
HK Convention & Exhibition Centre	Note ii
Hip Hing Builders Company Limited	Note ii
Hip Hing Construction Company Limited	Note ii
Hip Hing Engineering Company Limited	Note ii
Hip Seng Construction Company Limited	Note ii
Hip Hing — Hanison Joint Venture	Note ii
Hong Kong Island Development Limited	Note ii
Hong Kong Golf & Tennis Academy Management Company Limited	Note ii
K11 Concepts Limited	Note ii
K11 Select Limited	Note ii
Kiu Lok Properties Services (China) Ltd	Note ii
New Town Project Management Limited	Note ii
New World Strategic Investment Limited	Note ii
New World TMT Limited	Note ii
New World Tower Company Limited	Note ii
New World Harbourview Hotel Company Limited	Note ii
New World Construction Company Limited	Note ii
NWS Holdings Limited	Note ii
New World Development Company Limited	Note ii
New World Facilities Management Company Limited	Note ii
New World Property Management Company Limited	Note ii
NW Project Management Limited	Note ii
New World China Land Limited	Note ii
Pridemax Limited	Note ii
Renaissance Harbour View Hotel HK	Note ii
Space Enterprises Limited	Note ii
The Automall Limited	Note ii
Ultimate Vantage Limited	Note ii
Vibro (HK) Limited	Note ii
Vibro Construction Company Limited	Note ii
Victoria Nursery	Note ii
大連僑樂物業服務有限公司	Note ii
大連新世界大廈有限公司	Note ii
北京僑樂房地產管理服務有限公司	Note ii
北京祥和物業管理有限公司	Note ii
北京京廣中心有限公司	Note ii
北京麗高房地產開發有限公司	Note ii
北京新策項目管理諮詢服務有限公司	Note ii
北京崇文。新世界房地產發展有限公司	Note ii

17 RELATED PARTY TRANSACTIONS *(Continued)*

(a) The directors of the Company are of the view that the related parties that had transactions with the Group are listed below: *(Continued)*

Name	Relationship
湖南成功新世紀投資有限公司	Note ii
湖南新城新世界物業服務有限公司	Note ii
湖南梓山湖置業有限公司	Note ii
天津新世界百貨有限公司	Note ii
天津新世界環渤海房地產開發有限公司	Note ii
寧波公泰置業有限公司	Note ii
寧波新立房地產開發有限公司	Note ii
上海三聯物業發展有限公司	Note ii
鹽城新世界百貨有限公司	Note ii
廣州市新禦房地產開發有限公司	Note ii
深圳拓勁房地產開發有限公司	Note ii
鄭州新世界百貨有限公司	Note ii
清遠新世界旅遊發展有限公司	Note ii
新協中建築有限公司 (Formerly known as 協興建築(中國)有限公司)	Note ii
周大福鐘錶(香港)有限公司	Note ii
新世界百貨集團上海匯雅百貨有限公司	Note ii
新世界(瀋陽)房地產開發有限公司	Note ii
新世界(瀋陽)房地產開發第五有限公司	Note ii
新世界嘉業(武漢)有限公司	Note ii
新世界安信(天津)發展有限公司	Note ii
新世界發展(武漢)有限公司	Note ii

Notes:

(i) These companies are commonly controlled by the Ultimate Controlling Shareholder.

(ii) These related companies include companies of which the key management personnel are close member of the family of the Ultimate Controlling Shareholder.

17 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transaction with related parties

	For the six months ended 31 December	
	2017	2016
	HK$'000	HK$'000
Contract revenue (Note i)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**59,896**	19,593
Other related companies	**694,266**	903,921
	754,162	923,514
Insurance broking service expenses (Note ii)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**16,145**	12,446
Rental expenses (Note iii)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**3,455**	4,205
Other related companies	**97**	132
	3,552	4,337

Notes:

(i) Revenue from provision of contracting work is principally charged in accordance with respective contracts.

(ii) Insurance broking service expenses were principally charged in accordance with respective insurance policies.

(iii) Rental expenses were principally charged in accordance with respective rental agreements

(iv) The above transactions with related parties are based upon mutually agreed terms and conditions.

17 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

	At 31 December 2017 HK$'000	At 30 June 2017 HK$'000
Trade receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**11,288**	11,385
Other related companies	**77,260**	60,015
	88,548	71,400
Amounts due from customers for contract works		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**5,028**	4,825
Other related companies	**106,323**	40,180
	111,351	45,005
Amounts due to customers for contract works		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**7,156**	8,046
Other related companies	**177,415**	257,003
	184,571	265,049
Retention receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**574**	1,622
Other related companies	**221,395**	214,776
	221,969	216,398

(d) Key management compensation

Key management includes directors and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	For the six months ended 31 December	
	2017 HK$'000	2016 HK$'000
Fees	**706**	575
Salaries and other emoluments	**19,664**	17,384
Contributions to defined contribution schemes	**868**	764
	21,238	18,723

18 CAPITAL COMMITMENTS

	At 31 December 2017 HK$'000	At 30 June 2017 HK$'000
Contracted but not provided for	**15,987**	180

19 SUBSEQUENT EVENT

On 27 February 2018, FSE Facility Services Group Limited ("FSGL"), a wholly-owned subsidiary of the Company, as purchaser and FSE Management Company Limited ("FMC"), a fellow subsidiary, as vendor entered into conditional sales and purchase agreement, pursuant to which FMC agreed to sell, and FSGL agreed to purchase, the entire issued share capital in Crystal Brilliant Limited and its subsidiaries (the "Target Group") at a cash consideration of HK$502 million (subject to adjustment, if any). The Target Group is principally engaged in the provision of facility services including cleaning and laundry services. The completion of the transaction is subject to the fulfilment of certain conditions including the independent shareholders' approval. Upon completion of the transaction, the Group will account for it as a business combination under common control.

Interim Dividend

The Board has resolved to declare an interim dividend of HK7.8 cents per share for the six months ended 31 December 2017 (2016: HK7.4 cents). The interim dividend will be paid in cash to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 15 March 2018. It is expected that the dividend warrants will be posted to shareholders on or about Thursday, 22 March 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed. Details of such closure are set out below:

Ex-dividend date	12 March 2018
Latest time to lodge transfer documents for registration	4:30 pm on 13 March 2018
Closure of register of members	14 to 15 March 2018 (both dates inclusive)
Record date	15 March 2018
Interim dividend payment date	on or about 22 March 2018

During the above closure period, no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the latest time specified above.

Other Information

REVIEW OF INTERIM RESULTS

The Audit Committee of the Company was established by the Board for the purposes of, among other things, reviewing and providing supervision over the Group's financial reporting process and internal controls. It currently comprises four independent non-executive directors of the Company. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 31 December 2017 and discussed financial related matters with the management and the external auditors of the Company.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 December 2017 have been reviewed by the Company's external auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and enhance corporate value. Throughout the six months ended 31 December 2017, the Company had complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception of code provision E.1.2.

Code provision E.1.2 requires the chairman of the board to attend the annual general meeting. Dr. Cheng Kar Shun, Henry, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 29 November 2017 (the "AGM") due to other important engagement. Mr. Lam Wai Hon, Patrick, the Vice-Chairman of the Board, who took the chair of the AGM, together with members of the Board who attended the AGM, were of sufficient caliber for answering questions at the AGM.

DIRECTORS' DEALINGS IN THE COMPANY'S SECURITIES

The Company has adopted its own Securities Dealing Code, which is no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, as the code for dealing in securities of the Company by its directors. All directors of the Company confirmed, following specific enquiry by the Company, that they had complied with the required standard set out in the Securities Dealing Code adopted by the Company throughout the six months ended 31 December 2017.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the directors since the publication of the Company's 2016-2017 Annual Report are set out below:

1. Mr. Lee Kwan Hung resigned as an independent non-executive director of Futong Technology Development Holdings Limited with effect from 18 November 2017.

2. Mr. Doo William Junior Guilherme's appointment as a Standing Committee Member of the Twelfth Chinese People's Political Consultative Conference in Beijing of the PRC ("CPPCC in Beijing") ended in January 2018 and he was reappointed as a Standing Committee Member of the Thirteenth CPPCC in Beijing.

Except as mentioned above, there is no change in information of each director of the Company that is required to be disclosed under Rules 13.51B(1) and 13.51(2) of the Listing Rules since the publication of the Company's 2016-2017 Annual Report.

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2017, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code were as follows:

Long position in ordinary shares of associated corporation — FSE Holdings Limited

Name	Capacity/nature of interest	Number of shares	Percentage of shareholding[6]
Dr. Cheng Kar Shun, Henry	Beneficial interest	90,000,000[1]	18%
Mr. Lam Wai Hon, Patrick	Interest of controlled corporation	10,000,000[2]	2%
Mr. Doo William Junior Guilherme	Interest of controlled corporations	45,000,000[3]	9%
Mr. Lee Kwok Bong	Interest of controlled corporation	5,000,000[4]	1%
Mr. Wong Kwok Kin, Andrew	Interest of controlled corporation	35,000,000[5]	7%

Notes:

1. The shares are held by Chow Tai Fook Nominee Limited ("CTF Nominee") for Dr. Cheng Kar Shun, Henry.

2. The shares are held by Equal Merit Holdings Limited ("Equal Merit"), the entire issued share capital of which is solely and beneficially owned by Mr. Lam Wai Hon, Patrick.

3. The shares are held by Master Empire Group Limited ("Master Empire") as to 25,000,000 shares and Supreme Win Enterprises Limited ("Supreme Win Enterprises") as to 20,000,000 shares, the entire issued share capital of each of which is solely and beneficially owned by Mr. Doo William Junior Guilherme.

4. The shares are held by Lagoon Treasure Limited ("Lagoon Treasure"), the entire issued share capital of which is solely and beneficially owned by Mr. Lee Kwok Bong.

5. The shares are held by Frontier Star Limited ("Frontier Star"), the entire issued share capital of which is solely and beneficially owned by Mr. Wong Kwok Kin, Andrew.

6. The percentage of shareholding is calculated on the basis of 500,000,000 shares in issue as at 31 December 2017.

Save as disclosed above, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2017.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2017, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in ordinary shares of the Company (the "Shares")

Name	Capacity/nature of interests	Number of Shares	Percentage of shareholding[4]
FSE Holdings Limited	Beneficial interests	337,500,000[1]	75.00%
Sino Spring Global Limited ("Sino Spring")	Interest of a controlled corporation	337,500,000[1&2]	75.00%
Mr. Doo Wai Hoi, William ("Mr. Doo")	Interest of a controlled corporation	337,500,000[1&2]	75.00%
Mrs. Doo Cheng Sau Ha, Amy ("Mrs. Doo")	Interest of spouse	337,500,000[1, 2&3]	75.00%
Value Partners Group Limited	Interest of controlled corporations	27,499,000	6.11%
Value Partners High-Dividend Stocks Fund	Beneficial interests	23,133,000	5.14%

Notes:

1. FSE Holdings Limited is beneficially owned as to 63% by Sino Spring, 18% by Dr. Cheng Kar Shun, Henry (through CTF Nominee), 7% by Frontier Star, 5% by Master Empire, 4% by Supreme Win Enterprises, 2% by Equal Merit and 1% by Lagoon Treasure. By virtue of Part XV of the SFO, Sino Spring is deemed to be interested in all Shares held by FSE Holdings Limited.

2. Sino Spring is an investment holding company wholly owned by Mr. Doo. By virtue of Part XV of the SFO, Mr. Doo is deemed to be interested in all Shares in which Sino Spring is interested.

3. Mrs. Doo is the spouse of Mr. Doo and is therefore taken to be interested in all Shares in which Mr. Doo is interested by virtue of Part XV of the SFO.

4. The percentage of shareholding is calculated on the basis of 450,000,000 Shares in issue as at 31 December 2017.

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest or short position in the shares or underlying shares of the Company as at 31 December 2017.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 20 November 2015. No share option has been granted under the Scheme since its adoption.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2017.

Corporate Information

BOARD OF DIRECTORS

Non-executive Directors

Dr. Cheng Kar Shun, Henry *(Chairman)*
Mr. Wong Kwok Kin, Andrew

Executive Directors

Mr. Lam Wai Hon, Patrick *(Vice-Chairman)*
Mr. Poon Lock Kee, Rocky *(Chief Executive Officer)*
Mr. Doo William Junior Guilherme
Mr. Lee Kwok Bong
Mr. Soon Kweong Wah
Mr. Wong Shu Hung

Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Hui Chiu Chung, Stephen
Mr. Lee Kwan Hung
Dr. Tong Yuk Lun, Paul

AUDIT COMMITTEE

Mr. Kwong Che Keung, Gordon *(Chairman)*
Mr. Hui Chiu Chung, Stephen
Mr. Lee Kwan Hung
Dr. Tong Yuk Lun, Paul

REMUNERATION COMMITTEE

Mr. Hui Chiu Chung, Stephen *(Chairman)*
Mr. Lee Kwan Hung
Dr. Tong Yuk Lun, Paul
Mr. Lam Wai Hon, Patrick
Mr. Poon Lock Kee, Rocky

NOMINATION COMMITTEE

Mr. Lee Kwan Hung *(Chairman)*
Mr. Hui Chiu Chung, Stephen
Dr. Tong Yuk Lun, Paul
Mr. Poon Lock Kee, Rocky
Mr. Doo William Junior Guilherme

JOINT COMPANY SECRETARIES

Mr. Lee Kwok Bong
Mr. Chan Ju Wai

AUDITOR

PricewaterhouseCoopers
22/F Prince's Building
Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
Crédit Agricole Corporate and Investment Bank
Hong Kong Branch
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
JPMorgan Chase Bank NA, Singapore
Nanyang Commercial Bank, Limited
Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 801–810,
8th Floor, Chevalier Commercial Centre,
8 Wang Hoi Road, Kowloon Bay,
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

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