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
2016-2017

Contents

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Financial Highlights

	For the six months ended 31 December		
	2016	2015 (restated)	% change
	HK$M	HK$M	
Revenue:	**1,769.3**	1,609.3	9.9%
Gross profit:	**195.6**	189.1	3.4%
Profit attributable to equity holders:	**82.3**	75.4	9.2%
Basic earnings per share:	**HK$0.18**	HK$0.24	(25.0%)

The Board declared the payment of an interim dividend of HK7.4 cents per share for the six months ended 31 December 2016 (2015: HK5.0 cents per share).

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 2016.

In 2016, a wide range of challenges and uncertainties emerged in the global political and economic scenes, like the Brexit referendum, rising concern over China's economic growth prospects, anticipated increase in interest rate by the US Federal Reserve, capital outflows from emerging economies, and most recently the trade and fiscal policies the new US President indicated he would implement after he took office. With the global economy sluggish and geopolitical risks rising, while Hong Kong maintained modest economic growth in the first three quarters of 2016, the operating environment for businesses across the board in the city is expected to continue to be difficult. For the Group, economic and other challenges, the likes of those current, are nothing new. With extensive industry experience, a management team with proven expertise and relentless in its guiding efforts, and also a solid reputation well-appreciated by customers, we are confident of overcoming the challenges we are facing. The fact that the Group was able to achieve satisfactory performance and delivered commendable financial results during the period under review, with profit attributable to equity holders up by HK$6.9 million or 9.2%, is proof of our resilience and capability to continuously grow our business. The Board has declared the payment of an interim dividend of HK7.4 cents per share for the six months ended 31 December 2016.

With the city managing modest economic growth against uncertainties and harsh circumstances, the Hong Kong Government is expected to unveil a range of initiatives favourable for the construction and E&M engineering industry. Already, the Chief Executive of Hong Kong made it clear in his Policy Address delivered on 18 January 2017 that the government is committed to continuing to rezone sites, stepping up land development and conducting reviews with the aim of optimising land use. In the medium and long term, new development areas and new town extensions are expected to translate into over 8.6 million square metres of industrial and commercial floor areas and over 220,000 residential units. According to the latest estimates of Construction Industry Council, E&M construction works expenditure for fiscal year 2017/18 will be over HK$15.0 billion for the public sector and over HK$25.0 billion for the private sector. Presuming there will not be prolonged debates by the HKSAR legislature on infrastructure projects, new public works can kick off as scheduled, an upswing in infrastructure, public housing and private housing projects can be expected, which will in turn help drive healthier growth of the construction, E&M engineering and environmental engineering industries. To make sure it is ready for taking on the various infrastructure projects in the pipeline and also the plans for hospital development and the multi-purpose Sports Complex at Kai Tak set to begin in Hong Kong, the Group will strive to maintain a stable and professional E&M team with capabilities, including in the area of Building Information Modelling (BIM) technology, to enhance engineering design and work quality. These efforts plus the backing from a strong balance sheet are going to fortify our presence in this key market.

As in previous years, the Group has worked hard at maintaining its presence in Mainland China, adhering to a disciplined approach in business development. Despite the slowdown of economic growth, the country's economic fundamentals remain strong. The current regional development focus of the Chinese government is to encourage different tier cities to capitalise on their own strengths and pursue befitting growth pattern with urbanisation as a key driver. Also, right at the start of its 13th Five-Year Plan, the Chinese government clearly stated that its continuing push for urbanisation will not only be conducive to 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 persistence should encourage rebalancing of the Chinese economy and unleash the enormous demand for housing and related commercial developments and present 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 selected partners to expand its footprint in this crucial market. While optimistic about our

Chairman's Statement

prospect in the market, we will remain vigilant and keep a close watch on any possible changes in the economic climate and the potential risks that come with business opportunities in this region. The Group will focus on identifying E&M engineering business opportunities in the advent of the country's Belt and Road Initiative and 13th Five-Year Plan.

As for the Macau market, it continues to show signs of gradual stabilisation. The Macau SAR Government has launched its first Five-Year Development Plan, which focuses on attaining a balance between gaming and non-gaming sectors, giving the city a vividly defined development outlook. The plan contains such initiatives as developing a new urban zone, promoting development of integrated tourism and reinforcing non-gaming leisure and entertainment provisions, all of which will see Macau's economy becoming more diversified and in turn creating opportunities for the Group.

Regarding our environmental management services business, growing public awareness of environmental issues is boosting demand for associated environmental engineering services and projects. The Group intends to capitalise on this trend by providing customers with total solutions that employ renewable energy technologies, and are energy efficient as well as environmentally friendly.

On behalf of the board of directors of the Company, I would like to take this opportunity to express my sincere gratitude to all shareholders, customers and business partners for their unwavering support. I wish to also thank the management team and fellow staff members for their wholehearted support. As always, we are fully committed to assuring the Group's long-term development and shareholders of fair returns.

Dr. Cheng Kar Shun, Henry
Chairman

Hong Kong, 23 February 2017

Management Discussion and Analysis

BUSINESS REVIEW

For the period under 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 engineering services. It also continued to run strong E&M engineering operations in the PRC and Macau. On top of our full range of licences and qualifications and our 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 its operations. Thus, it 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, the Group has been relentless in optimising design and exploring innovative methods. At project level, we incorporate green building principles into application of building services equipment; and adopt green building designs, modularisation and prefabrication to reduce energy usage, carbon emissions and construction wastes. Furthermore, we invest in innovative construction technologies such as Building Information Modelling (BIM), laser scanning and mobile solutions, to help us improve operational efficiency and project management. Our environmental management service business, a new growth driver, continues to provide environmental assessment and energy efficient solutions to our customers for them to achieve their environmental protection and energy conservation goals.

Going ahead, the Group will continue to focus on applying its core competencies to raise customer satisfaction and ensure the sustainable growth and profitability of its business. We shall continue to target first large-scale projects including design and construction contracts from the government, public infrastructure works, hospital development projects, and public housing and subsidised housing sector projects, as well as private commercial and residential building projects.

Financial performance

Drawing on its competitive strengths as described above, the Group delivered a solid financial performance with revenue amounting to HK$1,769.3 million for the period under review, up by HK$160.0 million or 9.9%, as compared to HK$1,609.3 million for the same period last year. Profit attributable to equity holders for the period under review was HK$82.3 million, representing an increase of HK$6.9 million or 9.2% against HK$75.4 million for the same period last year.

As at 31 December 2016 , our projects encompassed a wide range of buildings and facilities, including offices, shopping malls, a convention and exhibition centre, hotels, residential properties, universities, hospitals, and public transportation facility buildings, of total contract sum HK$5,600.0 million outstanding. For the period under review, the Group had been awarded 50 E&M engineering and environmental service projects (net contract sum equal to or exceeding HK$1.0 million per project) of net contract sum totally HK$1,231.5 million. The major projects (net contract sum equal to or more than HK$100.0 million per project) among them are in (1) Hong Kong: electrical and ventilation provision to midfield expansion at the Hong Kong International Airport; plumbing and drainage installation for a residential development in LOHAS Park Package 5, electrical and fire services installation to a public rental housing at Pak Tin Estate Redevelopment Phases 7 and 8, and (2) Macau: electrical installation for the hotel development at City of Dreams. For the period under review, the Group submitted tenders for 323 E&M engineering and environmental services projects (contract sum equal to or exceeding HK$1.0 million per project, if awarded) at a total tender sum of HK$10,034.4 million.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

During the period under review, the Group's revenue rose by HK$160.0 million or 9.9% to HK$1,769.3 million from HK$1,609.3 million for the same period last year, attributable mostly to the higher revenue of HK$153.6 million brought in by 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			
	2016	2015	Change	% change
	HK$'M	HK$'M	HK$'M	
E&M engineering*	**1,738.5**	1,584.9	153.6	9.7%
Environmental management services*	**30.8**	24.4	6.4	26.2%
Total	**1,769.3**	1,609.3	160.0	9.9%

* Segmental 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 98.3% of the Group's total revenue (2015: 98.5%). Its revenue was up by 9.7% from HK$1,584.9 million to HK$1,738.5 million for the period ended 31 December 2016, owed mainly to the increase in revenue from the installation division with a number of major E&M projects in Hong Kong and the PRC starting to bring in revenue in the period under review. The increase was partly offset by the reduction in contribution from Macau with a five-star hotel and resort development ("Project Cotai Resort") and a well-known hotel in Cotai Macau completed in the period under review.

- *Environmental management services:* The revenue contribution of this business segment increased from HK$24.4 million to HK$30.8 million, representing a growth of 26.2% 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 and bio-technology installation and maintenance services.

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

	For the six months ended 31 December			
	2016	2015	Change	% change
	HK$'M	HK$'M	HK$'M	
Hong Kong	**1,381.6**	1,041.4	340.2	32.7%
PRC	**274.3**	167.0	107.3	64.3%
Macau	**113.4**	400.9	(287.5)	(71.7%)
Total	**1,769.3**	1,609.3	160.0	9.9%

Hong Kong: Revenue from Hong Kong increased by HK$340.2 million or 32.7% to HK$1,381.6 million for the period under review from HK$1,041.4 million for the same period last year. The increase was mainly attributable to the substantial turnover contribution from a number of sizeable installation projects, including the E&M installation for the Gleneagles Hong Kong Hospital in Wong Chuk Hang and the plumbing and drainage installation for a residential development at Tseung Kwan O Town Lot No. 112 in Area 65C1 which made significant progress during the period under review and lifted Hong Kong's contribution to the Group's total revenue from 64.7% to 78.1%.

PRC: Revenue from the PRC increased by 64.3% from HK$167.0 million for the six months ended 31 December 2015 to HK$274.3 million for the period under review, representing an increase in geographical contribution from 10.4% to 15.5%. The increase of HK$107.3 million in revenue was from the kick off of two major installation projects — an office building development and a hotel development in Wuhan — which were secured in 2016 and had started to contribute revenue during the period under review.

Macau: Revenue from Macau decreased by 71.7% from HK$400.9 million for the six months ended 31 December 2015 to HK$113.4 million for the period under review, representing a drop in geographical contribution from 24.9% to 6.4%. The decline was mainly resulted from the reduction in the contribution from two major projects, namely Project Cotai Resort and a well-known hotel in Cotai Macau, which had been substantially completed in the corresponding period last year. Also, work in relation to a relatively sizeable contract awarded during the period under review had just begun and yet to contribute revenue to the region.

Gross profit

The Group's overall gross profit increased by HK$6.5 million or 3.4% from HK$189.1 million for the six months ended 31 December 2015 to HK$195.6 million for the period under review, whereas overall gross profit margin remained relatively stable at 11.1% (31 December 2015: 11.8%). The increase in gross profit was in line with the overall remarkable growth of the Group's revenue, with E&M engineering business recording an increase in gross profit during the period under review with segmental gross profit margin maintained at 10.8% (31 December 2015: 11.5%). The gross profit margin of the environmental management services segment improved from 26.2% to 26.6%, mainly attributable to an increase in revenue from bio-technology maintenance services and water treatment maintenance services with relatively higher profit margin.

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

	For the six months ended 31 December			
	2016		2015	
	Gross profit HK$'M	**Gross profit margin %**	Gross profit HK$'M	Gross profit margin %
E&M engineering	**187.4**	**10.8**	182.7	11.5
Environmental management services	**8.2**	**26.6**	6.4	26.2
Total	**195.6**	**11.1**	189.1	11.8

Management Discussion and Analysis

Other losses/gains, net

For the period under review, other net losses, which amounted to HK$0.2 million (31 December 2015: other net gains of HK$0.5 million), mainly included the loss on disposal of property, plant and equipment and net foreign exchange loss.

Finance income

The Group recorded finance income of HK$6.8 million (31 December 2015: HK$5.1 million). The increase was mainly due to the increase in the average principal sum of the bank deposit placed in Hong Kong and Mainland China.

General and administrative expenses

General and administrative expenses of the Group for the period under review decreased by 8.8% to HK$100.1 million, compared to HK$109.8 million for the same period last year. The decrease of HK$9.7 million was mainly attributable to the listing expenses of HK$16.8 million incurred in the same period last year that was non-recurring in the period under review. The effect was partly offset by the increase in staff cost from annual salary increment and employment of additional staff to cope with business expansion, and increase in depreciation for leasehold improvement of the Group's head office.

Taxation

The effective tax rate of the Group increased from 11.2% to 19.3% as compared with the same period last year. The relatively low effective tax rate in the same period last year was resulting from the one-off recognition of deferred tax assets of a joint operation project in the amount of HK$5.8 million, that was non-recurring in the period under review.

Profit attributable to equity holders

As a result of the foregoing, our profit for the period under review increased by 9.2% or HK$6.9 million to HK$82.3 million, compared to HK$75.4 million for the last corresponding period. The increase was mainly the result of higher contracting revenue mostly from our core business segments and the decrease in general and administrative expenses due to the non-recurring listing expenses, which was partly offset by the respective tax charge on the higher operating profit of the Group. The net profit margin of the Group remained stable at 4.7% for the period under review (31 December 2015: 4.7%).

Other comprehensive loss

The Group recorded other comprehensive loss of HK$16.3 million for the period under review, reflective of the decrease in exchange reserve from depreciation of the Renminbi ("RMB") for conversion of the net investments in PRC 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 2016, the Group had total cash and bank balances of HK$1,300.0 million, of which 68%, 29% and 3% were denominated in Hong Kong dollars, RMB and other currencies respectively (30 June 2016: 68%, 28% and 4% respectively). As compared to HK$1,325.9 million as at 30 June 2016, the Group's cash and bank balances decreased by HK$25.9 million to HK$1,300.0 million, which was primarily due to the distribution of final dividend of HK$42.3 million for the year ended 30 June 2016 and the HK$28.5 million deposits paid for the acquisition of a property holding group, partly offset by the increase in net cash inflow 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 2016 (30 June 2016: Nil), hence its gearing ratio (being our total borrowings divided by our total equity) was maintained at zero as at 31 December 2016. As at 31 December 2016, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK$1,066.5 million (30 June 2016: HK$1,119.2 million), of which HK$337.2 million (30 June 2016: HK$329.3 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 the PRC and is not exposed to significant exchange risk. The Company does not have a foreign currency hedging policy and foreign currency risk is managed by closely monitoring movement of 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 in the PRC, part of our assets and liabilities are denominated in RMB. The majority of these assets and liabilities had arisen from the net investments in the PRC operations with net assets of HK$225.3 million as at 31 December 2016. The foreign currency translation arising from translation of these PRC operations' financial statements from RMB (functional currency of these PRC operations) into Hong Kong dollars (the group's presentation currency) does not affect our profit before and after tax, and is recognised in our other comprehensive income.

During the period under review, the fluctuation of RMB against Hong Kong dollars was 5.1% (difference between the highest exchange rate of RMB against Hong Kong dollars and the lowest during the period under review).

As at 31 December 2016, 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$11.3 million lower/higher.

Management Discussion and Analysis

Use of net proceeds from listing

Between 10 December 2015 (the date of listing of the Company) and 31 December 2016, 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	0.9	80.7
Development of environmental management business	51.0	1.4	49.6
Operation of E&M engineering projects on hand and prospective projects	47.4	47.4	–
Staff-related additional expenses	20.0	0.7	19.3
Development and enhancement of design capability	19.3	7.5	11.8
Enhancement of quality testing laboratory	12.2	2.9	9.3
Upgrade of corporate information technology system and software	8.0	1.9	6.1
General working capital	25.0	18.2	6.8
Total	264.5	80.9	183.6

During the period under review, the Group utilised HK$23.7 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 which were contracted but not provided for of HK$256.5 million as at 31 December 2016 in relation to the acquisition of a property holding group in a total consideration of HK$285.0 million, of which HK$28.5 million had been paid during the period under review and recorded as non-current deposits in the unaudited condensed consolidated statement of financial position as at 31 December 2016. The relevant property was acquired as additional premises for office use by members of the Group as well as reducing the Group's costs in leasing of office premises in the long run. Details of the acquisition were set out in the announcement of the Company dated 5 October 2016 and 9 January 2017 respectively and the circular of the Company dated 25 October 2016.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2016 (as at 30 June 2016: Nil).

Management Discussion and Analysis

Change in accounting policy

In accordance with HKAS 16 Property, Plant and Equipment, leasehold land and buildings can either be accounted for using the cost model or the revaluation model. With effective from 1 July 2016, the Group aligned its accounting policy with the industry practice and changed to adopting the cost model to account for leasehold land and buildings instead of the revaluation model. This voluntary change in accounting policy has enabled the Group to provide reliable and more relevant information on the financial statements about its performance and financial position. The impact of such change is primarily to restate the leasehold land and buildings of the Group to their historical cost. Under the new accounting policy, the total equity of the Group as at 30 June 2016 is restated from HK$901.2 million to HK$822.8 million whereas profit attributable to the equity holders for the period ended 31 December 2015 is restated from HK$74.6 million to HK$75.4 million. Details of the change and the respective financial effect are set out in Note 2(c) of the Condensed Consolidated Interim Financial Statements.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had a total of 1,622 employees (31 December 2015: 1,609). Staff cost for the period under review, including salaries and benefits, was HK$276.0 million (six months ended 31 December 2015: HK$257.7 million). The increase in total headcount was in line with the number of projects awarded and projects on hand in the E&M engineering segment in Hong Kong during the period under review.

The Group offers attractive remuneration packages, including competitive fixed salaries plus performance-based annual bonuses, and continuously provides tailored training to its employees to promote their upward mobility in the organisation and foster employee loyalty. Our employees are subject to regular job performance reviews bearing on their promotion prospects and compensation. Remuneration is determined with reference to market norms and individual employee's performance, qualifications and experience.

The Company adopted a share option scheme on 20 November 2015, aiming at providing incentive to the eligible participants (including 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

With market leadership and backed 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 extend geographical coverage in Hong Kong, Macau and the PRC.

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 shareholder value and 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 50% of the Group's total revenue and gross profit, is the core business of the Group. However, while being proud of the performance of the segment in Hong Kong, the Group is striving to bolster its market presence in other regions. It has also recently set up a new team for ELV (extra-low voltage) system engineering function to facilitate business expansion.

E&M engineering segment

Hong Kong

With the Hong Kong Government having unveiled a series of new policies and initiatives in including infrastructure projects favourable to the construction industry, in 2015, the industry accounted for 4.7% of Hong Kong's total GDP. According to the Construction Industry Council's construction expenditure forecasts, E&M construction works expenditure will amount to over HK$15 billion for the public sector and over HK$25 billion for the private sector a few years from now. Projects in the two sectors will together create a large number of jobs, particularly crucial for Hong Kong in times of economic uncertainty.

The long-term housing strategy of the Hong Kong Government, as stated in the 2017 Policy Address, is to continue to increase land and housing supply. According to 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.

In addition, the Hong Kong Government is pushing at full stream with new development areas and extension of new towns, including Kwu Tung North, Fanling North, Tung Chung, Hung Shui Kiu and Yuen Long South, and will examine the development of Tseung Kwan O Area 137 for residential and commercial development and other relevant purposes.

To prepare for the challenges brought by the aging population brings, the Hong Kong Government earmarked HK$200 billion last year for a 10-year hospital development plan covering, among others, redevelopment of Queen Mary Hospital, Kwong Wah Hospital, United Christian Hospital and Kwai Chung Hospital, construction of an acute care general hospital in the Kai Tak Development Area and redevelopment or expansion of various hospitals such as the Tuen Mun Hospital Operating Block, Prince of Wales Hospital and North District Hospital. The above projects will provide 5,000 additional public hospital beds and 94 new surgical theatres in the next 10 years. In addition, the Government has decided to finance construction of a Chinese medicine hospital in Tseung Kwan O in 2018/19.

Apart from the above, construction of the Shatin to Central Link, investment in the West Kowloon Cultural District, railway property developments, urban renewal redevelopment projects, the Kai Tak Development Area including a multi-purpose sports complex, Diamond Hill Comprehensive Development Area, expansion of convention and exhibition venues in Wanchai, construction of third runway at the Hong Kong International Airport and expansion of the existing Terminal 2 at the airport into a full-service processing terminal, 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.

The construction engineering sectors in Hong Kong are facing a multitude of problems and dire challenges. Currently, the E&M engineering services industry in Hong Kong has an all-time-high workforce of above 50,000. However, according to forecast, there will be a severe labour shortage of about 10,000 to 15,000 skilled workers in the construction industry in the next few years, which, together with the aging workforce, are going to push up labour costs 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 thus has strived to maintain a relatively stable workforce and retain loyal staff members that it may preserve its competitiveness.

As reflected in the statistics available, currently there are over 1,700 commercial buildings, 1,600 industrial buildings and 24,000 residential buildings aged over 20 years in Hong Kong. Thus, the maintenance section of our E&M engineering services anticipates a growing demand for term maintenance contracts from different prestigious commercial buildings, the public sector and educational institutions seeking the service of quality contractors to help them keep their properties in the best possible shape. We expect an increase in revenue from fitting-out works, system upgrade and replacement works following the recent implementation of the Mandatory Building Inspection Scheme ("MBI Scheme") and the Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong). Large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the maintenance section.

The maintenance team of the Group has also recently been appointed by a major mainland chiller manufacturer as their exclusive service agent in Hong Kong and Macau. This service agreement covers the chillers' testing and commissioning and start-up works, future warranty and maintenance services. We believe this segment will contribute stable returns to the Group.

Moving forward, the Group will continue to focus on capturing large-scale projects including design and construction contracts from the government, for public infrastructure works, hospital development projects, public rental and subsidised housing projects, and 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.

Macau

In 2016, the Macau gaming market with 47 casinos generated total gross revenues of US$29 billion for Macau, about five times that of Las Vegas. The many related projects undertaken by the construction and E&M engineering sectors in Macau in the past few years were the reason that the sectors had performed so well. However, with several sizable casino projects completed in 2016 and tourism and the gaming industry of the city still flagging and far from fully recovered, the construction and engineering sectors in Macau are expected to go through consolidation.

Nevertheless, there is a constant demand for renovation and improvement works from hotels and casinos. In addition, the city has a high demand for housing, and plan to expand the Macau International Airport, has also hired the Hong Kong Mass Transit Railway Corporation Limited to be the project manager of her new Light Rail system and is investing in the Islands District Medical Complex, all of which are expected to create business opportunities in Macau for the Group in the coming few years.

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 32,000 hotel rooms (in 106 hotels and guesthouses) in March 2016.

The world tourism and leisure centre positioning of Macau addresses her 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 her non-gaming offers.

PRC

Affected by the global economic slowdown and the over-supply of residential properties in the PRC, China's economic growth is likely to stay on the downward trend and dragging down along with its property construction market. For this market, the Group has followed a disciplined business development approach focusing on provision of E&M 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 presence in other first- and second-tier cities in the PRC such as Tianjin, Dalian, Shenyang, Chengdu, Wuhan, Changsha and Nanjing.

In the 1990s and 2000s, the Company completed several projects in Southeast Asia including Singapore, Thailand, Malaysia, Vietnam and Philippines, etc. In the advent of China's "One Belt, One Road" initiative elaborated in her 13th Five-Year Plan, the Company is actively seeking to participate in related construction and infrastructure projects backed by the Asian Infrastructure Investment Bank (AIIB) in other Southeast Asia regions such as Myanmar, Laos and Indonesia.

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

In recent years, the Group has been providing project management services in the PRC to an international exhibition centre development in Shenyang, two high-rise building complexes in Tianjin and Guangzhou, and one commercial building in Beijing. We firmly believe that with the Group's high market recognition and armed with strong value-adding E&M project management expertise in the areas of, among others, integrated services coordination, coordinated services drawing production, Building Information Modeling (BIM) techniques, project planning, quality assurance and system testing and commissioning, will be a preferred partner of foreign and Hong Kong-based developers of high-end projects in the PRC. Leveraging on our profuse E&M installation experience in the PRC, we plan to extend our E&M project management services to cover also high-end projects in the PRC so as to generate an additional stable source of income for the Group.

Environmental management services

Increasing public awareness of the importance of a clean environment has fuelled the demand for environmental engineering 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 commanding it to provide customers with total solutions pertinent to energy saving and the use of renewable energy and environmentally-friendly technologies.

The recently enacted Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) hopefully will translate into rich potential for development of our environmental consultancy services. Strict control on water pollution will increase market demand for water quality testing services from our laboratory. The increasing demand for seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems will also support growth of our environmental engineering segment.

The Group is currently operating a Hong Kong Laboratory Accreditation Scheme (HOKLAS) certified laboratory that provides testing for fresh water inside service, fresh water for the Quality Water Supply Scheme, Fresh Water Cooling Towers Scheme and river/sea water quality baseline monitoring service. The laboratory complements the work of the E&M engineering and environmental engineering segments. Furthermore, we are continuing to evaluate possible investment in a web-based building energy management system and nano technology for water treatment, the aim of which is to better capture potential business opportunities in the environmental assessment and improvement services market in the environmental engineering sector.

In conclusion, as the Group provides a comprehensive range of E&M engineering and environmental engineering services and runs well-established E&M engineering operations in Hong Kong, the PRC and Macau, it is ready to grasp the ample business opportunities that the different abovementioned infrastructure and large-scale projects are expected to bring.

Report on Review of Interim Financial Information

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 17 to 43, which comprises the interim condensed consolidated statement of financial position of FSE Engineering Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2016 and the related interim 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, 23 February 2017

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Condensed Consolidated Income Statement — Unaudited

	Note	For the six months ended 31 December 2016 HK$'000	2015 (restated) HK$'000
Revenue	5	**1,769,315**	1,609,317
Cost of sales		**(1,573,761)**	(1,420,208)
Gross profit		**195,554**	189,109
Other (losses)/gains, net	6	**(212)**	549
General and administrative expenses		**(100,142)**	(109,807)
Operating profit	7	**95,200**	79,851
Finance income		**6,766**	5,101
Profit before income tax		**101,966**	84,952
Income tax expenses	8	**(19,666)**	(9,527)
Profit for the period attributable to equity holders of the Company		**82,300**	75,425
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in HK$ per share) — basic and diluted	9	**0.18**	0.24

Condensed Consolidated Statement of Comprehensive Income — Unaudited

	For the six months ended 31 December	
	2016	2015
		(restated)
	HK$'000	HK$'000
Profit for the period	**82,300**	75,425
Other comprehensive income:		
Item that may be subsequently reclassified to condensed consolidated income statement:		
Currency translation differences	**(16,264)**	(16,371)
Other comprehensive income, net of tax	**(16,264)**	(16,371)
Total comprehensive income for the period and attributable to equity holders of the Company	**66,036**	59,054

Condensed Consolidated Statement of Financial Position — Unaudited

	Note	At 31 December 2016 HK$'000	At 30 June 2016 (restated) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**94,418**	94,414
Land use rights	11	**22,549**	23,087
Intangible assets	11	**35,136**	35,321
Deferred income tax assets		**3,868**	4,581
Deposits	12	**28,500**	–
		184,471	157,403
Current assets			
Inventories		**15,321**	17,733
Amounts due from customers for contract works		**222,318**	317,082
Trade and other receivables	12	**721,364**	842,276
Cash and bank balances		**1,299,977**	1,325,926
		2,258,980	2,503,017
Total assets		**2,443,451**	2,660,420
EQUITY			
Share capital	13	**45,000**	45,000
Reserves		**801,577**	777,841
Total equity		**846,577**	822,841
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**23,309**	29,817
Current liabilities			
Amounts due to customers for contract works		**847,949**	1,138,368
Trade and other payables	14	**698,701**	654,923
Taxation payable		**26,915**	14,471
		1,573,565	1,807,762
Total liabilities		**1,596,874**	1,837,579
Total equity and liabilities		**2,443,451**	2,660,420
Net current assets		**685,415**	695,255
Total assets less current liabilities		**869,886**	852,658

Condensed Consolidated Statement of Changes in Equity — Unaudited

	Share capital HK$'000	Reserves HK$'000	Total HK$'000
At 1st July 2016, as previously reported	**45,000**	**856,168**	**901,168**
Impact of change in accounting policy (Note 2)	**–**	**(78,327)**	**(78,327)**
At 1st July 2016, as restated	**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**
At 1st July 2015, as previously reported	30,000	466,162	496,162
Impact of change in accounting policy (Note 2)	–	(76,968)	(76,968)
At 1st July 2015, as restated	30,000	389,194	419,194
Profit for the period, as restated	–	75,425	75,425
Other comprehensive income, as restated			
Currency translation differences	–	(16,371)	(16,371)
Total comprehensive income, as restated	–	59,054	59,054
Transactions with owners:			
Issuance of shares	15,000	271,489	286,489
At 31 December 2015, as restated	45,000	719,737	764,737

Condensed Consolidated Statement of Cash Flows — Unaudited

	Note	For the six months ended 31 December 2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Cash generated from operations	16 (a)	**75,117**	221,969
Hong Kong profits tax paid		**(8,980)**	(5,330)
Mainland China and Macau income tax paid		**(3,585)**	(8,841)
Net cash generated from operating activities		**62,552**	207,798
Cash flows from investing activities			
Purchase of property, plant and equipment		**(6,360)**	(5,678)
Deposits paid for the acquisition of a property holding group		**(28,500)**	–
Proceeds from disposal of property, plant and equipment and land use rights		**16**	244
Decrease in time deposits — original maturities over three months		**42,000**	–
Interest received		**6,766**	5,101
Net cash generated from/(used in) investing activities		**13,922**	(333)
Cash flows from financing activities			
Dividend paid		**(42,300)**	–
Listing expenses paid		**–**	(35,846)
Gross proceeds from initial public offering of shares		**–**	309,375
Net cash (used in)/generated from financing activities		**(42,300)**	273,529
Net increase in cash and cash equivalents during the period		**34,174**	480,994
Cash and cash equivalents at beginning of period		**1,273,926**	612,526
Exchange differences	16 (b)	**(18,123)**	(18,729)
Cash and cash equivalents at end of period		**1,289,977**	1,074,791
Cash and bank balances		**1,299,977**	1,074,791
Time deposits — original maturities over three months		**(10,000)**	–
Cash and cash equivalents		**1,289,977**	1,074,791

1 GENERAL INFORMATION

FSE Engineering Holdings Limited (the "Company") is a limited liability company incorporated in Cayman Islands on 22nd 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 23 February 2017.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed interim financial information for the six months ended 31 December 2016 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. The interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2016, 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 2016, except for the adoption of amendments to standards which are further explained in note (a) and the change in the accounting policy of the Group's leasehold land and buildings as stated in note (c).

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 2016, the Group adopted the following amendments and improvements to existing standards which are effective for the accounting periods beginning on or after 1 January 2016 and relevant to the Group's operations:

HKAS 1 Amendment	Disclosure initiative
HKFRS 11 Amendment	Accounting for acquisition of interests in joint operations
HKAS 16 and HKAS 38 Amendments	Clarification of acceptable methods of depreciation and amortisation
HKAS 27 Amendment	Equity method in separate financial statements
Annual improvements Project	Annual improvements 2012–2014 cycle

The adoption of the above amendments to standards has no material effect on the results and financial position of the Group.

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

(b) New standards and amendments and improvements 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 improvements 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 31 December 2016 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 7 Amendment	Disclosure initiative	1 January 2017
HKAS 12 Amendment	Recognition of deferred tax assets for unrealised losses	1 January 2017
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
HKFRS 10 and HKAS 28 Amendments	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 16	Leases	1 January 2019

The Group has already commenced an assessment of the impact of these new standards and amendments and improvements to standards, certain of which are relevant to the Group's operation and will give rise to changes in accounting policies, disclosures and measurement of certain items in the financial information. However, the Group is not yet in a position to ascertain their impact on its results of operations and financial position.

(c) Change in the accounting policy of leasehold land and buildings

In accordance with HKAS 16 Property, Plant and Equipment, leasehold land and buildings can either be accounted for using the cost model or the revaluation model after their initial recognition. The Group accounted for its leasehold land and buildings using the revaluation model in previous years. With effective from 1 July 2016, the Group aligned its accounting policy with the industry practice and stated its leasehold land and buildings at cost less accumulated depreciation and any impairment losses. In addition, the Group's leasehold land and buildings are not expected to be sold in the normal course of business, instead, the future economic benefits embodied in the properties will be recovered principally through use in the Group's operation. In the opinion of the directors, this change in the accounting policy enables the Group to provide reliable and more relevant information on the financial statements about its performance and financial position.

As a result of the adoption of the cost model under HKAS 16, the Group has changed its accounting policy with respect to leasehold land and buildings. This change in accounting policy has been applied retrospectively by restating the balances as at 30 June 2016, and the results for the six months ended 31 December 2015.

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

(c) Change in the accounting policy of leasehold land and buildings *(Continued)*

(i) Effect on the condensed consolidated income statement for the six months ended 31 December 2015:

	As previously reported HK$'000	Effect of adopting cost model under HKAS 16 HK$'000	As restated HK$'000
Revenue	1,609,317	–	1,609,317
Cost of sales	(1,420,208)	–	(1,420,208)
Gross profit	189,109	–	189,109
Other income/gains, net	195	354	549
General and administrative expenses	(110,423)	616	(109,807)
Operating profit	78,881	970	79,851
Finance income	5,101	–	5,101
Profit before income tax	83,982	970	84,952
Income tax expenses	(9,382)	(145)	(9,527)
Profit for the period attributable to equity holders of the Company	74,600	825	75,425
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in HK$ per share) — basic and diluted	0.23	0.01	0.24

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

(c) Change in the accounting policy of leasehold land and buildings *(Continued)*

(ii) Effect on the condensed consolidated statement of comprehensive income for the six months ended 31 December 2015:

	As previously reported HK$'000	Effect of adopting cost model under HKAS 16 HK$'000	As restated HK$'000
Profit for the period	74,600	825	75,425
Other comprehensive income:			
Items that will not be reclassified to condensed consolidated income statement:			
Revaluation loss on property, plant and equipment	(6,538)	6,538	–
Deferred income tax on revaluation loss on property, plant and equipment	1,040	(1,040)	–
	(5,498)	5,498	–
Item that may be subsequently reclassified to condensed consolidated income statement:			
Currency translation differences	(16,375)	4	(16,371)
Other comprehensive income, net of tax	(21,873)	5,502	(16,371)
Total comprehensive income for the period and attributable to equity holders of the Company	52,727	6,327	59,054

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

(c) Changes in the accounting policies of leasehold land and buildings *(Continued)*

(iii) Effect on the consolidated statement of financial position as at 30 June 2016

	As previously reported HK$'000	Effect of adopting cost model under HKAS 16 HK$'000	As restated HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	187,409	(92,995)	94,414
Land use rights	23,087	–	23,087
Intangible assets	35,321	–	35,321
Deferred income tax assets	4,581	–	4,581
	250,398	(92,995)	157,403
Current assets			
Inventories	17,733	–	17,733
Amounts due from customers for contract works	317,082	–	317,082
Trade and other receivables	842,276	–	842,276
Cash and bank balances	1,325,926	–	1,325,926
	2,503,017	–	2,503,017
Total assets	2,753,415	(92,995)	2,660,420
EQUITY			
Share capital	45,000	–	45,000
Reserves	856,168	(78,327)	777,841
Total equity	901,168	(78,327)	822,841
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	44,485	(14,668)	29,817
Current liabilities			
Amounts due to customers for contract works	1,138,368	–	1,138,368
Trade and other payables	654,923	–	654,923
Taxation payable	14,471	–	14,471
	1,807,762	–	1,807,762
Total liabilities	1,852,247	(14,668)	1,837,579
Total equity and liabilities	2,753,415	(92,995)	2,660,420
Net current assets	695,255	–	695,255
Total assets less current liabilities	945,653	(92,995)	852,658

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 and foreign exchange 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 2016 annual financial statements.

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

3.2 Fair value estimation

The carrying amounts of other financial assets and liabilities approximate their fair values due to the short-term maturities of these assets and liabilities.

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 2016.

5 REVENUE AND SEGMENT INFORMATION

The executive directors are the Group's chief operating decision-maker ("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	
	2016	2015
	HK$'000	HK$'000
Revenue		
Contracting	**1,648,355**	1,496,053
Maintenance services	**56,058**	46,694
Sales of goods	**64,902**	66,570
	1,769,315	1,609,317

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;

(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.

Sales between segments are carried out at arm's length.

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 2016, unallocated assets represented trade and other receivables and cash and bank balances of the Company. Unallocated liabilities represented other payables of the Company.

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 2016

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, net				6,766
Profit before income tax				101,966
Income tax expenses				(19,666)
Profit for the period				82,300
Other items				
Depreciation	4,748	1,054	–	5,802
Amortisation of intangible assets	185	–	–	185
Amortisation of land use rights	301	–	–	301

The segment assets and liabilities as at 31 December 2016 and capital expenditure for the six months ended 31 December 2016 are as follows:

	E&M engineering HK$'000	Environmental management services HK$'000	Total HK$'000
Segment assets	2,244,912	38,622	2,283,534
Unallocated assets			159,917
Total assets			2,443,451
Segment liabilities	1,581,521	13,453	1,594,974
Unallocated liabilities			1,900
Total liabilities			1,596,874
Total capital expenditure	5,591	769	6,360

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) For the six months ended 31 December 2015 and as at 30 June 2016 (restated)

The segment results for the six months ended 31 December 2015, as restated, 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	1,584,884	24,433	–	1,609,317
Revenue — internal	6,473	2,917	(9,390)	–
Total revenue				1,609,317
Operating profit before unallocated corporate expenses	97,824	2,310	–	100,134
Unallocated corporate expenses				(20,283)
Operating profit				79,851
Finance income, net				5,101
Profit before income tax				84,952
Income tax expenses				(9,527)
Profit for the period				75,425
Other items				
Depreciation	3,465	776	–	4,241
Amortisation of intangible assets	185	–	–	185
Amortisation of land use rights	285	–	–	285

The segment assets and liabilities as at 30 June 2016, as restated, 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	2,458,022	39,626	2,497,648
Unallocated assets			162,772
Total assets			2,660,420
Segment liabilities	1,822,927	13,109	1,836,036
Unallocated liabilities			1,543
Total liabilities			1,837,579
Total capital expenditure	19,548	5,799	25,347

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	
	2016	2015
	HK$'000	HK$'000
Revenue		
Hong Kong	**1,381,569**	1,041,404
Mainland China	**274,353**	167,020
Macau	**113,393**	400,893
	1,769,315	1,609,317

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

	At 31 December 2016	At 30 June 2016 (restated)
	HK$'000	HK$'000
Non-current assets, other than deferred tax assets		
Hong Kong	**122,963**	94,319
Mainland China	**26,737**	27,293
Macau	**30,903**	31,210
	180,603	152,822

6 OTHER (LOSSES)/GAINS, NET

	For the six months ended 31 December	
	2016	2015 (restated)
	HK$'000	HK$'000
Exchange (loss)/gain, net	**(160)**	366
(Loss)/gain on disposal of property, plant and equipment and land use rights, net	**(291)**	170
Sundries	**239**	13
	(212)	549

7 OPERATING PROFIT

	For the six months ended 31 December	
	2016	2015 (restated)
	HK$'000	HK$'000
Operating profit is stated after charging/(crediting):		
Changes in inventories of finished goods and work in progress	**36,611**	37,741
Raw materials and consumables used	**406,707**	496,339
Subcontracting fees	**831,773**	631,332
Provision for inventories	**285**	–
Write back of provision for inventories	**–**	(722)
Reversal of impairment loss on trade receivables	**(40)**	–
Amortisation of land use rights	**301**	285
Amortisation of intangible assets	**185**	185
Depreciation of property, plant and equipment	**5,802**	4,241
Operating lease rental for land and buildings	**16,020**	14,234
Less: Operating lease rental capitalised under contracts in progress	**(1,993)**	(1,766)
Staff costs (including directors' emoluments)		
Salaries and allowances	**264,272**	245,110
Pension cost on defined contribution schemes	**11,770**	12,632
Less: Recognition of staff costs previously capitalised/ (staff costs capitalised) under contracts in progress	**656**	(8,026)
Listing expenses	**–**	16,760

8 INCOME TAX EXPENSES

	For the six months ended 31 December 2016 HK$'000	2015 (restated) HK$'000
Current income tax		
Hong Kong profits tax	**8,973**	7,863
Mainland China taxation	**8,169**	7,989
Macau taxation	**1,440**	297
Under/(over)-provision in prior years	**119**	(3,125)
Deferred income tax expense/(credit)	**965**	(3,497)
	19,666	9,527

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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 2015 and 2016.

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 2016 and 2015.

	For the six months ended 31 December 2016 HK$'000	2015 (restated) HK$'000
Profit attributable to owners of the Company	**82,300**	75,425
Weighted average number of ordinary shares in issue (shares in thousands)	**450,000**	318,750
Basic earnings per share (HK$)	**0.18**	0.24

(b) Diluted

As the Company did not have any dilutive potential ordinary shares during the six months ended 31 December 2016 and 2015, the diluted earnings per share equals the basic earnings per share.

10 DIVIDENDS

The Board has resolved to declare an interim dividend of HK7.4 cents per share for the six months ended 31 December 2016 (2015: HK5.0 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 2016			
Opening net book amount as at 1 July 2016, as previously reported	**187,409**	**23,087**	**35,321**
Impact of change in accounting policy	**(92,995)**	**–**	**–**
As restated	**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 amount as at 31 December 2016	**94,418**	**22,549**	**35,136**
Six months ended 31 December 2015			
Opening net book amount as at 1 July 2015, as previously reported	172,582	24,075	35,691
Impact of change in accounting policy	(91,326)	–	–
As restated	81,256	24,075	35,691
Additions	5,678	–	–
Disposals	(74)	–	–
Exchange differences	(228)	(270)	–
Depreciation and amortisation charges	(4,241)	(285)	(185)
Closing net book amount as at 31 December 2015, as restated	82,391	23,520	35,506

12 TRADE AND OTHER RECEIVABLES

	At 31 December 2016 HK$'000	At 30 June 2016 HK$'000
Trade receivables		
Third parties	**179,053**	137,801
Related companies (Note 17(c))	**84,880**	172,026
	263,933	309,827
Less: provision for impairment		
Third parties	**(6,634)**	(6,674)
	257,299	303,153
Retention receivables		
Third parties	**164,990**	160,977
Related companies (Note 17(c))	**218,614**	188,918
	383,604	349,895
Accrued contract revenue	**42,804**	160,270
Other receivables and prepayments	**66,157**	28,958
	749,864	842,276
Less: Non-current portion — Deposits (Note)	**(28,500)**	–
	721,364	842,276

Note: Balance represented deposits paid for the acquisition of a property holding group.

Generally, no credit period was granted to retail customers for trading of building materials. The credit periods generally granted to other customers within different business segment are summarised as follows:

	Credit period
E&M engineering	30–60 days
Environmental management services	30–60 days

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 2016 HK$'000	At 30 June 2016 HK$'000
Current to 90 days	**232,523**	280,308
91–180 days	**13,430**	9,115
Over 180 days	**11,346**	13,730
	257,299	303,153

13 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 2016 and 31 December 2016	1,000,000,000	100,000
Ordinary shares, issued and fully paid:		
As at 30 June 2016 and 31 December 2016	450,000,000	45,000

14 TRADE AND OTHER PAYABLES

	At 31 December 2016 HK$'000	At 30 June 2016 HK$'000
Trade payables		
Third parties	**76,319**	81,772
Bills payable		
Third parties	**6,651**	6,708
Retention payables		
Third parties	**225,393**	209,125
Related companies	**–**	14
	225,393	209,139
Accrued expenses	**72,875**	97,454
Provision for contracting costs	**196,457**	230,633
Other creditors and accruals	**121,006**	29,217
	698,701	654,923

14 TRADE AND OTHER PAYABLES *(Continued)*

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 2016 HK$'000	At 30 June 2016 HK$'000
1–90 days	**72,809**	79,833
91–180 days	**1,985**	419
Over 180 days	**1,525**	1,520
	76,319	81,772

15 CAPITAL COMMITMENTS

	At 31 December 2016 HK$'000	At 30 June 2016 HK$'000
Contracted but not provided for	**256,500**	998

16 NOTES TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	For the six months ended 31 December	
	2016	2015 (restated)
	HK$'000	HK$'000
Profit before income tax	**101,966**	84,952
Interest income	**(6,766)**	(5,101)
Amortisation of land use rights	**301**	285
Amortisation of intangible assets	**185**	185
Depreciation of property, plant and equipment	**5,802**	4,241
Provision for inventories	**285**	–
Write back of provision for inventories	**–**	(722)
Reversal of impairment loss on trade receivables	**(40)**	–
Listing expenses	**–**	16,760
Loss/(gain) on disposal of property, plant and equipment	**291**	(170)
Unrealised exchange differences	**(2,092)**	(1,114)
Operating cash flows before changes in working capital	**99,932**	99,316
Change in working capital:		
— Inventories	**2,127**	815
— Net amounts due to customers for contract works	**(197,321)**	211,438
— Trade and other receivables	**117,697**	(3,672)
— Trade and other payables	**52,682**	(86,710)
— Balances with related companies	**–**	782
Cash generated from operations	**75,117**	221,969

(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 2015 and 2016.

(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
FSE Management Company Limited	Note i
International Property Management Limited	Note i
Kiu Lok Service Management Company Limited	Note i
Nova Insurance Consultants Limited	Note i
Urban Property Management Limited	Note i
Fung Seng Enterprises Limited	Note i
DMI Development Limited	Note i
Kenbase Engineering Limited	Note i
Onglory International Limited	Note i
Power Estate Investments 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
上海豐順置業有限公司	Note i
上海豐濤置業有限公司	Note i
Fung Seng Diamond Company Limited	Note i
General Security (H.K.) Limited	Note i
New China Laundry Limited	Note i
Waihong Environmental Services Limited	Note i
Waihong Pest Control Services Limited	Note i
Hong Kong Island Landscape Company Limited	Note i
上海上實南洋大酒店有限公司上海四季酒店	Note i
Great City Developments Company Limited	Note i
NWS Holdings Limited	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
北京僑樂房地產管理服務有限公司	Note ii
大連僑樂物業服務有限公司	Note ii
Anway Limited	Note ii
New World Construction Company Limited	Note ii
Bright Link Engineering Limited	Note ii
Gammon — Hip Hing Joint Venture	Note ii
Hong Kong Island Development Limited	Note ii
Discovery Park Commercial Services Limited	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
K11 Concepts Limited	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
New Town Project Management Limited	Note ii
協興建築(中國)有限公司	Note ii
新世界嘉業(武漢)有限公司	Note ii
湖南梓山湖置業有限公司	Note ii
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
新世界安信(天津)發展有限公司	Note ii
天津新世界百貨有限公司	Note ii
Chow Tai Fook Jewellery Company Limited	Note ii
Chow Tai Fook Jewellery and Watch (Macau) Limited	Note ii
廣州市新禦房地產開發有限公司	Note ii
East Concept Investments Limited	Note ii
周大福鐘錶(香港)有限公司	Note ii
GH Hotel Company Limited (Formerly known as Grand Hyatt Hong Kong Company Limited)	Note ii
Head Step Limited T/A Pentahotel HK Kowloon	Note ii
New World Strategic Investment Limited	Note ii
New World Telecommunications Limited	Note ii
New World TMT Limited	Note ii
New World Tower Company Limited	Note ii
Pridemax Limited	Note ii
Renaissance Harbour View Hotel HK	Note ii
The Automall Limited	Note ii
Techni Development Investment Limited	Note ii
HH — CW Joint Venture	Note ii
ATL Logistics Centre Hong Kong Limited	Note ii
Broadway-Nassau Investments Limited	Note ii
Hip Hing Joint Venture	Note ii
HK Convention & Exhibition Centre	Note ii
Vibro (HK) Limited	Note ii
Vibro Construction Company Limited	Note ii
深圳拓勁房地產開發有限公司	Note ii
新世界發展(武漢)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
Chow Tai Fook Charity Foundation	Note ii
Chow Tai Fook Enterprises 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
鹽城新世界百貨有限公司	Note ii
新世界百貨集團上海匯雅百貨有限公司	Note ii
成都心怡房地產開發有限公司	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
新世界(瀋陽)房地產開發有限公司	Note ii
K11 Select Limited	Note ii
Victoria Nursery	Note ii
北京新策項目管理諮詢服務有限公司	Note ii
Hip Hing — Hanison Joint Venture	Note ii
上海三聯物業發展有限公司	Note ii
大連新世界大廈有限公司	Note ii
北京麗高房地產開發有限公司	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.

(b) Transaction with related parties

	For the six months ended 31 December	
	2016	2015
	HK$'000	HK$'000
Contract revenue (Note i)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**19,593**	35,422
Other related companies	**903,921**	686,099
	923,514	721,521
Insurance broking service expenses (Note ii)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**12,446**	12,394
Rental expenses (Note iii)		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**4,205**	2,219
Other related companies	**132**	90
	4,337	2,309

17 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transaction with related parties *(Continued)*

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.

(c) Balances with related parties

	At 31 December 2016 HK$'000	At 30 June 2016 HK$'000
Trade receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**9,569**	15,770
Other related companies	**75,311**	156,256
	84,880	172,026
Amounts due from customers for contract works		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**2,624**	5,541
Other related companies	**106,632**	205,845
	109,256	211,386
Amounts due to customers for contract works		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**11,156**	4,990
Other related companies	**476,879**	652,567
	488,035	657,557
Retention receivables		
Related companies commonly controlled by the Ultimate Controlling Shareholder	**1,815**	530
Other related companies	**216,799**	188,388
	218,614	188,918
Advance received for contract works		
Other related companies	**–**	5,759

17 RELATED PARTY TRANSACTIONS *(Continued)*

(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	
	2016	2015
	HK$'000	HK$'000
Fees	**575**	108
Salaries and other emoluments	**17,384**	13,559
Contributions to defined contribution schemes	**764**	756
	18,723	14,423

18 SUBSEQUENT EVENTS

The acquisition of a property holding group which holds a property at 17/F, Chevalier Commercial Centre, Kowloon Bay, Hong Kong was completed on 9 January 2017.

Interim Dividend

The Board has resolved to declare an interim dividend of HK7.4 cents per share for the six months ended 31 December 2016 (2015: HK5.0 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 Wednesday, 15 March 2017. It is expected that the dividend warrants will be posted to shareholders on or about Wednesday, 22 March 2017.

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	10 March 2017
Latest time to lodge transfer documents for registration	4:30 pm on 13 March 2017
Closure of register of members	14 to 15 March 2017 (both dates inclusive)
Record date	15 March 2017
Interim dividend payment date	on or about 22 March 2017

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 interim financial statements for the six months ended 31 December 2016 and discussed financial related matters with the management and the external auditors of the Company.

The unaudited interim financial statements of the Group for the six months ended 31 December 2016 have been reviewed by the Company's external auditors, PricewaterhouseCoopers, 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.

COMPLIANCE WITH 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 2016, 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").

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 2016.

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 2015–2016 Annual Report are set out below:

1. Mr. Kwong Che Keung, Gordon was appointed in September 2016 as an independent non-executive director of Piraeus Port Authority S.A., a company listed in Athens, Greece.

2. With effect from 1 January 2017, Mr. Wong Kwok Kin, Andrew has been re-designated from the position of Vice Chairman of the Board and an executive director to a non-executive director, and Mr. Lam Wai Hon, Patrick, an executive director, has been appointed as Vice Chairman of the Board.

3. On 3 January 2017, Equal Merit Holdings Limited ("Equal Merit"), the entire issued share capital of which is solely and beneficially owned by Mr. Lam Wai Hon, Patrick, acquired 10,000,000 shares in FSE Holdings Limited (one of the controlling shareholders of the Company), representing 2% of its total issued share capital.

4. On 3 January 2017, Frontier Star Limited ("Frontier Star"), the entire issued share capital of which is solely and beneficially owned by Mr. Wong Kwok Kin, Andrew, disposed of 10,000,000 shares in FSE Holdings Limited, one of the controlling shareholders of the Company. After the disposal, Mr. Wong Kwok Kin, Andrew is interested in 35,000,000 shares in FSE Holdings Limited, representing 7% of its total issued share capital.

5. Mr. Hui Chiu Chung, Stephen's appointment as a member of Zhuhai Municipal Committee of the Chinese People's Political Consultative Conference ended in January 2017.

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 2015–2016 Annual Report.

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2016, 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	Number of shares: Beneficial interests	Number of shares: Interest of a controlled corporation	Percentage of shareholding[5]
Dr. Cheng Kar Shun, Henry	90,000,000[1]	–	18%
Mr. Wong Kwok Kin, Andrew	–	45,000,000[2]	9%
Mr. Doo William Junior Guilherme	–	45,000,000[3]	9%
Mr. Lee Kwok Bong	–	5,000,000[4]	1%

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 Frontier Star. On 3 January 2017, Frontier Star disposed of 10,000,000 shares in FSE Holdings Limited to Equal Merit, the entire issued share capital of which is solely and beneficially owned by Mr. Lam Wai Hon, Patrick, a director of the Company. Subsequent to the disposal and up to the date of this report Mr. Wong Kwok Kin, Andrew is interested in 35,000,000 shares in FSE Holdings Limited, representing 7% of its total issued share capital and Mr. Lam Wai Hon, Patrick is interested in 10,000,000 shares in FSE Holdings Limited, representing 2% of its total issued share capital.

(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 percentage of shareholding is calculated on the basis of 500,000,000 shares in issue as at 31 December 2016.

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 2016.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2016, 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[5]
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%
RAYS Capital Partners Limited ("RAYS Capital")	Investment manager	22,977,000[4]	5.11%
Mr. Ruan David Ching-chi ("Mr. Ruan")	Interest of a controlled corporation	22,977,000[4]	5.11%
Ms. Yip Yok Tak Amy ("Ms. Yip")	Interest of a controlled corporation	22,977,000[4]	5.11%

Notes:

(1) FSE Holdings Limited is beneficially owned as to 63% by Sino Spring, 9% by Frontier Star, 5% by Master Empire, 4% by Supreme Win Enterprises, 18% by Dr. Cheng Kar Shun, Henry (through CTF Nominee) 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.

Subsequent to Frontier Star's disposal of 10,000,000 shares in FSE Holdings Limited to Equal Merit on 3 January 2017 and up to the date of this report, FSE Holdings Limited is beneficially owned as to 63% by Sino Spring, 7% by Frontier Star, 2% by Equal Merit, 5% by Master Empire, 4% by Supreme Win Enterprises, 18% by Dr. Cheng Kar Shun, Henry (through CTF Nominee) and 1% by Lagoon Treasure.

(2) Sino Spring is an investment holding company incorporated in the British Virgin Islands with limited liability and is 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) RAYS Capital is beneficially owned as to 50% by Mr. Ruan and 50% by Ms. Yip. By virtue of Part XV of the SFO, both Mr. Ruan and Ms. Yip are deemed to be interested in all Shares in which RAYS Capital is interested.

(5) The percentage of shareholding is calculated on the basis of 450,000,000 Shares in issue as at 31 December 2016.

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 2016.

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 2016.

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

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

COMPLIANCE ADVISER

Halcyon Capital Limited

PRINCIPAL BANKERS

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

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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331

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