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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)

**MAJOR AND CONNECTED TRANSACTION:
PROPOSED ACQUISITION OF PROPERTY HOLDING GROUP BY
ACQUIRING THE SALE SHARE AND THE SALE LOAN**

On 5 October 2016 (after trading hours of the Stock Exchange), the Group, through the Purchaser, conditionally agreed to acquire from the Vendor the Sale Share and the Sale Loan at the Consideration (subject to adjustment, if any), subject to fulfilment of the Conditions Precedent, by entering into the Agreement in respect of the Proposed Acquisition, the principal terms and conditions of which are set out below.

The Target Group holds the entire interest in the Properties which the Group intends to use as its office premises.

The Vendor is a connected person of the Company for being a wholly-owned subsidiary of NWD who is treated as a connected person of the Company. The Proposed Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As one of the applicable Percentage Ratios for the Proposed Acquisition exceeds 25% and the Consideration exceeds HK\$10,000,000, the Proposed Acquisition is subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

As one of the applicable Percentage Ratios in respect of the Proposed Acquisition exceeds 25% but is below 100%, the Proposed Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules, and is subject to the notification, publication and Shareholders' approval requirements.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Proposed Acquisition and related matters. FSE Holdings and its associates will abstain from voting on the resolution approving the Proposed Acquisition at the EGM.

The Independent Board Committee has been established to consider the terms of the Proposed Acquisition on terms of the Agreement and to advise the Independent Shareholders as to whether the Proposed Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Financial Adviser has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, among other matters, the fairness and reasonableness of the Proposed Acquisition.

A circular containing further details of the Proposed Acquisition and other information as is required to be contained in it under the Listing Rules together with a notice of the EGM and a form of proxy is expected to be despatched to the Shareholders on or before 26 October 2016.

INTRODUCTION

The Board is pleased to announce that on 5 October 2016 (after trading hours of the Stock Exchange), the Group, through the Purchaser, conditionally agreed to acquire from the Vendor the Sale Share and the Sale Loan, subject to fulfilment of the Conditions Precedent, by entering into the Agreement in respect of the Proposed Acquisition, the principal terms and conditions of which are set out below.

THE PROPOSED ACQUISITION

The Agreement

Date: 5 October 2016

Parties:

- Vendor : Catchy Investments Limited, a wholly-owned subsidiary of NWD
- Purchaser : Fortunate House Limited, a wholly-owned subsidiary of the Company

NWD is treated as a connected person of the Company. The Vendor, being a wholly-owned subsidiary of NWD, is an associate of NWD and a connected person of the Company.

Assets to be acquired by the Group under the Agreement

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire from the Vendor the Sale Share, representing the entire issued share capital of the Target, and the Sale Loan, being the entire amount of the unsecured non-interest bearing shareholder's loan owing by the Target to the Vendor as at the Completion Date.

The paragraph below headed "INFORMATION OF THE TARGET GROUP" provides you with further information on the Target Group.

The Consideration, its payment term and adjustment

The Consideration for the Proposed Acquisition is HK\$285,000,000.00 (subject to NTAV adjustment, if any, as mentioned below), of which:

- (1) the consideration for the Sale Loan shall be the amount of the Sale Loan that is outstanding as at the Completion Date. As at 31 August 2016, the Sale Loan was in the amount of approximately HK\$153 million; and
- (2) the consideration for the Sale Share shall be the Consideration less the consideration for the Sale Loan.

The payment term of the Consideration is as follows:

- (1) HK\$28,500,000.00, representing 10% of the Consideration, has been paid as deposit by the Purchaser to the Vendor in cash upon signing of the Agreement; and
- (2) HK\$256,500,000.00, being the balance of 90% of the Consideration, subject to adjustment, if any, by the amount of the Pro Forma NTAV, shall be paid by the Purchaser to the Vendor (or as the Vendor may direct in writing) in cash on the Completion Date.

As at the date of the Agreement, the Pro Forma NTAV was a net liability of approximately HK\$7.2 million and the balance of the Consideration after deducting that amount will be payable upon Completion.

The Consideration was agreed after arm's length negotiations between the Vendor and the Purchaser having taken into consideration various factors, including but not limited to, (i) the valuation of the Properties of HK\$288,000,000.00 as provided by an independent professional valuer to the Company; and (ii) the NTAV of the Target Group.

The Consideration will be funded by internal resources of the Group.

The Consideration is subject to adjustment, if any, by the amount of the NTAV of the Target Group as at the Completion Date. The Purchaser shall within 60 days after the Completion Date at its own costs and expenses deliver to the Vendor a completion accounts ("**Completion Accounts**") showing the NTAV of the Target Group as at the Completion Date, which shall either be an unaudited (if the financial statements can be agreed to by the Vendor and the Purchaser) or failing agreement between them, an audited consolidated financial statements of the Target Group for the period from 1 July 2016 to and as at the Completion Date.

If based on the Completion Accounts:

- (1) the NTAV of the Target Group as at the Completion Date is greater than the Pro Forma NTAV, the consideration for the Sale Share shall be increased by a sum equal to the amount by which the NTAV of the Target Group as at the Completion Date is greater than the Pro Forma NTAV; or

- (2) the NTAV of the Target Group as at the Completion Date is less than the Pro Forma NTAV, the consideration for the Sale Share shall be reduced by a sum equal to the amount by which the NTAV of the Target Group as at the Completion Date is less than the Pro Forma NTAV.

After any adjustment, any excess in the consideration for the Sale Share paid on Completion shall be refunded by the Vendor to the Purchaser without interest, and any shortfall in the consideration for the Sale Share shall be paid by the Purchaser to the Vendor without interest, within seven (7) Business Days following the delivery of the Completion Accounts by the Purchaser to the Vendor.

Conditions Precedent to Completion

The Agreement and Completion are conditional upon:

- (1) the obtaining of the approval of the Independent Shareholders to the Proposed Acquisition on terms of the Agreement in compliance with the Listing Rules;
- (2) as at the date of fulfilment (or, as the case may be, waiver) of the last in time to be fulfilled of the Conditions Precedent, satisfaction by the Purchaser of all the warranties given by the Vendor being true and correct in all material respects by reference to the facts and circumstances subsisting as at that date;
- (3) (if necessary) the obtaining by the Company of all necessary approvals, consents or waivers (as appropriate) as are required under the Listing Rules or other applicable regulations from the Stock Exchange or any other regulators in respect of the entering into and performance of the Agreement; and
- (4) (if necessary) the obtaining by NWD of all necessary approvals, consents or waivers (as appropriate) as are required under the Listing Rules or other applicable regulations from the Stock Exchange or any other regulators in respect of the entering into and performance of the Agreement.

The Purchaser shall procure the fulfillment of Conditions Precedent (1) and where necessary, Conditions Precedent (3). The Vendor shall procure the fulfillment of Conditions Precedent (2) and where necessary, Conditions Precedent (4).

The Purchaser may at any time on or before the Long Stop Date in writing to the Vendor waive the above Conditions Precedent (2) in whole or in part.

If the Conditions Precedent shall not be fulfilled (or, as the case may be, waived) by the Long Stop Date, all rights and obligations of the Vendor and the Purchaser under the Agreement shall cease and terminate and the Vendor shall forthwith refund to the Purchaser the deposit paid by Purchaser under the Agreement without interest.

Completion

Subject to fulfilment (or, as the case may be, waiver) of the Conditions Precedent, Completion shall take place on the Completion Date.

After Completion, each of the Target and the Subsidiary will become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities will be consolidated in the financial statements of the Company.

Undertakings by the Vendor

Under the Agreement, the Vendor has undertaken to the Purchaser to effect the following:

- (1) to terminate the existing tenancy of the Properties no later than the Completion Date; and
- (2) to reinstate the Properties into a “bare-shell” condition and to remove the opening made to the floor slab separating the Properties from the 18th Floor of Chevalier Commercial Centre by no later than 31 January 2017 at its own costs and expenses.

INFORMATION ON THE TARGET GROUP

The Target is a limited company incorporated in the British Virgin Islands in 2011 and the sole shareholder of the Subsidiary. The principal business of the Target is investment holding, with its investment in the Subsidiary as its sole investment.

The Subsidiary is a limited company incorporated in Hong Kong in 2011 and the owner of the Properties. The principal business of the Subsidiary is property holding, with the Properties as its major assets.

Financial information of the Target Group

Set out below is a summary of the unaudited consolidated financial information of the Target for the two years ended 30 June 2015 and 30 June 2016 respectively immediately preceding the date of the Agreement:

	For the year ended	
	30 June	30 June
	2015	2016
	<i>(HKD'000)</i>	<i>(HKD'000)</i>
	(unaudited)	(unaudited)
Net profit before tax and extraordinary items	25,259	11,653
Net profit after tax and extraordinary items	24,225	10,575

As at 30 June 2016, the Target had an unaudited consolidated net asset value of approximately HK\$122.2 million.

The Properties comprise the whole of the seventeenth floor of Chevalier Commercial Centre located at No.8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong with a gross floor area of approximately 2,917.13 sq. m. for office use.

The Properties was acquired by the Subsidiary at a consideration of HK\$182 million in 2012. As at 30 June 2016, the unaudited book value of the Properties in the accounts of the Subsidiary was HK\$283 million.

The Properties are currently subject to existing tenancy which is to be terminated prior to Completion.

INFORMATION ON THE VENDOR

The Vendor is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of NWD. The principal business of the Vendor is investment holding.

INFORMATION ON THE GROUP

The Company is an investment holding company and the holding company of the Group. The principal businesses of the Group are the provision of electrical and mechanical engineering service and environmental engineering service.

REASONS FOR AND THE BENEFITS OF THE PROPOSED ACQUISITION

As stated in the final results announcement of the Company for the year ended 30 June 2016, it is the Group's plan to identify and acquire at opportune times additional premises to cope with the Group's operational needs and cater for the Group's future growth and development. The Directors believe that the Proposed Acquisition enables the Group to acquire 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. In addition, the Directors believe that the additional office premises from the Properties enable the Group to:

- facilitate centralisation of its management and operation, enhance the flexibility in its future development as well as its overall competitiveness through improvement in operational efficiency, cohesion and communication among the staff given the Properties are located in the same building as the principal place of business of the Company in Hong Kong;
- cope with and facilitate its expansion plan on business, recruitment of staff and future growth in the long run; and
- broaden its fixed asset base with potential capital appreciation;

The Directors (excluding the independent non-executive Directors) consider the terms of the Proposed Acquisition on terms of the Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The view of the independent non-executive Directors on the Proposed Acquisition on, among others, the fairness and reasonableness of the Proposed Acquisition on terms of the Agreement will be given and included in the circular of the Company to be despatched to the Shareholders after taking into account the advice of the Independent Financier Adviser to the Company.

LISTING RULES IMPLICATIONS

Dr. Henry Cheng, the Chairman and non-executive Director of the Company, is a connected person of the Company. Dr. Henry Cheng is also the brother-in-law of Mr. Doo (one of the controlling shareholders of the Company), the uncle of Mr. Doo William Junior Guilherme

(an executive Director) and is also the cousin of the spouse of Mr. Poon Lock Kee, Rocky (an executive Director and Chief Executive Officer). The NWD Group is the family business of Dr. Henry Cheng. NWD is therefore treated as a connected person of the Company.

The Vendor, being a wholly-owned subsidiary of NWD, is an associate of NWD and therefore a connected person of the Company. The Proposed Acquisition therefore constitutes a connected transaction for the Company. As one of the applicable Percentage Ratios for the Proposed Acquisition exceeds 25% and the Consideration exceeds HK\$10,000,000, the Proposed Acquisition is subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

As one of the applicable Percentage Ratios in respect of the Proposed Acquisition exceeds 25% but is below 100%, the Proposed Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules, and is subject to the notification, publication and Shareholders' approval requirements.

At the EGM, any Shareholders with a material interest in the Proposed Acquisition are required to abstain from voting on the resolution approving the Proposed Acquisition. FSE Holdings and its associates will abstain from voting on the resolution approving the Proposed Acquisition at the EGM.

The Independent Board Committee has been established to consider the terms of the Proposed Acquisition on terms of the Agreement and to advise the Independent Shareholders as to whether the Proposed Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Financial Adviser has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, among other matters, the fairness and reasonableness of the Proposed Acquisition.

EGM

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Proposed Acquisition and related matters.

A circular containing, among other things, (1) further details of the Proposed Acquisition; (2) the recommendation from the Independent Board Committee on the Proposed Acquisition; (3) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Proposed Acquisition; (4) financial information of the Group and the Target Group; (5) unaudited pro forma financial information of the Group as enlarged by the Target Group; (6) valuation report on the Properties to be prepared by an independent professional valuer to the Company; and (7) other information as is required to be contained in the circular under the Listing Rules together with a notice of the EGM and a form of proxy is expected to be despatched to the Shareholders on or before 26 October 2016.

DEFINITIONS

Unless the context otherwise requires, the following terms have the following meanings when used in this announcement:

“Agreement”	the conditional agreement for sale and purchase of the Sale Share and the Sale Loan entered into between the Vendor as vendor and the Purchaser as purchaser on 5 October 2016
“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	FSE Engineering Holdings Limited (豐盛機電控股有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 331)
“Completion”	the completion of the Proposed Acquisition in accordance with the Agreement
“Completion Date”	the 7th business day following fulfilment (or as the case may be, waiver) of the last in time to be fulfilled of the Conditions Precedent (or such other date as the Vendor and the Purchaser may agree in writing) on which Completion shall take place
“Conditions Precedent”	the conditions for Completion set forth in the paragraph headed “Conditions Precedent to Completion” of this announcement
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration”	HK\$285,000,000.00, being the aggregate consideration for the Sale Share and the Sale Loan payable by the Purchaser to the Vendor under the Agreement, subject to NTAV adjustment (if any)
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director”	the director of the Company
“Dr. Henry Cheng”	Dr. Cheng Kar Shun, Henry, the chairman and non-executive Director of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held to consider and approve the Proposed Acquisition and related matters

“FSE Holdings”	FSE Holdings Limited, a company incorporated in the Cayman Islands and a controlling shareholder of the Company holding 75% of the Shares in issue carrying the right to vote at general meetings of the Company as at the date of this announcement
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on, among other matters, the fairness and reasonableness of the Proposed Acquisition
“Independent Financial Adviser”	BOSC International Company Limited, the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders on, among other matters, the fairness and reasonableness of the Proposed Acquisition
“Independent Shareholders”	Shareholders, other than FSE Holdings and its associates, who have no material interest in the Proposed Acquisition
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	5:00 p.m. on 31 January 2017 (or such later time and date as the Vendor and the Purchaser may agree in writing), being the last time for fulfilment or, as the case may be, waiver of the Conditions Precedent
“Mr. Doo”	Mr. Doo Wai Hoi, William, one of the controlling shareholders of the Company
“NTAV”	the unaudited or as the case may be, audited consolidated net tangible assets value of the Target Group, excluding the value of the Properties and the amount of the Sale Loan
“NWD”	New World Development Company Limited (新世界發展有限公司), a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 17) and the ultimate holding company of the Vendor and the Target Group
“NWD Group”	NWD and its subsidiaries (including the Target Group before Completion) from time to time

“Percentage Ratios”	the applicable percentage ratios under Rule 14.07 of the Listing Rules
“Pro Forma NTAV”	the proforma unaudited NTAV of the Target Group as at the date of the Agreement
“Properties”	the whole of the seventeenth floor of CHEVALIER COMMERCIAL CENTRE (其士商業中心), No.8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong
“Proposed Acquisition”	the proposed acquisition of the Sale Share and the Sale Loan by the Purchaser from the Vendor on and subject to the terms and conditions of the Agreement and the performance of the transactions contemplated thereunder
“Purchaser”	Fortunate House Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Sale Loan”	the shareholder’s loan owing from the Target to the Vendor, which is unsecured and non-interest bearing, the amount of which as at 31 August 2016 was approximately HK\$153 million
“Sale Share”	the one share of par value of US\$1.00 in the share capital of the Target legally and beneficially owned by the Vendor, representing the entire issued share capital of the Target
“Shareholder”	the holder of any Share
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	Ocean Front Investments Limited, a company incorporated in Hong Kong with limited liability, which is a direct wholly-owned subsidiary of the Target and the owner of the Properties
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Target”	Optimum Result Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly owned subsidiary of the Vendor
“Target Group”	the Target and the Subsidiary
“Vendor”	Catchy Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of NWD
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“sq. m.”	square meter
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

By order of the Board
FSE Engineering Holdings Limited
Lee Kwok Bong
Executive Director & Joint Company Secretary

Hong Kong, 5 October 2016

As at the date of this announcement, the Board comprises Dr. Cheng Kar Shun, Henry (Chairman) as non-executive Director, Mr. Wong Kwok Kin, Andrew (Vice-Chairman), Mr. Poon Lock Kee, Rocky (Chief Executive Officer), Mr. Lam Wai Hon, Patrick, 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.