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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)

ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

		2017	2016 (restated) ⁽ⁱ⁾	%
		HK\$M	HK\$M	Change
Revenue	:	3,700.1	3,471.9	6.6%
Gross profit	:	406.9	371.9	9.4%
Profit attributable to equity holders	:	173.8	163.2	6.5%
Basic earnings per share ⁽ⁱⁱ⁾	:	HK\$0.39	HK\$0.43	-9.3%

The Board recommended the declaration of a final dividend of HK8.1 cents per share for the year ended 30 June 2017 (2016: HK9.4 cents).

Note (i) Comparative figures have been restated upon the change in accounting policy of leasehold land and buildings. Details are set out in Note 1(iii) to the consolidated financial statements.

Note (ii) The number of ordinary shares in issue increased from 300,000,000 to 450,000,000 on 10 December 2015 upon the Global Offering of the Company. Hence, the weighted average number of ordinary shares in issue for the year ended 30 June 2016 was 384,016,000. There was no movement in the number of ordinary shares in issue for the year ended 30 June 2017.

The board of directors (the “Board”) of FSE Engineering Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 30 June 2017 (“FY2017” or the “Year”).

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2017

	Note	2017 HK\$'000	2016 (restated)* HK\$'000
Revenue	2	3,700,133	3,471,907
Cost of sales		(3,293,192)	(3,099,991)
Gross profit		406,941	371,916
Other income/gains, net	3	3,577	494
General and administrative expenses		(208,483)	(201,607)
Operating profit	4	202,035	170,803
Finance income		14,501	10,841
Profit before income tax		216,536	181,644
Income tax expenses	5	(42,740)	(18,433)
Profit attributable to equity holders of the Company		173,796	163,211
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in HK\$ per share)			
- basic and diluted	6	0.39	0.43

* Comparative figures have been restated upon the change in accounting policy of leasehold land and buildings. Details are set out in Note 1(iii) to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	2017	2016
	HK\$'000	(restated)* HK\$'000
Profit for the year	173,796	163,211
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Other comprehensive income:		
<i>Item that may be subsequently reclassified to consolidated income statement:</i>		
Currency translation differences	(9,027)	(23,571)
Fair value change of available-for-sale financial assets	596	-
Deferred tax on fair value change of available-for-sale financial assets	(98)	-
	-----	-----
Other comprehensive income, net of tax	(8,529)	(23,571)
	=====	=====
Total comprehensive income for the year and attributable to equity holders of the Company	165,267	139,640
	=====	=====

* Comparative figures have been restated upon the change in accounting policy of leasehold land and buildings. Details are set out in Note 1(iii) to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	As at 30 June		As at 1 July
		2017	2016	2015
		HK\$'000	(restated)* HK\$'000	(restated)* HK\$'000
ASSETS				
Non-current assets				
Property, plant and equipment		382,754	94,414	81,256
Land use rights		21,655	23,087	24,075
Intangible assets		34,951	35,321	35,691
Deferred income tax assets		11,725	4,581	268
Available-for-sale financial assets		47,654	-	-
		<u>498,739</u>	<u>157,403</u>	<u>141,290</u>
Current assets				
Inventories		23,034	17,733	18,074
Amounts due from customers for contract works		141,678	317,082	113,818
Trade and other receivables	8	830,792	842,276	674,558
Financial assets at fair value through profit or loss		31,489	-	-
Available-for-sale financial assets		20,327	-	-
Cash and bank balances		978,322	1,325,926	612,526
		<u>2,025,642</u>	<u>2,503,017</u>	<u>1,418,976</u>
Total assets		<u><u>2,524,381</u></u>	<u><u>2,660,420</u></u>	<u><u>1,560,266</u></u>
EQUITY				
Share capital		45,000	45,000	30,000
Reserves		867,508	777,841	389,194
Total equity		<u><u>912,508</u></u>	<u><u>822,841</u></u>	<u><u>419,194</u></u>
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities		17,493	29,817	22,521
Current liabilities				
Amounts due to customers for contract works		417,597	1,138,368	487,977
Trade and other payables	9	1,125,626	654,923	614,384
Taxation payable		51,157	14,471	16,190
		<u>1,594,380</u>	<u>1,807,762</u>	<u>1,118,551</u>
Total liabilities		<u><u>1,611,873</u></u>	<u><u>1,837,579</u></u>	<u><u>1,141,072</u></u>
Total equity and liabilities		<u><u>2,524,381</u></u>	<u><u>2,660,420</u></u>	<u><u>1,560,266</u></u>
Net current assets		<u><u>431,262</u></u>	<u><u>695,255</u></u>	<u><u>300,425</u></u>
Total assets less current liabilities		<u><u>930,001</u></u>	<u><u>852,658</u></u>	<u><u>441,715</u></u>

* Comparative figures have been restated upon the change in accounting policy of leasehold land and buildings. Details are set out in Note 1(iii) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

- (i) Amendments and improvements to existing standards that are effective for the Group’s financial year beginning on 1 July 2016

The following amendments and improvements to existing standards, that are relevant to the Group’s operation, are mandatory for the financial year of the Group beginning on 1 July 2016:

HKAS 1 Amendment	Disclosure initiative
HKFRS 11 Amendment	Accounting for acquisition of interests in joint operations
HKAS 16 and HKAS 38 Amendment	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 and improvements to existing standards does not have significant impact on the Group’s consolidated results and financial position nor any substantial changes in the Group’s accounting policies and the presentation of the consolidated financial statements.

- (ii) 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 1 July 2016 and have not been early adopted:

		<u>Effective for accounting periods beginning on or after</u>
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 12 Amendment	Disclosure of interest in other entities	1 January 2017
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration	1 January 2018
HK(IFRIC) – Int 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 Amendment	Clarifications to HKFRS 15	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 Amendment	Sale or contribution of assets between an investor and its associate and joint venture	To be determined

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

HKFRS 9, "Financial instruments"

HKFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39, which is based on the change in credit quality of financial assets since initial recognition.

Upon adoption of HKFRS 9, the Group will adopt an expected credit losses impairment model and the requirement on disclosure changes. Furthermore, it will have possible change in classification of the Group's financial instruments but the measurement will likely remain unchanged. Other than these, adoption of HKFRS 9 is currently not expected to have a material impact on the financial information of the Group.

HKFRS 15, “Revenue from contracts with customers”

HKFRS 15 “Revenue from contracts with customers” replaces HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue when control of a good or service transfers to a customer.

Based on preliminary assessment conducted, the Group does not expect the adoption of HKFRS 15 would have a material impact other than presenting more disclosures.

HKFRS 16, “Leases”

HKFRS 16 “Leases” addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on the consolidated statements of financial position for lessees. The Group is a lessee of certain land and buildings which are currently classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, almost all leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated statements of comprehensive income, straight-line depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised.

The standard will affect primarily the accounting for Group’s operating leases. As at 30 June 2017, the Group has non-cancellable operating lease commitments of HK\$44,342,000. The adoption of HKFRS 16 will likely result in the recognition of an asset and a liability for future lease payments and this will affect the Group’s result.

(iii) 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 stated its leasehold land and buildings at cost less accumulated depreciation and any impairment losses, because cost model is more common accounting practice adopted by market players. 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 1 July 2015, and the results for the year ended 30 June 2016.

(a) Effect on the consolidated income statement for the year ended 30 June 2016:

	As previously reported HK\$'000	Effect of adopting cost model under HKAS 16 HK\$'000	As restated HK\$'000
Revenue	3,471,907	-	3,471,907
Cost of sales	(3,099,991)	-	(3,099,991)
Gross profit	371,916	-	371,916
Other income/gains, net	494	-	494
General and administrative expenses	(204,124)	2,517	(201,607)
Operating profit	168,286	2,517	170,803
Finance income	10,841	-	10,841
Profit before income tax	179,127	2,517	181,644
Income tax expenses	(18,056)	(377)	(18,433)
Profit attributable to equity holders of the Company	161,071	2,140	163,211
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in HK\$ per share) - basic and diluted	0.42	0.01	0.43

(b) Effect on the consolidated statement of comprehensive income for the year ended 30 June 2016:

	As previously reported HK\$'000	Effect of adopting cost model under HKAS 16 HK\$'000	As restated HK\$'000
Profit for the year	161,071	2,140	163,211
Other comprehensive income: <i>Items that will not be reclassified to consolidated income statement:</i>			
Revaluation gain on property, plant and equipment	4,212	(4,212)	-
Deferred income tax on revaluation gain on property, plant and equipment	(687)	687	-
	3,525	(3,525)	-
<i>Item that may be subsequently reclassified to consolidated income statement:</i>			
Currency translation differences	(23,597)	26	(23,571)
Other comprehensive income, net of tax	(20,072)	(3,499)	(23,571)
Total comprehensive income for the year and attributable to equity holders of the Company	140,999	(1,359)	139,640

(c) 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
	<u>250,398</u>	<u>(92,995)</u>	<u>157,403</u>
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
	<u>2,503,017</u>	<u>-</u>	<u>2,503,017</u>
Total assets	<u><u>2,753,415</u></u>	<u><u>(92,995)</u></u>	<u><u>2,660,420</u></u>
EQUITY			
Share capital	45,000	-	45,000
Reserves	856,168	(78,327)	777,841
Total equity	<u><u>901,168</u></u>	<u><u>(78,327)</u></u>	<u><u>822,841</u></u>
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
	<u>1,807,762</u>	<u>-</u>	<u>1,807,762</u>
Total liabilities	<u><u>1,852,247</u></u>	<u><u>(14,668)</u></u>	<u><u>1,837,579</u></u>
Total equity and liabilities	<u><u>2,753,415</u></u>	<u><u>(92,995)</u></u>	<u><u>2,660,420</u></u>
Net current assets	<u><u>695,255</u></u>	<u><u>-</u></u>	<u><u>695,255</u></u>
Total assets less current liabilities	<u><u>945,653</u></u>	<u><u>(92,995)</u></u>	<u><u>852,658</u></u>

(d) Effect on the consolidated statement of financial position as at 1 July 2015:

	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	172,582	(91,326)	81,256
Land use rights	24,075	-	24,075
Intangible assets	35,691	-	35,691
Deferred income tax assets	268	-	268
	<u>232,616</u>	<u>(91,326)</u>	<u>141,290</u>
Current assets			
Inventories	18,074	-	18,074
Amounts due from customers for contract works	113,818	-	113,818
Trade and other receivables	674,558	-	674,558
Cash and bank balances	612,526	-	612,526
	<u>1,418,976</u>	<u>-</u>	<u>1,418,976</u>
Total assets	<u>1,651,592</u>	<u>(91,326)</u>	<u>1,560,266</u>
EQUITY			
Share capital	30,000	-	30,000
Reserves	466,162	(76,968)	389,194
Total equity	<u>496,162</u>	<u>(76,968)</u>	<u>419,194</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	36,879	(14,358)	22,521
Current liabilities			
Amounts due to customers for contract works	487,977	-	487,977
Trade and other payables	614,384	-	614,384
Taxation payable	16,190	-	16,190
	<u>1,118,551</u>	<u>-</u>	<u>1,118,551</u>
Total liabilities	<u>1,155,430</u>	<u>(14,358)</u>	<u>1,141,072</u>
Total equity and liabilities	<u>1,651,592</u>	<u>(91,326)</u>	<u>1,560,266</u>
Net current assets	<u>300,425</u>	<u>-</u>	<u>300,425</u>
Total assets less current liabilities	<u>533,041</u>	<u>(91,326)</u>	<u>441,715</u>

2. Revenue and segment information

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

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

	2017 HK\$'000	2016 HK\$'000
Revenue		
Contracting	3,470,516	3,256,173
Maintenance services	114,285	98,796
Sales of goods	115,332	116,938
	<u>3,700,133</u>	<u>3,471,907</u>

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 costs.

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 allowance 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 purpose unless the segment is engaged in financing activities.

As at 30 June 2017, unallocated assets and unallocated liabilities represented the assets and liabilities not arising from the operation of the operating segments.

Prior year corresponding segment information that is presented for comparative purposes has been restated to conform to changes adopted in the current year.

Capital expenditure comprises mainly additions to property, plant and equipment.

(a) As at and for the year ended 30 June 2017

The segment results for the year ended 30 June 2017 and other segment items included in the 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	3,646,040	54,093	-	3,700,133
Revenue - internal	9	11,966	(11,975)	-
Total revenue				<u><u>3,700,133</u></u>
Operating profit before unallocated corporate expenses	202,284	5,302	-	207,586
Unallocated corporate expenses				(5,551)
Operating profit				202,035
Finance income				14,501
Profit before income tax				<u>216,536</u>
Income tax expenses				(42,740)
Profit for the year				<u><u>173,796</u></u>
Other items				
Depreciation	23,939	2,124	-	26,063
Amortisation of intangible assets	370	-	-	370
Amortisation of land use rights	582	-	-	582
	<u>24,891</u>	<u>2,124</u>	<u>-</u>	<u>27,515</u>

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

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

(b) As at and for the year ended 30 June 2016 (restated)

The segment results for the year ended 30 June 2016, as restated, and other segment items included in the 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	3,418,320	53,587	-	3,471,907
Revenue - internal	-	4,106	(4,106)	-
Total revenue				<u>3,471,907</u>
Operating profit before unallocated corporate expenses, as restated	187,596	3,963	-	191,559
Unallocated corporate expenses				(20,756)
Operating profit, as restated				170,803
Finance income				10,841
Profit before income tax, as restated				181,644
Income tax expenses, as restated				(18,433)
Profit for the year, as restated				<u>163,211</u>
Other items				
Depreciation, as restated	9,634	2,106	-	11,740
Amortisation of intangible assets	370	-	-	370
Amortisation of land use rights	615	-	-	615
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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, as restated	2,458,022	39,626	2,497,648
Unallocated assets			162,772
Total assets, as restated			<u>2,660,420</u>
Segment liabilities, as restated	1,822,927	13,109	1,836,036
Unallocated liabilities			1,543
Total liabilities , as restated			<u>1,837,579</u>
Capital expenditure	19,548	5,799	25,347
Unallocated capital expenditure			-
Total capital expenditure			<u>25,347</u>

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:

	2017	2016
	HK\$'000	HK\$'000
Revenue		
Hong Kong	2,843,076	2,367,739
Mainland China	476,794	405,029
Macau	380,263	699,139
	<u>3,700,133</u>	<u>3,471,907</u>

The analysis of the Group's major customer, which a single external customer has contributed 10% or more to the Group's revenue, is as follows:

	2017	2016
	HK\$'000	HK\$'000
Customer A	1,444,498	1,365,411

The revenues contributed by the above major customer are mainly attributable to the E&M engineering segment in Hong Kong and Mainland China.

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

	2017	2016
	HK\$'000	(restated) HK\$'000
Non-current assets, other than deferred tax assets		
Hong Kong	430,481	94,319
Mainland China	25,572	27,293
Macau	30,961	31,210
	<u>487,014</u>	<u>152,822</u>

3. Other income/gains, net

	2017 HK\$'000	2016 HK\$'000
Exchange gain, net	2,361	144
Gain on disposal of land use right and property, plant and equipment, net	510	122
Fair value gain on financial assets at fair value through profit or loss	377	-
Sundries	329	228
	<u>3,577</u>	<u>494</u>

4. Operating profit

	2017 HK\$'000	2016 (restated) HK\$'000
Operating profit is stated after charging/(crediting):		
Changes in inventories of finished goods and work in progress	64,951	70,072
Raw materials and consumables used	945,688	1,002,588
Subcontracting fees	1,703,730	1,479,746
Provision for inventories	2,733	570
Write back of provision for inventories	(503)	(1,302)
Amortisation of land use rights	582	615
Amortisation of intangible assets	370	370
Depreciation of property, plant and equipment	26,063	11,740
Staff costs (including Directors' emoluments)		
Salaries and allowances	529,425	524,959
Pension cost on defined contribution schemes	23,566	22,861
Less: Staff costs capitalised under contracts in progress	(17,974)	(16,702)
Operating lease rental for land and buildings	31,423	31,924
Less: Operating lease rental capitalised under contracts in progress	(3,610)	(5,346)
Reversal of impairment loss on trade receivables	(45)	(84)
Listing expenses	-	16,765
Auditor's remuneration		
Audit services	4,280	5,050
Non-audit services	1,040	435
	<u>4,280</u>	<u>5,050</u>
	<u>1,040</u>	<u>435</u>

5. Income tax expenses

	2017	2016
	HK\$'000	(restated) HK\$'000
Current income tax		
Hong Kong profits tax	17,836	8,387
Mainland China taxation		
- Income tax	13,959	9,942
- Withholding tax	4,025	-
Macau taxation	26,723	1,113
Over-provision in prior years	(358)	(3,992)
Deferred income tax (credit)/expense		
- Income tax	(20,939)	2,983
- Withholding tax	1,494	-
	<u>42,740</u>	<u>18,433</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year. Taxation on Mainland China and Macau profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates. These rates range from 12% to 25% for the year ended 30 June 2017 (2016: 12% to 25%). According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between Mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. Hence, the Group used 5% to accrue the withholding tax for certain PRC subsidiary companies which are expected to fulfill the aforesaid conditions.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2017	2016
	HK\$'000	(restated) HK\$'000
Profit before income tax	<u>216,536</u>	<u>181,644</u>
Calculated at a tax rate of 16.5% (2016: 16.5%)	35,728	29,971
Effect of different taxation rates in other regions	2,039	64
Income not subject to taxation	(1,950)	(3,974)
Expenses not deductible for taxation purposes	3,121	4,246
Temporary difference not recognised, net	73	(322)
Utilisation of previously unrecognised tax losses	(1,612)	(9,246)
Tax losses not recognised	180	1,686
Withholding tax on undistributed earnings from subsidiaries in Mainland China	5,519	-
Over-provision in prior years	(358)	(3,992)
Income tax expenses	<u>42,740</u>	<u>18,433</u>

6. 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 years ended 30 June 2017 and 2016.

	2017	2016
	HK\$'000	(restated) HK\$'000
Profit attributable to owners of the Company	173,796	163,211
Weighted average number of ordinary shares in issue (shares in thousands) (Note (i))	450,000	384,016
Basic earnings per share (HK\$)	0.39	0.43

Note (i) The number of ordinary shares in issue increased from 300,000,000 to 450,000,000 on 10 December 2015 upon the Global Offering of the Company. Hence, the weighted average number of ordinary shares in issue for the year ended 30 June 2016 was 384,016,000. There was no movement in the number of ordinary shares in issue for the year ended 30 June 2017.

(b) Diluted

As the Company did not have any dilutive potential ordinary shares during the years ended 30 June 2017 and 2016, the diluted earnings per share equals the basic earnings per share.

7. Dividends

	2017	2016
	HK\$'000	HK\$'000
Interim dividend paid of HK7.4 cents (2016: HK5.0 cents) per share	33,300	22,500
Final dividend proposed of HK8.1 cents (2016: HK9.4 cents) per share	36,450	42,300
	69,750	64,800

Note:

At a meeting held on 22 September 2017, the Board recommended a final dividend of HK8.1 cents per share. The final dividend will be paid in cash. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements but will be reflected as an appropriation of the retained profits for the year ending 30 June 2018.

8. Trade and other receivables

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:

	2017 HK\$'000	2016 HK\$'000
Current to 90 days	167,333	280,308
91 – 180 days	12,264	9,115
Over 180 days	9,356	13,730
	<hr/> 188,953 <hr/>	<hr/> 303,153 <hr/>

9. Trade and other payables

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:

	2017 HK\$'000	2016 HK\$'000
1 – 90 days	55,094	79,833
91 – 180 days	6,227	419
Over 180 days	1,390	1,520
	<hr/> 62,711 <hr/>	<hr/> 81,772 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group maintained its position as one of the leading E&M (electrical and mechanical) engineering companies in Hong Kong, capable of providing a comprehensive range of E&M engineering and environmental engineering services. It also continued to run strong its E&M engineering operations in Mainland China and Macau. On top of its full range of licences and qualifications and effectiveness in managing tendering risks, the Group has integrated operating and control procedures, strong networks of well-established customers and suppliers, and an experienced and well-trained workforce to support all of its operations. Thus, 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 constantly optimising design and exploring innovative methods. At the project level, it incorporates green building principles into application of building services equipment; and adopts green building design, modularisation and prefabrication to reduce energy usage, carbon emissions and construction waste. Furthermore, it invests in innovative construction technologies such as Building Information Modelling (BIM), laser scanning and mobile solutions, in order to help improve its operational efficiency and project management. The Group's environmental management service business, a new growth driver, continues to provide environmental assessment and energy efficient solutions to assist its customers in achieving their environmental protection and energy conservation goals.

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

Financial performance

Leveraging its competitive strengths as described above, the Group delivered a solid financial performance and recorded revenue amounting to HK\$3,700.1 million for the Year, representing an increase of HK\$228.2 million or 6.6%, as compared with HK\$3,471.9 million in FY2016. Profit attributable to equity holders for the Year was HK\$173.8 million, representing an increase of HK\$10.6 million or 6.5 % against HK\$163.2 million in FY2016.

As at 30 June 2017, the Group's projects encompassed a wide range of buildings and facilities, including offices, shopping malls, convention and exhibition centres, hotels, gaming centres, residential properties, universities, hospitals, airport and public transportation facilities buildings with a total outstanding contract sum of HK\$5,600 million. During FY2017, the Group submitted tenders for 677 E&M engineering and environmental services projects (with a contract sum equal to or exceeding HK\$1.0 million for each project, if awarded) with a total tender sum of HK\$20,880 million.

New contracts awarded

During FY2017, the Group was awarded new contracts with a total value of HK\$3,031 million, which include 111 contracts (with a net contract sum equal to or exceeding HK\$1.0 million for each project) with a total net contract sum of HK\$2,770 million. Among these 111 contracts, eight of them are major projects (with net contract sum equal to or more than HK\$100.0 million for each project) as listed below:

Hong Kong:

1. Electrical and Mechanical, Ventilation and Air-conditioning (“MVAC”) installation for the Hong Kong International Airport Contract P568 Midfield Apron Development Works at Chek Lap Kok, Lantau Island, New Territories;
2. Plumbing and drainage installation for a proposed residential development for LOHAS Park Package 5 at Site G, Tseung Kwan O Town Lot No. 70, Area 86, Tseung Kwan O, New Territories;
3. Plumbing and drainage installation for a proposed residential development at Site N, Tseung Kwan O Town Lot No. 70 Remaining Portion, LOHAS Park Package 6, Tseung Kwan O, New Territories;
4. Electrical and fire services installation for public rental housing at Pak Tin Estate Phase 7 & 8, Sham Shui Po, Kowloon;
5. Fire services installation for public housing at North West Kowloon Reclamation Site 6 and Fat Tseung Street West, Kowloon;
6. E&M installation for Hong Kong Airlines Aviation Training Centre at Chek Lap Kok, Lantau Island, New Territories;

Macau:

7. Electrical installation for Morpheus Hotel at City of Dreams, Phase 3, Cotai;

Mainland China:

8. Heating, Ventilation and Air-conditioning (“HVAC”) and Electrical installation for the podium of Spring City 66 – a commercial complex development at 15 Dongfeng Dong Road /433 Beijing Road, Panlong District, Kunming

Completed projects

The Group completed several prestigious projects during the Year, including:

Hong Kong:

1. E&M installation for Gleneagles Hong Kong Hospital, Wong Chuk Hang, Hong Kong;
2. Electrical installation for On Tat Estate public housing comprising On Tat Shopping Centre, Yat Tat House, Sin Tat House, Lai Tat House and Chi Tat House at Kwun Tong, Kowloon;
3. Electrical installation for Shui Chuen O Estate public rental housing comprising Mau Chuen House, Lam Chuen House, Shou Chuen House, Chuk Chuen House, Sung Chuen House, Shan Chuen House, Tsun Chuen House and Ling Chuen House at Shatin, New Territories;
4. Plumbing and drainage installation for YUCCIE Square in Yuen Long, New Territories;
5. Electrical installation for Kerry Hotel in Hung Hom Bay, Kowloon;
6. E&M installation for the Shue Yan University Research Complex at Braemar Hill, North Point, Hong Kong;

Macau:

7. HVAC installation for the Hotel Tower of The Parisian at Cotai;
8. Central chiller plant and sitewide Building Management System, dry fire sitewide, and hotel tower HVAC installation for Wynn Palace Cotai Resort, Cotai;

Mainland China:

9. E&M installation for the renovation of Jing Guang Centre, Beijing;
10. E&M installation for the renovation of public area at Level B1 to B3, carpark and outdoor plaza at Plaza 66, Shanghai

Projects on hand

As at 30 June 2017, major outstanding contracts with remaining works valued at more than HK\$100.0 million including:

Hong Kong:

1. Design, supply and installation of E&M services for the West Kowloon Government Office in Yau Ma Tei, Kowloon;
2. Electrical, fire services, MVAC and central chiller plant installation for Victoria Dockside in Tsim Sha Tsui, Kowloon;
3. E&M installation for Hong Kong Airlines Aviation Training Centre at Chek Lap Kok, Lantau Island, New Territories;
4. Plumbing and drainage installation for a proposed residential development for LOHAS Park Package 5 at Site G at Tseung Kwan O Town Lot No. 70, Area 86, Tseung Kwan O, New Territories;
5. Plumbing and drainage installation for a proposed residential development at Site N, Tseung Kwan O Town Lot No. 70 Remaining Portion, LOHAS Park Package 6, Tseung Kwan O, New Territories;
6. Plumbing and drainage installation and fire services installation for Ocean Pride in Tsuen Wan, New Territories;
7. Plumbing and drainage installation for Ocean Supreme in Tsuen Wan, New Territories;
8. Electrical and MVAC installation for the Hong Kong International Airport Contract P568 Midfield Apron Development Works at Chek Lap Kok, Lantau Island, New Territories;
9. Plumbing and drainage installation for Harbour Glory at Oil Street, North Point, Hong Kong;
10. Electrical and fire services installation for a public rental housing at Pak Tin Estate Phase 7 & 8, Sham Shui Po, Kowloon;
11. Fire services installation for a public housing at North West Kowloon Reclamation Site 6 and Fat Tseung Street West, Kowloon;

Macau:

12. Electrical installation for Morpheus Hotel at City of Dreams, Phase 3, Cotai;

Mainland China:

13. HVAC and Electrical installation for the podium of Spring City 66 – a commercial complex development at 15 Dongfeng Dong Road/433 Beijing Road, Panlong District, Kunming

FINANCIAL REVIEW

Revenue

In FY2017, the Group's revenue increased by HK\$228.2 million or 6.6% to HK\$3,700.1 million, mostly attributable to the higher revenue of HK\$227.7 million derived from our E&M engineering segment.

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

	2017 HK\$'M	For the year ended 30 June		% of total revenue
		% of total revenue	2016 HK\$'M	
E&M engineering*	3,646.0	98.5%	3,418.3	98.5%
Environmental management services*	54.1	1.5%	53.6	1.5%
Total	3,700.1	100.0%	3,471.9	100.0%

* Segment revenue does not include inter-segment sales.

- E&M (electrical and mechanical) engineering:* This segment has remained the key turnover driver and contributed 98.5% of the total revenue of the Group (2016: 98.5%). Segmental revenue was up by 6.7% from HK\$3,418.3 million to HK\$3,646.0 million for the Year, owing mainly to the increase in revenue from the installation division, primarily through significant progress of a number of major E&M projects in Hong Kong. The increase was partly offset by the reduction in contribution from Macau with central chiller plant and sitewide Building Management System, dry fire sitewide and hotel tower HVAC installation for Wynn Palace Cotai Resort ("Wynn Palace") and HVAC installation for the Hotel Tower of The Parisian at Cotai ("The Parisian") which had been substantially completed in FY2016.
- Environmental management services:* Revenue contribution of this business segment was stable at HK\$54.1 million (2016: HK\$53.6 million), representing a mild growth of 0.9% as compared with FY2016. Segment revenue from environmental management services for the Year was primarily contributed by water treatment projects and bio-technology installation and maintenance services.

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

	For the year ended 30 June		Change HK\$'M	% change
	2017 HK\$'M	2016 HK\$'M		
Hong Kong	2,843.1	2,367.8	475.3	20.1%
Mainland China	476.8	405.0	71.8	17.7%
Macau	380.2	699.1	(318.9)	(45.6%)
Total	3,700.1	3,471.9	228.2	6.6%

- Hong Kong:** Revenue from Hong Kong increased by HK\$475.3 million or 20.1% to HK\$2,843.1 million in FY2017. The increase was mainly attributable to the substantial revenue contribution from a number of sizeable installation projects, including E&M installation for Gleneagles Hong Kong Hospital in Wong Chuk Hang, plumbing and drainage installation for Ocean Pride and Ocean Supreme in Tsuen Wan and electrical installation for Bloomsway and Napa in So Kwun Wat, Tuen Mun which made significant progress in FY2017 and lifted Hong Kong's contribution to the Group's total revenue from 68.2% to 76.8%.
- Mainland China:** Revenue from Mainland China increased by 17.7% from HK\$405.0 million to HK\$476.8 million in FY2017 with its geographical contribution increased from 11.7% to 12.9%. The increase of HK\$71.8 million was primarily the revenue contributed by a mixed used commercial building in Shanghai, Jing An District and a shopping mall in Dalian.
- Macau:** Revenue from Macau decreased by 45.6% to HK\$380.2 million in FY2017 with its geographical contribution of the region dropping from 20.1% in FY2016 to 10.3% in FY2017. The decline mainly resulted from the reduction in the revenue contribution from two major projects, namely Wynn Palace and The Parisian which had been substantially completed in FY2016.

Gross profit

The Group's overall gross profit increased by HK\$35.0 million or 9.4% to HK\$406.9 million in FY2017, whereas the overall gross profit margin remained relatively stable at 11.0% (2016: 10.7%). The increase in gross profit was mainly in line with the overall remarkable growth of the Group's revenue, of which the gross profit derived from our E&M engineering business significantly increased in FY2017 with its segment gross profit margin maintained at 10.7% (2016: 10.5%). The gross profit margin of the environmental management services segment improved from 23.3% to 28.3%, mainly owing to an increase in revenue from water treatment services and bio-technology maintenance services with a relatively higher profit margin. Gross profit in this segment rose to HK\$15.3 million in FY2017, representing an increase of HK\$2.8 million or 22.4% as compared with FY2016.

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

	<u>For the year ended 30 June</u>			
	2017		2016	
	Gross profit HK\$'M	Gross profit margin %	Gross profit HK\$'M	Gross profit margin %
E&M engineering	391.6	10.7	359.4	10.5
Environmental management services	15.3	28.3	12.5	23.3
Total	406.9	11.0	371.9	10.7

Other income/gains, net

The Group did not record other net gains in a material amount for both FY2016 and FY2017, which amounted to HK\$0.5 million and HK\$3.6 million, respectively. Other net gains in FY2017 mainly included gain on disposal of land use right and property, plant and equipment and net foreign exchange gain.

Finance income

The Group recorded finance income of HK\$14.5 million (2016: HK\$10.8 million). The increase in finance income, which consisted primarily of the Group's bank interest income of HK\$13.4 million, was mainly due to the increase in average principal and the market interest rate on the Group's bank deposit placed in Hong Kong. The Group recorded interest income of HK\$1.1 million from new investment in available-for-sale financial assets and financial assets at fair value through profit or loss during FY2017.

General and administrative expenses

In FY2017, the general and administrative expenses of the Group increased by 3.4% to HK\$208.5 million as compared with HK\$201.6 million in FY2016. The increase of HK\$6.9 million was mainly attributable to the additional depreciation charges for newly acquired property and associated leasehold improvement and increase in rental expenses in FY2017, partly offset by the one-off non-recurring listing expenses of HK\$16.8 million in last year.

Taxation

The effective tax rate of the Group increased from 10.1% in FY2016 to 19.7% in FY2017. The relatively low effective tax rate in FY2016 resulted from the utilisation of previously unrecognised tax losses of HK\$9.2 million mainly for a joint operation project that was non-recurring in FY2017 together with the higher profit contribution from Macau which has relatively lower applicable corporate income tax rate.

Profit attributable to equity holders

As a result of the foregoing, the Group's profit attributable to equity holders for the Year increased by 6.5% or HK\$10.6 million from HK\$163.2 million in FY2016 to HK\$173.8 million in FY2017. The increase was the combined result of higher contracting revenue mostly from our core business segment, 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 FY2016 and FY2017.

Other comprehensive loss

The Group recorded other comprehensive loss of HK\$8.5 million in FY2017, comprising mainly the decrease in exchange reserve of HK\$9.0 million resulting from the devaluation of the Renminbi ("RMB") and the reduced currency rate adopted in the accounting translation of RMB-denominated net investments in our Mainland China operations into Hong Kong dollars (the Group's presentation currency) for the purpose of preparing the Company's financial statements, partly offset by the increase in the investment revaluation reserve, net of tax, of HK\$0.5 million in relation to the increase in the estimated market price for the Group's available-for-sale financial assets.

Liquidity and financial resources

The Group's finance and treasury functions have been centrally managed and controlled at the headquarters in Hong Kong. As at 30 June 2017, the Group had total cash and bank balances of HK\$978.3 million, of which 55%, 33% and 12% were denominated in Hong Kong dollars, RMB and other currencies respectively (2016: 68%, 28% and 4% respectively). As compared with 30 June 2016, the Group's cash and bank balances decreased by HK\$347.6 million from HK\$1,325.9 million which was primarily due to the distribution of final dividends of HK\$42.3 million for FY2016, interim dividends of HK\$33.3 million for FY2017, the acquisition of a property holding group of HK\$282.3 million, and net investment in available-for-sale financial assets and other financial assets through profit or loss in sum of HK\$98.0 million, partly offset by the increase in net cash inflow from operating activities.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year and did not have any bank borrowings and outstanding borrowings as at 30 June 2017 (2016: Nil). Hence the Group's gearing ratio (being our total borrowings divided by our total equity) was maintained at zero as at 30 June 2017. As at 30 June 2017, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and/or trade financing of HK\$1,091.0 million (2016: HK\$1,119.2 million), of which HK\$323.7 million (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 the needs of its current business operations and capital expenditures.

Foreign currency exposure

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

As part of the Group's business was carried out in Mainland China, part of its assets and liabilities were also denominated in RMB. The majority of these assets and liabilities have arisen from the net investments in our Mainland China operations, which had net assets of HK\$167.8 million as at 30 June 2017. The foreign currency translation of the financial statements in respect of these Mainland China operations from RMB (functional currency of these Mainland China operations) into Hong Kong dollars (the Group's presentation currency) will not affect the Group's profit before and after tax, and will be recognised in its other comprehensive income.

During the Year, the fluctuation of the RMB against the Hong Kong dollars was 5.1% (comparing the highest exchange rate with the lowest exchange rate of the RMB against the Hong Kong dollars during the Year).

As at 30 June 2017, if the Hong Kong dollars had strengthened/weakened by another 5.0% against the RMB with all other variables unchanged, the Group's other comprehensive income would have been HK\$8.4 million lower/higher.

Use of net proceeds from listing

Between 10 December 2015 (date of listing of the Company) and 30 June 2017, the net proceeds of HK\$264.5 million received from the Global Offering (referred to in the prospectus issued by the Company on 26 November 2015) were applied as follows:

	Net proceeds from Global Offering	Aggregated utilised amount up to 30 June 2017	Unutilised amount
	HK\$M	HK\$M	HK\$M
Investment in/acquisition of companies engaged in the installation and maintenance of ELV system	81.6	2.2	79.4
Development of environmental management business	51.0	2.0	49.0
Operation of E&M engineering projects on hand and prospective projects	47.4	47.4	-
Staff-related additional expenses	20.0	13.7	6.3
Development and enhancement of design capability	19.3	11.6	7.7
Enhancement of quality testing laboratory	12.2	3.4	8.8
Upgrade of corporate information technology system and software	8.0	3.8	4.2
General working capital	25.0	25.0	-
Total	<u>264.5</u>	<u>109.1</u>	<u>155.4</u>

During FY2017, the Group utilised HK\$51.9 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.

Contingent liabilities

The Group has no material contingent liabilities as at 30 June 2017 (2016: Nil).

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 changed to adopt the cost model to account for leasehold land and buildings instead of the revaluation model because cost model is more common accounting practice adopted by market players. 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 year ended 30 June 2016 is restated from HK\$161.1 million to HK\$163.2 million. Details of the change and the respective financial effect are set out in Note 1(iii) of the Consolidated Financial Statements.

Major transaction

On 5 October 2016, a conditional sale and purchase agreement (the “S&P Agreement”) was entered into between Catchy Investments Limited (the “Vendor”, a wholly-owned subsidiary of New World Development Company Limited) and Fortunate House Limited (the “Purchaser”, a wholly-owned subsidiary of the Company) whereby the Purchaser agreed to purchase and the Vendor agreed to sell the entire issued share capital of Optimum Result Holdings Limited (the “Target”) together with the unsecured non-interest bearing shareholder’s loan owing from the Target to the Vendor amounting to HK\$153.1 million (the “Sale Loan”) for an aggregate consideration of HK\$285.0 million (the “Consideration”), subject to adjustment. The principal business of the Target is investment holding, with its investment in Ocean Front Investments Limited (“Ocean Front”) as its sole investment. The principal business of Ocean Front is property holding, with a property located at 17th Floor of Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong (the “Property”) as its major asset. HK\$28.5 million, representing 10% of the Consideration was paid in cash upon signing of the S&P Agreement. The acquisition under the S&P Agreement was approved by the independent shareholders at the extraordinary general meeting of the Company held on 30 November 2016. Completion of the S&P Agreement took place on 9 January 2017 upon which the remaining 90% of the Consideration amounting to HK\$249.3 million (after an adjustment of HK\$7.2 million with reference to the unaudited consolidated net tangible asset value of the Target and its subsidiary excluding the value of the Property and the Sale Loan) was paid in cash. A final cash payment of the Consideration of HK\$3.1 million was made on 7 March 2017 with reference to the unaudited consolidated net tangible asset value of the Target and its subsidiary excluding the value of the Property and the Sale Loan as at the completion date.

Upon completion, each of the Target and Ocean Front became a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of each of them have been consolidated in the financial statements of the Company for the Year. The Property is currently being utilised as office premises of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group had a total of 1,655 employees (2016: 1,662). Staff cost for the Year, including salaries and benefits, was HK\$553.0 million (2016: HK\$547.8 million). The decrease in the Group’s total headcount is mainly due to the reduction in the number of employees in Macau upon the completion of major E&M engineering projects during the Year.

The Group offers attractive remuneration packages, including competitive fixed salaries plus performance-based annual bonuses, and continuously provides tailored training to its employees with the aim of promoting upward mobility within its organisation and fostering employee loyalty. Our employees are subject to regular job performance reviews which determine their promotion prospects and compensation. Remuneration is determined with reference to market norms and individual employees’ performance, qualification and experience.

The Company maintained a share option scheme during the Year, which aims at providing incentives to the eligible participants (including the employees of the Group) to contribute to the Group and enables us to recruit high-caliber employees and attract human resources that are valuable to the Group.

All of 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 (Cap. 485 of the Laws of Hong Kong). The Group has complied with the relevant laws and regulations, and the relevant contributions have been made by the Group in accordance with the relevant laws and regulations.

OUTLOOK

Overview

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

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

Currently, the E&M engineering segment in Hong Kong, which accounts for over 50% of the Group's total revenue and gross profit, remains the core business of the Group. However, while proud of its performance in this segment in Hong Kong, the Group is striving to bolster its market presence in other regions.

ELV Business

Regarding the ELV (extra low voltage) business, with more property developers adopting advanced technologies in their projects to enhance building sustainability and energy control, the segment presents good opportunities to generate business revenues and profit. In early 2016, the Group set up an ELV division which can complement the work of the E&M engineering segment and provide valued customers in the property development one-stop ELV service solutions – from concept development to design to commissioning.

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

Since the establishment of the new ELV division, the Group has secured six new projects including a residential project on Sai Yuen Lane, an office development project at King's Road and an Aviation Training Centre at Chek Lap Kok.

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

E&M engineering segment

1. Hong Kong

As the Hong Kong Government has unveiled a series of new policies and initiatives in the public and infrastructure projects, the construction industry accounted for 4.7% of Hong Kong's total gross domestic profit in both 2015 and 2016. According to the construction expenditure forecast provided by the Construction Industry Council, E&M construction works expenditure will amount to over HK\$20 billion for the public sector and over HK\$28 billion for the private sector over the next few years. Projects in these two sectors will together create a large number of jobs, particularly crucial for Hong Kong in times of economic uncertainty.

Long-term Housing Strategy

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

As at 2016, the proposed major public housing developments include those developments at Lin Cheung Road in Sham Shui Po, Queen's Hill in Fanling, Diamond Hill and Anderson Road in Sau Mau Ping. The proposed major subsidised-sale housing developments include those developments at Diamond Hill, Ping Shan in Yuen Long and Sham Shui Po.

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

New Development Frontiers

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

Other Public Facilities & Infrastructure Developments

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

To promote sport in the community and maintain Hong Kong as a centre for major international sporting events, the Hong Kong Government will spend a total of HK\$20 billion in the coming five years to launch 26 projects to develop new or improve existing sports and recreation facilities. Besides, the Kai Tak Sports Park, the largest sport project with an investment over HK\$30 billion, is expected to be completed in 2022/2023.

Apart from the above, construction of the Shatin to Central Link, investment in the West Kowloon Cultural District, urban renewal redevelopment projects, the Kai Tak Development Area including a multipurpose sports park together with residential, commercial and hotel developments, expansion of convention and exhibition venues in Wanchai, construction of a 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.

Looming Challenges

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

Maintenance Services

As reflected in the statistics available, there are currently over 60% of the buildings including 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 the Group’s E&M engineering services envisages a growing demand for the term maintenance contracts from different prestigious commercial and residential buildings, hospitals, the public sector and educational institutions seeking the service of quality contractors to help them maintain their properties in the best possible shape. The Group expects an increase in revenue from fitting-out works, system upgrade and replacement works following the implementation of the Mandatory Building Inspection Scheme (“MBI Scheme”). Large-scale alteration and addition and system retrofit works are also set to provide favourable returns to the maintenance section.

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

Building Material Trading

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

Way Forward

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

2. Macau

For the six months ended 30 June 2017, the Macau gaming market with 39 casinos generated total half-yearly gross revenues of MOP126 billion, about five times that of Las Vegas. As a result, the construction and E&M engineering sectors in Macau performed very well in the past few years. However, with several sizable casino projects completed in 2017 and the flagging tourism and the gaming industry, the construction and engineering sectors in Macau are expected to go through a stage of consolidation.

Nevertheless, there is a constant demand for renovation and improvement works for hotels and casinos. In addition, the robust demand for public and private residential housing, the development of Galaxy Macau Phase 3 and 4 (about a HKD43 billion investment), and the construction of the Islands District Medical Complex are expected to create emerging business opportunities for the Group in the coming few years.

Ongoing Housing and Tourism Development

The Macau SAR Government has launched its first Five-year Development Plan and initiated the reclamation project for New Urban Zone Area A and the Zhuhai-Macao man-made islands in association with the Hong Kong-Zhuhai-Macao Bridge, which are expected to provide land for 28,000 public housing units and 4,000 private housing units. Conducive to the growth of its tourism industry, the city projected that it will be able to offer 44,000 hotel rooms by 2019 versus 36,000 hotel rooms (located in 107 hotels and guesthouses, with 32 five-star hotels offering 22,000 rooms) in May 2017.

Reinforcing Leadership in Gaming and Tourism

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

3. Mainland China

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

“One Belt, One Road” Initiative

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

Guangdong Pilot Free Trade Zones

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

Project Management Services

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

Environmental management services

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

The Building Energy Efficiency Ordinance (Chapter 610 of the Laws of Hong Kong) enacted in 2012 continues to support the business development of our environmental consultancy services. Our seawater and fresh water treatment and odour removal products such as electro-chlorination and biotech deodorisation systems respectively bring steady growth to our environmental engineering segment.

Laboratory Services

With the growing public demand for better water quality, strict water control drives the market demand for water quality testing services of our laboratory. Through relentless effort, our laboratory has been accredited by the Hong Kong Accreditation Service under the Hong Kong Laboratory Accreditation Scheme (HOKLAS) since 2015, and can provide testing for fresh water inside service, fresh water for the Quality Water Supply Scheme, fresh water cooling tower scheme, air quality laboratory analyses, environmental monitoring and baseline monitoring and waste water monitoring. The Group continues to invest in state-of-the-art instruments and offers clients reliable analytical testing services including physical, non-metallic, trace metals and microbiological analyses. For instance, to address the enhancement measures launched by the Water Supplies Department including testing for heavy metals in drinking water prompted by the earlier incident of excessive lead found in drinking water, our laboratory uses a highly sensitive ICP-MS system to detect trace levels of heavy metals in tap water samples. The laboratory service thus complements the work of the E&M engineering and environmental engineering segments.

Waste Management

Public attention is also drawn to waste management and disposal as it has been announced that municipal solid waste charging will be launched in Hong Kong in the second half of 2019 at the earliest with the aim to alleviate the tremendous pressure on landfills. Meanwhile food waste represents the major constituent of municipal solid waste used for landfill in Hong Kong, therefore reducing food waste disposal is essential for effective waste management. The Group has an automated odour-free food waste processor available in a wide range of sizes to provide a total solution in converting food waste into environmentally-safe water effluent.

Nano-bubble Technology

Furthermore, the Group is actively working with strategic partners and vendors to invest in strengthening our technological capabilities with a focus on air and water treatment, and to evaluate possible investment in a web-based building energy management system. During the Year, the Group had collaborated with Nano and Advanced Materials Institute Limited (“NAMI”) to invest and develop nano-bubble technology which converts ordinary air and water into a strong oxidising fluid. The nano-bubble effect in treated fluid is an environmental-friendly and cost-effective technology that can save energy and consumption in cleaning and sterilisation. In addition, the Group and NAMI garnered a gold medal at the 45th International Exhibition of Inventions of Geneva 2017 for the innovative nano-bubble technology in March 2017.

Conclusion

In conclusion, as the Group can provide a comprehensive range of E&M engineering and environmental engineering services and run well-established E&M engineering operations in Hong Kong, Mainland China and Macau, it is ready to grasp the ample business opportunities that the different above-mentioned infrastructure and large-scale projects are expected to bring.

FINAL DIVIDEND

The Board has resolved to recommend a final dividend of HK8.1 cents per share for the year ended 30 June 2017 (2016: HK9.4 cents per share) to the shareholders whose names appear on the register of members of the Company on 8 December 2017. The proposed final dividend, if approved at the forthcoming annual general meeting (“AGM”) of the Company, will be paid on or about 15 December 2017. Together with the interim dividend of HK7.4 cents per share (2016: HK5.0 cents) paid in March 2017, total distribution of dividend by the Company for the year ended 30 June 2017 will thus be HK15.5 cents per share (2016: HK14.4 cents per share), representing a dividend payout ratio of 40.1% (2016: 39.7%).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed as set out below for the following purposes:

- (i) For the purpose of determining shareholders’ eligibility to attend and vote at the 2017 AGM:
 - Latest time to lodge transfer documents for registration 4:30 pm on 23 November 2017
 - Closure of register of members 24 to 29 November 2017
 - Record date 29 November 2017
 - AGM date 29 November 2017

- (ii) For the purpose of determining shareholders’ entitlement to the final dividend:
 - Ex-dividend date 4 December 2017
 - Latest time to lodge transfer documents for registration 4:30 pm on 5 December 2017
 - Closure of register of members 6 to 8 December 2017
 - Record date 8 December 2017
 - Dividend payment date on or about 15 December 2017

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM and to qualify for the final 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 respective latest time specified above.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and enhance the corporate value of the Group. The Company has applied the principles of the corporate governance code (the “Corporate Governance Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited to its corporate governance structure and practices. Throughout the Year, the Company had complied with all the code provisions set out in the Corporate Governance Code, with the exception of code provision E.1.2.

Code provision E.1.2 requires the chairman of the board to attend AGM. Dr. Cheng Kar Shun, Henry, the Chairman of the Board, was unable to attend the 2016 AGM held on 30 November 2016 due to other important engagement. Mr. Wong Kwok Kin, Andrew, the then Vice-Chairman of the Board, who took the chair of the AGM, together with members of the Board who attended the AGM, were of sufficient caliber for answering questions at the AGM.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The Audit Committee of the Board was established 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 audited consolidated financial statements for the year ended 30 June 2017, including the accounting principles and practices adopted by the Group.

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 30 June 2017 have been agreed by the Group's auditor, PricewaterhouseCoopers ("PwC Hong Kong"), to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by PwC Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PwC Hong Kong on the preliminary announcement.

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 Year.

On behalf of the Board of
FSE Engineering Holdings Limited
Lam Wai Hon, Patrick
Vice-Chairman

Hong Kong, 22 September 2017

As at the date of this announcement, the Board comprises Dr. Cheng Kar Shun, Henry (Chairman) and Mr. Wong Kwok Kin, Andrew as non-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 and Mr. Soon Kweong Wah as executive directors, Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung and Dr. Tong Yuk Lun, Paul as independent non-executive directors.