THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **FSE Engineering Holdings Limited**, you should at once hand this Circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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)

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET ENTITIES CARRYING OUT FACILITY SERVICES;
(2) CONTINUING CONNECTED TRANSACTIONS: 2018 MASTER FACILITY SERVICES AGREEMENTS;
(3) PROPOSED CHANGE OF COMPANY NAME, STOCK SHORT NAME AND COMPANY LOGO; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser

BNP PARIBAS

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

BALLAS CAPITAL

All capitalised terms used in this Circular shall have the meanings ascribed to them in the section headed "Definitions" of this Circular.

A letter from the Board is set out on pages 9 to 51 of this Circular. A letter from the Independent Board Committee is set out on pages 52 to 54 of this Circular. A letter from Ballas Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 55 to 105 of this Circular. A notice convening the EGM to be held at 17/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Tuesday, 10 April 2018 at 11:30 a.m. is set out on pages EGM-1 to EGM-7 in this Circular. A form of proxy for use at the EGM is enclosed with this Circular. Whether or not you are able to attend the EGM in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the EGM should you so wish.

20 March 2018

CONTENTS

In this Circular, unless the context requires otherwise, the following expressions have the following meanings:

"2018 Master Facility Services Agreements"

the following proposed new master services agreements collectively:

(a) the agreement to be entered into between the Company and the Seller in relation to (a) the provision of the Cleaning and Laundry Services by the Enlarged Group to the Doo's Associates Group; and (b) the provision of the Rental and Related Services by the Doo's Associates Group to the Enlarged Group ("**2018 FSE Master Facility Services Agreement**");

(b) the agreement to be entered into between the Company and NWD in relation to the provision of the Cleaning and Laundry Services by the Enlarged Group to the NWD Group ("**2018 NWD Master Facility Services Agreement**");

(c) the agreement to be entered into between the Company and NWS in relation to (a) the provision of the Cleaning and Laundry Services by the Enlarged Group to the NWS Group; and (b) the provision of the IT Support Services by the NWS Group to the Enlarged Group ("**2018 NWS Master Facility Services Agreement**");

(d) the agreement to be entered into between the Company and NWDS in relation to the provision of the Cleaning and Laundry Services by the Enlarged Group to the NWDS Group ("**2018 NWDS Master Facility Services Agreement**");

(e) the agreement to be entered into between the Company and CTFE in relation to the provision of the Cleaning and Laundry Services by the Enlarged Group to the CTFE Group ("**2018 CTFE Master Facility Services Agreement**"); and

(f) the agreement to be entered into between the Company and CTFJ in relation to the provision of the Cleaning and Laundry Services by the Enlarged Group to the CTFJ Group ("**2018 CTFJ Master Facility Services Agreement**")

"30%-controlled company"	has the meaning ascribed to it under the Listing Rules
"Announcement"	the announcement of the Company dated 27 February 2018 in relation to, among other things, the Proposed Acquisition, 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder, the Annual Caps and the proposed Change of Company Name
"Annual Caps"	the estimated maximum aggregate annual amounts in respect of the Services Transactions contemplated under each of the 2018 Master Facility Services Agreements for each of the period ending 30 June 2018, FY2019 and FY2020 as stated in the section headed "Annual Caps" in the Letter from the Board in this Circular
"Associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the Board of Directors
"Buyer"	FSE Facility Services Group Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"CAGR"	compound annual growth rate
"Change of Company Name"	the proposed change of the English name of the Company from "FSE Engineering Holdings Limited" to "FSE Services Group Limited" and adoption of the Chinese name "豐盛服務集團有限公司" as the dual foreign name of the Company in place of the existing Chinese name "豐盛機電控股有限公司"
"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 Sale and Purchase Agreement
"Completion Date"	the date which is ten Business Days, or such other date as the Buyer and the Seller may agree, after the date (not being later than the Longstop Date) on which the last of the Conditions to be satisfied or waived is satisfied or waived (as applicable)

"Conditions"	the conditions for Completion set forth in the paragraph headed "Conditions precedent to Completion" in the Letter from the Board in this Circular
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration for the sale and purchase of the Sale Share, the initial sum of which being HK$502,000,000, subject to adjustment under the Sale and Purchase Agreement
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"CTFE"	Chow Tai Fook Enterprises Limited (周大福企業有限公司), a company incorporated in Hong Kong with limited liability
"CTFE Group"	CTFE and its subsidiaries from time to time
"CTFJ"	Chow Tai Fook Jewellery Group Limited (周大福珠寶集團有限公司), 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: 1929)
"CTFJ Group"	CTFJ and its subsidiaries from time to time
"Definitive Agreements"	with respect to any 2018 Master Facility Services Agreement, the individual definitive agreements in respect of the Services Transactions contemplated under each of the 2018 Master Facility Services Agreements which may from time to time be entered into in pursuance thereto
"Directors"	the directors of the Company
"Doo's Associates Group"	Mr. Doo and companies, other than members of the Enlarged Group, which are the 30%-controlled companies of Mr. Doo, his "immediate family members" and/or "family members" (as defined in the Listing Rules), individually or together, and the subsidiaries of such companies
"Dr. Cheng"	Dr. Cheng Kar Shun, Henry, the chairman and a non-executive Director of the Company
"EGM"	an extraordinary general meeting of the Company to be convened and held to consider and, if thought if, approve the EGM Matters

"EGM Matters"	the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Service Transactions under these agreements and the Annual Caps for the same, and the proposed Change of Company Name
"Enlarged Group"	the Group as enlarged by the Target Group upon completion of the Proposed Acquisition
"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 Latest Practicable Date
"FY" or "financial year"	financial year of the Company ended or ending 30 June
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of The People's Republic of China
"Independent Board Committee"	an independent committee of the Board, which comprises all of the independent non-executive Directors who do not have a material interest in the relevant transactions, established to advise the Independent Shareholders on, among other matters, the fairness and reasonableness of the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same
"Independent Financial Adviser"	Ballas Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same
"Independent Shareholders"	the Shareholders, other than FSE Holdings, who do not have any material interest in the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same

"Latest Practicable Date"	means 15 March 2018, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Longstop Date"	30 June 2018 or such other date as the Buyer and the Seller may agree in writing
"Mr. Doo"	Mr. Doo Wai Hoi, William, one of the controlling shareholders of the Company
"New China Steam Laundry Limited Group"	New China Steam Laundry Limited, Bright Team Enterprises Limited, New China Laundry Limited, New United Laundry Limited and Kleaners Limited
"Non-Target Group"	Macro Brilliant Limited and its subsidiary, the 100% equity interests of which were held by New China Steam Laundry Limited during the FY2015, FY2016 and FY2017 and the six months ended 31 December 2017, and disposed of thereafter
"NTAV"	the net tangible assets value of the Target Group
"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)
"NWD Group"	NWD and its subsidiaries from time to time but excluding the NWDS Group and the NWS Group
"NWDS"	New World Department Store China Limited (新世界百貨中國有限公司), 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: 825)

"NWDS Group"	NWDS and its subsidiaries from time to time
"NWS"	NWS Holdings Limited, a company incorporated in Bermuda, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 659)
"NWS Group"	NWS and its subsidiaries from time to time
"Percentage Ratios"	the applicable percentage ratios under Rule 14.07 of the Listing Rules
"PRC"	the People's Republic of China
"Proposed Acquisition"	the proposed acquisition of the Sale Share by the Buyer from the Seller on and subject to the terms and conditions of the Sale and Purchase Agreement and the performance of the transactions contemplated thereunder
"Reorganisation"	the series of transactions required in order for each member of the Waihong Cleaning Limited Group and the New China Steam Laundry Limited Group to become subsidiaries of the Target Company
"Reported Group"	the Target Group and the Non-Target Group collectively
"Sale and Purchase Agreement"	the conditional agreement for sale and purchase of the Sale Share entered into between the Seller and the Buyer on 27 February 2018
"Sale Share"	the 1 share of par value of US$1.00 in the share capital of the Target Company legally and beneficially owned by the Seller, representing the entire issued share capital of the Target Company
"Seller"	FSE Management Company Limited (豐盛創建管理有限公司), a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of FSE Holdings

"Services"	the provision of the following services collectively: (a) (in respect of the 2018 FSE Master Facility Services Agreement only) leasing of properties, including without limitation, spare spaces, office spaces and car parking spaces, licences for the use of wall signages, lighting boxes and the use of common areas, management services and related services (the "**Rental and Related Services**"); (b) (in respect of the 2018 NWS Master Facility Services Agreement only) the maintenance and support of computer software-related matters, such as solving software and hardware conflicts and usability problems and supplying updates and patches for bugs, security holes in the programme and other services as required by in-house IT staff as and when necessary (the "**IT Support Services**"); and (c) (in respect of each 2018 Master Facility Services Agreement) (A) cleaning services including general cleaning, waste management and disposal, external wall and window cleaning, pest control and clinical waste management rendered at commercial buildings, residential buildings, public transportations and other public institutions and facilities; and (B) laundry services including laundry, dry cleaning and linen management services to corporate customers and the operation of dry cleaning and laundry retail valet outlets (the "**Cleaning and Laundry Services**")
"Services Transactions"	the provision of the Services as contemplated under the 2018 Master Facility Services Agreement (as more particularly set out under the section headed "2018 Master Facility Services Agreements" in the Letter from the Board in this Circular)
"Share"	ordinary share of par value HK$0.10 in the share capital of the Company
"Shareholder"	the holder of any Share
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Crystal Brilliant Limited, a company incorporated in the British Virgin Islands with limited liability

"Target Group"	the Target Company, and members of each of (i) the New China Steam Laundry Limited Group, and (ii) the Waihong Cleaning Limited Group, which will at or before Completion become subsidiaries of the Target Company (and each member of the Target Group, a "Target Entity")
"Waihong Cleaning Limited Group"	Waihong Cleaning Limited, Smart and Safe Fleet Management Limited, Waihong Environmental Services Limited, Waihong Integrated Green Services Limited, Waihong Medicare Services Limited, 廣州晉康清潔服務有限公司 and Premier Custodian Services Limited
"%"	per cent

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)

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

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

Independent Non-executive Directors
Mr. Kwong Che Keung, Gordon
Mr. Hui Chiu Chung, Stephen
Mr. Lee Kwan Hung
Dr. Tong Yuk Lun, Paul

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Units 801–810, 8th Floor
Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay, Kowloon
Hong Kong

20 March 2018

Dear Shareholders,

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET ENTITIES CARRYING OUT FACILITY SERVICES;
(2) CONTINUING CONNECTED TRANSACTION: 2018 MASTER FACILITY SERVICES AGREEMENTS;
(3) PROPOSED CHANGE OF COMPANY NAME, STOCK SHORT NAME AND COMPANY LOGO; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 27 February 2018 in relation to, among other things, the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder, the Annual Caps and the proposed Change of Company Name.

On 27 February 2018 (after trading hours of the Stock Exchange), the Buyer conditionally agreed to acquire from the Seller the Sale Share at the Consideration (subject to adjustment, if any), by entering into the Sale and Purchase Agreement in respect of the Proposed Acquisition. Completion of the Proposed Acquisition is subject to the fulfilment of the Conditions.

The Target Group is principally engaged in the provision of facility services including cleaning and laundry services.

In their ordinary and usual course of business, the New China Steam Laundry Limited Group and Waihong Cleaning Limited Group regularly entered into continuing transactions in relation to:

(i) the provision and receipt of the Services to and from the Doo's Associates Group and the NWS Group; and

(ii) the provision of the Cleaning and Laundry Services to members of each of the NWD Group, the NWDS Group, the CTFE Group and the CTFJ Group.

It is expected that the above continuing transactions will continue after the completion of the Proposed Acquisition. As each Target Entity will become a wholly-owned subsidiary of the Company upon completion of the Proposed Acquisition, the continuing transactions entered into or to be entered into between the New China Steam Laundry Limited Group or the Waihong Cleaning Limited Group on one side, and the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group or the CTFJ Group on the other will become continuing connected transactions of the Company under the Listing Rules.

In order to streamline these continuing connected transactions in relation to the provision and receipt of the Services and facilitate the compliance with relevant requirements under the Listing Rules, the Company proposes to enter into the 2018 Master Facility Services Agreements upon completion of the Proposed Acquisition, the principal terms and conditions of which are set out in this circular.

Conditional upon completion of the Proposed Acquisition, the Board proposes to change the English and Chinese names of the Company in order to better identify the business of the Group after completion of the Proposed Acquisition. The stock short name and the company logo of the Company are also proposed to be changed accordingly after the Change of Company Name becoming effective.

THE PROPOSED ACQUISITION

The Sale and Purchase Agreement

Date : 27 February 2018

Parties

- Seller : FSE Management Company Limited
- Buyer : FSE Facility Services Group Limited

The Buyer is a wholly-owned subsidiary of the Company. FSE Holdings, which holds 75% of Shares in issue in the Company, is a substantial shareholder of the Company. The Seller, being a wholly-owned subsidiary of FSE Holdings, is an Associate of FSE Holdings, and therefore a connected person of the Company.

Assets to be acquired by the Group under the Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, the Buyer has conditionally agreed to acquire from the Seller the Sale Share, representing the entire issued share capital of the Target Company.

The section below headed "INFORMATION ON THE TARGET GROUP" provides further information on the Target Group.

The Consideration, its payment term and adjustment

The initial consideration for the Proposed Acquisition is HK$502,000,000 (subject to adjustment, if any, by reference to NTAV as mentioned below). The initial consideration shall be paid by the Buyer to the Seller (or as the Seller may direct in writing) in cash on the Completion Date.

The Consideration was agreed after arm's length negotiations between the Seller and the Buyer having taken into consideration various factors, including but not limited to:

(1) the audited financials of the Target Group for the financial year ended 30 June 2017;

(2) some adjustments on net profit of the Target Group including the following:

   a. the management fee charged by the Seller to the Target Group of approximately HK$5.8 million for the financial year ended 30 June 2017; after Completion, the existing management functions provided by the Seller in consideration of the management fee will be performed by the senior management team of the Company;

b. adjustment to the financial information of the Target Group to reflect the rental at market rate of properties owned by the Seller's subsidiary and rented by the Target Group which amounts to approximately HK$8.9 million for the financial year ended 30 June 2017; and

c. the donation made by the Target Group of approximately HK$2.5 million for the financial year ended 30 June 2017;

(3) the business valuation of the Target Group conducted by an independent professional valuer based on historical financial performance of the Target Group; and

(4) the NTAV of the Target Group as at 31 December 2017.

The NTAV of the Target Group as of 31 December 2017 was approximately HK$82.9 million, which was computed based on the net tangible assets value of the Reported Group as of 31 December 2017 derived from the accountant's report included in Appendix II to this Circular (the "**Accountant's Report**"), excluding the net assets value of the Non-Target Group as of 31 December 2017 extracted from Note 1 of the Accountant's Report. As the Non-Target Group does not have any intangible assets, hence the net assets value of the Non-Target Group is equivalent to its net tangible assets value. Details of the reconciliation of the operating results and financial position between the Target Group and the Reported Group has been included in Appendix III "Management Discussion and Analysis of the Target Group" to this Circular.

The Board considers it is appropriate to make each of the adjustments on the net profits of the Target Group for the following reasons:

(A) The management fee was charged by the Seller to the Target Group for FY2017 in consideration of certain management services provided by the senior management team of the Seller. Such arrangement is expired without renewal. The existing management functions will be performed by the senior management team of the Company.

(B) The existing rental of the whole of New China Laundry Group Building leased by the Seller's subsidiary to the Target Group was not determined at market rate. Upon Completion, such rental will be adjusted by reference to the market rate in order to comply with the pricing policies for the Rental and Related Services to be provided by members of the Doo's Associates Group to members of the Enlarged Group pursuant to the 2018 FSE Master Facility Services Agreement.

(C) The donation made by the Target Group for FY2017 was a one-off donation which is not expected to recur after Completion.

In determining the initial consideration for the Proposed Acquisition:

(A) Firstly, the Company considered the net worth of the Target Group based on the NTAV of the Target Group as of 31 December 2017.

(B) Secondly, taking into account the adjustments on the Target Group's historical net profits and the historical financial information of certain market comparables which the independent valuer has considered in its business valuation report.

(C) Thirdly, the Company made reference to the business valuation report, which supported the multiple applied to the adjusted historical earnings.

(D) Lastly, based on arm's length negotiations between the Buyer and the Seller, the parties agreed to apply a discount to the lower end of the fair value of the Target Group as appraised by the independent valuer which formed the basis of the initial consideration.

According to the business valuation report of the independent valuer, the valuation of businesses is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value and the valuer normally expresses its opinion on the value as falling within a likely range. While the valuer considers the range of values to be both reasonable and defensible based on the information available to the valuer, others may place a different value on the Target Group.

The initial consideration implied a P/E multiple of approximately 9.9x based on the adjusted net profit of the Target Group for the year ended 30 June 2017. The initial consideration is even lower, or represents a discount on the low end of the range of results concluded in the business valuation report. In preparing the business valuation, the independent valuer has observed the trailing price multiples of comparable companies, which engage in similar businesses and with similar revenue size as the Target Group. Their average trailing P/E multiple is approximately 11.50x. The Directors believe the initial consideration, which has implied P/E price multiple of 9.9x, is fair and reasonable.

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

The Buyer shall at its own costs and expenses deliver to the Seller a completion balance sheet (the "**Completion Balance Sheet**") showing the NTAV of the Target Group as at the Completion Date, which shall either be (i) (if the financial statements can be agreed to by the Seller and the Buyer) an unaudited consolidated balance sheet of the Target Group as at the Completion Date, which shall be delivered within 60 days after the Completion Date; or (ii) (if the financial statements cannot be agreed to by the Buyer and the Seller) an audited consolidated balance sheet of the Target Group as at the Completion Date, which shall be within 90 days after the Completion Date.

If based on the Completion Balance Sheet:

(A) the NTAV of the Target Group as at the Completion Date is greater than the NTAV of the Target Group as at the date of the Sale and Purchase Agreement, 100% of the difference shall be added to the initial consideration; or

(B) the NTAV of the Target Group as at the Completion Date is less than the NTAV of the Target Group as at the date of the Sale and Purchase Agreement, 100% of the difference shall be deducted from the initial consideration.

After the adjustment, if any, any excess in the initial consideration paid on Completion shall be refunded by the Seller to the Buyer by cheque without interest, and any shortfall in the initial consideration shall be paid by the Buyer to the Seller by cheque without interest, within 7 business days following the delivery of the Completion Balance Sheet by the Buyer to the Seller.

Conditions precedent to Completion

Pursuant to the Sale and Purchase Agreement, the Completion of the Sale and Purchase Agreement is conditional upon:

(1) all regulatory and corporate approvals of the Buyer and the Company, including the approval by the Independent Shareholders of the Proposed Acquisition, necessary for the completion of the transaction contemplated under the Sale and Purchase Agreement having been obtained;

(2) the Reorganisation having been duly and validly completed in all respects and implemented in accordance with the Sale and Purchase Agreement;

(3) the Seller's warranties in the Sale and Purchase Agreement remaining true and accurate in all respects and not misleading in any respect as at Completion;

(4) all consents, approvals, permits, authorisations or clearances that the Seller considers necessary for the execution, implementation and completion of the Sale and Purchase Agreement (including those required under relevant banking facilities) having been obtained and not having been revoked or withdrawn at any time before Completion; and

(5) all consents, approvals, permits, authorisations or clearances that the Buyer considers necessary for the execution, implementation and completion of the Sale and Purchase Agreement having been obtained and not having been revoked or withdrawn at any time before Completion.

The Buyer shall use its reasonable endeavours to convene a general meeting of the Company to enable to the satisfaction of Condition (1), and use its reasonable endeavours to achieve satisfaction of Condition (5), not later than 5:00 p.m. on the Longstop Date.

The Seller shall use its reasonable endeavours to achieve satisfaction of Conditions (2) and (4) not later than the latest practicable date for finalising the circular of the Company to be despatched in respect of the Company's general meeting, and Condition (3) not later than 5:00 p.m. on the Longstop Date.

The Buyer may at any time on or before 5:00 p.m. on the Longstop Date by notice in writing to the Seller waive the above Conditions (2), (3) and (4) in whole or in part.

If the Conditions shall not be fulfilled (or, as the case may be, waived) by the prescribed date and time, either the Seller or the Buyer may by notice to the other elect that the Sale and Purchase Agreement shall automatically terminate with immediate effect.

Pursuant to the Sale and Purchase Agreement, the Reorganisation comprises the following transactions required in order for the Target Entities to become members the Target Group:

(i) FSE C & L Limited transfers the entire issued share capital in New China Steam Laundry Limited to the Target Company for a cash consideration of HK$1; and

(ii) the Seller transfers the entire issued share capital in Waihong Cleaning Limited to the Target Company for a cash consideration of HK$1.

As at Latest Practicable Date, all of the transactions involved in the Reorganisation has been completed.

Completion

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

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

Upon completion of the Proposed Acquisition, to the extent that the existing service contracts of the Target Group relates to the provision and/or receipt of the Rental and Related Services, the IT Support Services and the Cleaning and Laundry Services, such existing service contracts will continue to be performed in accordance with its respective terms, except that in respect of the lease of whole of New China Laundry Group Building, the Target Group will enter into a new tenancy agreement with the Seller's subsidiary effective from 1 April 2018 using the market rent.

Further, the contract governing the management fee charged by the Seller's subsidiary from the Target Group expired on 30 June 2017.

Corporate guarantees and counter-indemnity

Prior to the execution of the Sale and Purchase Agreement, the Seller has provided certain corporate guarantees for the performance of some obligations by certain member of the Target Group in favour of certain lending banks and contract counterparties of the Target Group. In order to allow time for the Company to replace the credit support required for the operation of the Target Group after Completion, pursuant to the Sale and Purchase Agreement, the existing corporate guarantees provided by the Seller that are subsisting as at the Completion Date are to remain in place for a period of not longer than one year thereafter (or such other period as may be agreed between the Seller and the Buyer).

The Buyer shall use its reasonable endeavours to procure such existing corporate guarantees provided by the Seller to be released and replaced by such new corporate guarantees provided by the Group as soon as practicable and not later than the expiration of the aforesaid one-year period or such other period as the Buyer and the Seller may agree.

At Completion, the Company and the Seller will enter into a deed of counter indemnity, pursuant to which the Company is to agree to counter-indemnify the Seller from and against any actions, claims, liabilities, damages, costs and expenses of whatever nature which may result or which the Seller may suffer, incur or sustain as a result of the enforcement of any of such existing corporate guarantees after Completion until the earlier of (i) the expiry or release of the same; and (ii) the date which is one year from the date of the deed of counter indemnity.

INFORMATION ON THE TARGET GROUP

The Target Company is a limited company incorporated in the British Virgin Islands in 2018. Upon completion of the Reorganisation, the Target Company will directly or indirectly hold the entire interest in each Target Entity. The principal business of the Target Company is investment holding, with its potential investment in the Target Entities as its sole investment.

The Target Group is principally engaged in the provision of facility services including cleaning and laundry services.

The Target Group's cleaning services are operated through the Waihong Cleaning Limited Group, which offer a wide range of office support, residential and public sector associated services and related services in Hong Kong and the PRC, such as general cleaning, waste management and disposal, external wall and window cleaning, pest control and clinical waste management. Such services are rendered at commercial buildings, including office buildings and shopping arcades, hotels and serviced apartments, residential complexes, public transportations and other venues such as governmental institutions, theme parks, airport facilities, academic institutions, financial institutions and medical institutions.

The Target Group's laundry services are operated through the New China Steam Laundry Limited Group, which offer laundry, dry cleaning and linen management services to corporate customers, including major high-end hotels, restaurant chains, theme parks, airlines and clubs; and also operate three dry cleaning and laundry retail valet outlets under its "Kleaners" brand in Hong Kong.

Financial information of the Target Group

Set out below respectively is a summary of the unaudited combined financial information of the Target Group for the two years ended 30 June 2016 and 30 June 2017 and the six months ended 31 December 2017 respectively:

	For the year ended		For the six months ended
	30 June 2016	**30 June 2017**	**31 December 2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
	(unaudited)	*(unaudited)*	*(unaudited)*
Revenue			
— Cleaning services	857,878	971,415	535,492
— Laundry services	158,665	159,028	83,439
	1,016,543	1,130,443	618,931
Cost of operations	871,999	981,784	537,663
Net profit before tax	60,716	60,828	40,550
Net profit after tax	50,567	51,113	33,867

As at 31 December 2017, the unaudited combined net asset value of the Target Group was approximately HK$99.2 million. The fair value of the Target Group as at 31 December 2017 was in the range between HK$577.8 million and HK$644.0 million, according to the business valuation prepared by an independent business valuer based on historical financial performance of the Target Group.

INFORMATION ON THE SELLER

The Seller is a limited liability company incorporated in Hong Kong, and a wholly-owned subsidiary of FSE Holdings. To the best knowledge of the Directors, the principal business of the Seller is investment holding.

FSE Holdings, which holds 75% of Shares in issue in the Company, is a substantial shareholder of the Company. The Seller, being a wholly-owned subsidiary of FSE Holdings, is an Associate of FSE Holdings, and therefore a connected person of the Company.

REASONS FOR AND THE BENEFITS OF THE PROPOSED ACQUISITION

The Group is principally engaged in the electrical and mechanical (E&M) engineering and environmental management services with majority of its operations focus in servicing the Hong Kong market. The Group has been exploring opportunities to expand its services scope in order to add momentum to the growth of the Group and the Directors believe that the Proposed Acquisition can offer the following key benefits to the Group:

Expand business scale with diversification of revenue stream

- As one of the leading E&M engineering and environmental management services providers in Hong Kong, the Group has over 40 years of operating history and a strong customer network with leading companies, which provides our group a stable revenue source. The Company has been consistently seeking opportunities that can further expand its business scale and diversify its revenue stream. The Directors believe that the Proposed Acquisition could bring a positive financial impact to the Group and an important step for its development.

- The Target Group recorded a total revenue of approximately HK$1,130.4 million for the year ended 30 June 2017 and a net tangible asset value of approximately HK$82.9 million as of 31 December 2017, which represents approximately 23.4% and 16.3% of the total revenue of the Enlarged Group during the same period and net tangible asset value of the Enlarged Group as of 31 December 2017 on a combined and adjusted basis.

- With the integration of the Target Group into the Group, the revenue size and business scale of the Enlarged Group is expected to be enlarged and thereby bringing greater diversity in the Enlarged Group's business portfolio.

Increase the Group's profitability and provide higher return to the shareholders of the Company through better utilisation of the Group's cash on hand

- The Group has achieved progressive growth in net profit over the past few years which allowed it to distribute an increasing level of dividend for the shareholders of the Company. The Directors believe that the Proposed Acquisition will enhance the Company's profitability and expect to maintain the Company's dividend payout ratio of not less than 30%.

- Throughout the years of successful operations, the Group has achieved a net cash balance of HK$978.3 million as of 30 June 2017 which allowed the Company to consider relevant acquisition opportunities to improve shareholders' return. The Directors believe that the Proposed Acquisition represents a good investment for the Group to utilize its cash on hand to engage in businesses that could enhance recurring profit in long term and lead to an accretion to the Company's earnings per share. The Directors also believe that the Enlarged Group will continue to maintain a healthy financial position and prepare for future expansion and acquisitions.

- The Target Group has a net profit of approximately HK$51.1 million for the year ended 30 June 2017 which represents approximately 22.7% of that of the Enlarged Group during the same period on a combined and adjusted basis.

- It is the dividend policy adopted by the Company that it would maintain a dividend payout ratio of not less than 30%. As the Target Group has been profit-making historically and the Proposed Acquisition will not result in any dilution on the Company's shareholding, it is expected that the Proposed Acquisition will have a positive impact on the earnings per share of the Company, and thereby enhance the shareholder value of the Company.

- It is noted that the Target Group had been a stable business and recorded net profits after tax of approximately HK$50.6 million and HK$51.1 million for the year ended 30 June 2016, and 30 June 2017, respectively. Barring unforeseen circumstances, the Company believes the Proposed Acquisition could directly increase the profit source by diversifying the business scope and enhance the Company's profitability.

Re-allocate resources to achieve the cross-selling synergies and better deployment of human resources

- The Directors believe that the Group could dedicate more resources to the environmental management service to achieve cross-selling synergies and expand the business scale through the Proposed Acquisition. For example, potential cross-selling activities among the client base of the Group and the Target Group in areas of water testing services, odour removal services at refuse collection centres; and potential broadening of client base to promote its municipal solid waste discharging services etc.

- After completion of the Proposed Acquisition, the Enlarged Group will have a larger client base shared by the engineering business and cleaning and laundry business. For example, customers which are main contractors in a construction project may need to engage sub-contractors for both engineering management services and general waste collection services; as the Enlarged Group will have experience and expertise in both of these areas, its tender submission may be considered more competitive than other service providers.

- The Enlarged Group would have staff members exceeding 7,800, the Directors believe that the Group could optimize the deployment of manpower across various business segments to improve operation efficiency and cost control. In addition, the staff could have more opportunities for self-development.

- The staff (especially frontline workers) of the Enlarged Group will be able to have the opportunity to apply his/her skills in other jobs (that requires little additional training or qualification) which were not available to him/her before completion of the Proposed Acquisition. For example, a cleaner can be assigned with the task of changing the air-conditioner filter at the venue that he/she is cleaning. While the worker makes financial gains from the additional task, the customer also receives value-added services from the Enlarged Group as a service provider.

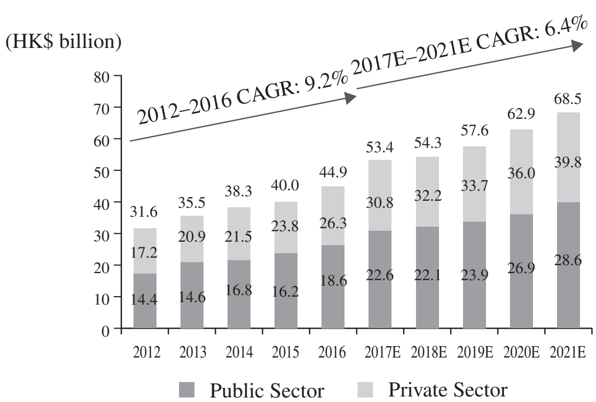
Re-position the Company into a leading diversified service provider in Hong Kong with leadership position

- The combination of the Group's existing business operations and the Target Group's business operations will allow the Group to re-position itself into a leading diversified service provider player in Hong Kong, covering E&M engineering services, facility services (including cleaning and laundry services) and environmental management services, with industry leading position in respective area. Below sets forth the industry development and the Group's ranking position in the relevant market.

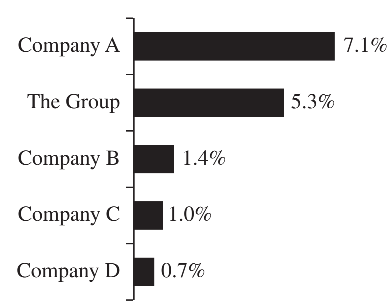
E&M engineering market

The Group's E&M engineering business is one of the top 2 dominated players in the Hong Kong market in terms of revenue with an estimated market share of approximately 5.3% according to Frost & Sullivan. The Group has a long operating history and has been recognized as one of the reputable leaders in the industry. Frost & Sullivan also estimates that the market size will continue to grow at a CAGR of approximately 6.4% from 2017 to 2021, reaching HK$68.5 billion in 2021. The E&M engineering market in Hong Kong is relatively fragmented with the top five players contributing to about 15.5% in terms of revenue.

Market Size of E&M Engineering Market in Hong Kong, by Revenue (2012–2021E)*



Market Share of Top 5 E&M Engineering companies in Hong Kong, by Revenue (2017)*

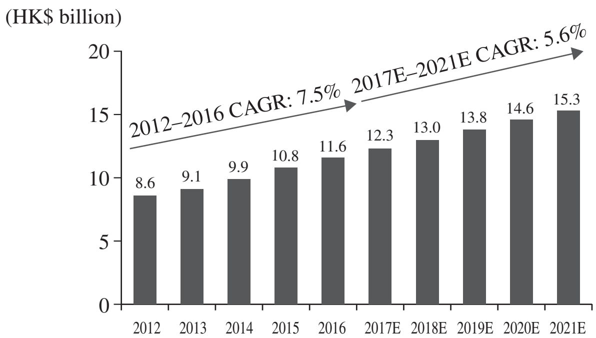


Source: Frost & Sullivan
** For the year ended June 30*

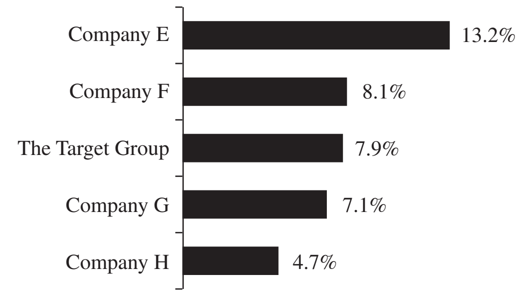
Environmental Hygiene Service Market and Laundry Service Market

The Target Group's cleaning service business is one of the top 3 players in the Hong Kong market in terms of revenue with an estimated market share of approximately 7.9% according to Frost & Sullivan. Frost & Sullivan also estimates that the market size will continue to grow at a CAGR of approximately 5.6% from 2017 to 2021, reaching HK$15.3 billion in 2021 driven by the increasing general awareness of hygienic environment resulted from the past outbreaks of diseases. As at 30 June 2017, the top five market players accounted for about 41.0% of the total market size which is relatively more consolidated.

Market Size of Environmental Hygiene Service Market in Hong Kong, by Revenue (2012–2021E)*



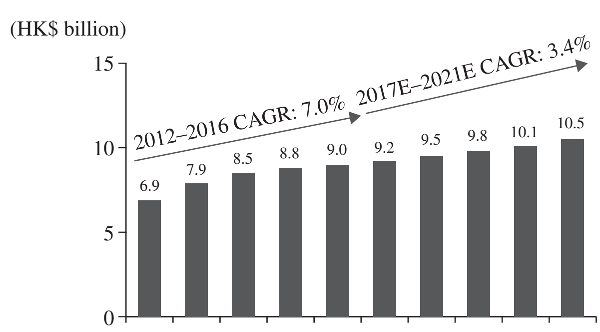
Market Share of Environmental Hygiene Service Market Players in Hong Kong, by Revenue (2017)*



Source: Frost & Sullivan
** For the year ended June 30*
Note: The market size of the environmental hygiene service market refers to the revenue generated from general cleaning excluding waste management and landscaping services, which is relevant to the Target Group's cleaning service business

The laundry service market is highly fragmented with no dominant players in Hong Kong. The Target Group's laundry service business is one of the largest laundry companies in Hong Kong market in terms of revenue with an estimated market share of approximately 1.7% for the year ended June 2017 according to Frost & Sullivan. Frost & Sullivan also estimates that the market size will continue to grow stably at a CAGR of approximately 3.4% from 2017 to 2021, reaching HK$10.5 billion in 2021. The market growth is mainly attributed by B2B laundry service segment driven by tourist industry and growing number of hotels and restaurants.

Market Size of Laundry Service Market in Hong Kong, by Revenue (2012–2021E)*



Source: Frost & Sullivan
** For the year ended June 30*

It is a commercial decision of the Company and the outcome of arm's length negotiations between the Buyer and the Seller to enter into the Proposed Acquisition. Having conducted due diligence on the Target Group and considered the implications of the Proposed Acquisition on the Group (including the matters disclosed in this Circular), the Company is not aware of any material adverse factor brought by the Proposed Acquisition, which may affect the interests of the Company and the Shareholders.

The Directors (excluding the independent non-executive Directors (whose views are set out in the Letter from the Independent Board Committee in this circular) and those who are considered to have a material interest in the Proposed Acquisition as set out in the paragraph headed "Approval by the Board") consider the Proposed Acquisition on terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Risk factors associated with the business of the Target Group

The business of the Target Group is subject to a number of risks including the following:

- The Target Group's tender renewal rate (being the number of successful renewal tenders divided by the total number of the Target Group's contracts which expired and were open for renewal tender) for FY2016 and FY2017 were approximately 91.3% and 85.4% respectively. However, the business of the Target Group is still subject to the risks associated with tendering process. The business contracts of the Target Group are normally awarded through competitive tendering process on a project by project basis and it may face keen competition. There is no assurance that the Target Group will be successful in securing or renewing its business contracts during the tendering process. If the Target Group fails to secure engagement for new projects on favourable terms or at all, its business and results of operation could be materially affected.

  One of the Target Group's business contracts with a transportation company discontinued upon expiry on 31 January 2018. This contract accounted for approximately 17.9% of the Target Group's total revenue for FY2017. Although it is expected that the expiration of this contract will affect the Target Group's revenue for year 2018, the Target Group has secured and will continue to secure new contracts to (at least partially if not fully) compensate for part or all of the loss in revenue from this contract. During the period from 1 July 2017 to 28 February 2018, the Target Group has secured new and future contracts with an aggregate contract sum of approximately HK$200 million, which are to be performed over a span of 3 years from FY2018 to FY2020.

- Wrongdoing by the employees, subcontractors and outsiders may harm the reputation and business of the Target Group.

- Failure to implement safety measures and procedures on work sites by the staff and/or third party service providers of the Target Group may lead to personal injuries, property damage or fatal accident. The Target Group is exposed to litigation claims including employees' compensation claims and common law personal injury claims and the insurance coverage of the Target Group may not adequately protect it against certain risks.

- Labour shortages or increases in labour costs could harm the business of the Target Group, reduce its profitability and slow its growth.

The Company considered that the risks associated with the business of the Target Group as disclosed above were common among companies which operates business similar to that of the Target Group, and in industries where contracts are awarded through an independent tendering process. It is a normal phenomenon that service providers in such industries sometimes fail to renew contracts upon their expiry or securing new contracts from new clients by reasons not attributable to the service provider.

When the Buyer and the Seller negotiated on the consideration for the Proposed Acquisition, among others considerations, the risks in relation to the nature of the Target Group's business have been factored in as a discount to the amount of initial consideration.

Management expertise and experience of the Company

The directors and senior management of the Company has sufficient expertise and relevant experience in the services industry and are competent in managing and operating the Target Group after Completion of the Proposed Acquisition. In particular:

(i) Mr. Lam Wai Hon, Patrick, an Executive Director of the Company, has served as a director of New China Laundry Limited and Waihong Environmental Services Limited, the major operating companies of the Target Group, since January 2016, responsible for overall strategic planning, overseeing business development and operational management, and major management decisions of each company.

(ii) Mr. Doo William Junior Guilherme, an Executive Director of the Company, has served as a director of New China Laundry Limited and Waihong Environmental Services Limited, the major operating companies of the Target Group, since June 2014, responsible for overall strategic planning, overseeing business development and major management decisions for each company.

(iii) Mr. Lee Kwok Bong, an Executive Director and a Joint Company Secretary of the Company, has served as a director of New China Laundry Limited, a major operating company of the Target Group, since August 2012 and a director of Waihong Environmental Services Limited, a major operating company of the Target Group, since January 2007, responsible for overall finance operation, financial reporting management and overseeing business development and operational management of each company.

THE 2018 MASTER FACILITY SERVICES AGREEMENTS

In their ordinary and usual course of business, members of the New China Steam Laundry Limited Group and the Waihong Cleaning Limited Group regularly entered into continuing transactions in relation to:

(i) the provision and receipt of the Services to and from the Doo's Associates Group and the NWS Group; and

(ii) the provision of the Cleaning and Laundry Services to members of each of the NWD Group, the NWDS Group, the CTFE Group and the CTFJ Group.

It is expected that the above continuing transactions will continue after the completion of the Proposed Acquisition. As each Target Entity will become a wholly-owned subsidiary of the Company upon completion of the Proposed Acquisition, the continuing transactions entered into and to be entered into between the New China Steam Laundry Limited Group or the Waihong Cleaning Limited Group on one side, and the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group or the CTFJ Group on the other will become continuing connected transactions of the Company. It is proposed that, upon completion of the Proposed Transaction written agreement(s) will be entered into by the Company and the relevant counterparties for the above continuing connected transactions in accordance with the requirements under the Listing Rules, details of which are set out below:

2018 FSE Master Facility Services Agreement

The major terms of the 2018 FSE Master Facility Services Agreement are set out below:

Date	:	Upon completion of the Proposed Acquisition
Parties	:	(1) the Seller; and (2) the Company.
Duration	:	The 2018 FSE Master Facility Services Agreement shall be for an initial term commencing on the Completion Date and ending on 30 June 2020 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2018 FSE Master Facility Services Agreement shall be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.

Services to be provided by the Enlarged Group to the Doo's Associates Group	:	Cleaning and Laundry Services, and such other types of services as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing.
Services to be provided by the Doo's Associates Group to the Enlarged Group	:	Rental and Related Services, and such other types of services as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing. The premises to be leased by the Doo's Associates Group to the Enlarged Group include: (1) Units 11–15, 8/F., Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong, having an aggregate floor area of approximately 9,143 square feet; (2) the whole of New China Laundry Group Building, No.6 Yip Cheong Street, Fanling, New Territories, Hong Kong, having an aggregate floor area of approximately 101,463 square feet; and (3) Valet Shop at Convention Plaza, 11/F., Convention Plaza Apartments, 1 Harbour Road, Wanchai, Hong Kong, having an aggregate floor area of approximately 230 square feet, and such other premises as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the Doo's Associates Group will, from time to time during the term of the 2018 FSE Master Facility Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2018 FSE Master Facility Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to or from independent third parties.

2018 NWD Master Facility Services Agreement

The major terms of the 2018 NWD Master Facility Services Agreement are set out below:

Date	: Upon completion of the Proposed Acquisition
Parties	: (1) NWD; and (2) the Company.
Duration	: The 2018 NWD Master Facility Services Agreement shall be for an initial term commencing on the Completion Date and ending on 30 June 2020 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2018 NWD Master Facility Services Agreement shall be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.
Services to be provided by the Enlarged Group to the NWD Group	: Cleaning and Laundry Services, and such other types of services as members of the Enlarged Group and members of the NWD Group may agree upon from time to time in writing.
Definitive Agreements	: Members of the Enlarged Group and members of the NWD Group will, from time to time during the term of the 2018 NWD Master Facility Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2018 NWD Master Facility Services Agreement.
Pricing	: On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the NWD Group or the Enlarged Group (as the case may be) than terms available to or from independent third parties.

2018 NWS Master Facility Services Agreement

The major terms of the 2018 NWS Master Facility Services Agreement are set out below:

Date	:	Upon completion of the Proposed Acquisition
Parties	:	(1) NWS; and (2) the Company.
Duration	:	The 2018 NWS Master Facility Services Agreement shall be for an initial term of three years commencing on the Completion Date and ending on 30 June 2020 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2018 NWS Master Facility Services Agreement shall be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.
Services to be provided by the Enlarged Group to the NWS Group	:	Cleaning and Laundry Services, and such other types of services as members of the Enlarged Group and members of the NWS Group may agree upon from time to time in writing.
Services to be provided by the NWS Group to the Enlarged Group	:	IT Support Services, and such other types of services as members of the Enlarged Group and members of the NWS Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the NWS Group will, from time to time during the term of the 2018 NWS Master Facility Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2018 NWS Master Facility Services Agreement.

Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the NWS Group or the Enlarged Group (as the case may be) than terms available to or from independent third parties.

2018 NWDS Master Facility Services Agreement

The major terms of the 2018 NWDS Master Facility Services Agreement are set out below:

Date	:	Upon completion of the Proposed Acquisition
Parties	:	(1) NWDS; and (2) the Company.
Duration	:	The 2018 NWDS Master Facility Services Agreement shall be for an initial term commencing on the Completion Date and ending on 30 June 2020 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2018 NWDS Master Facility Services Agreement shall be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.
Services to be provided by the Enlarged Group to the NWDS Group	:	Cleaning and Laundry Services, and such other types of services as members of the Enlarged Group and members of the NWDS Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the NWDS Group will, from time to time during the term of the 2018 NWDS Master Facility Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules, and the 2018 NWDS Master Facility Services Agreement.

Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the NWDS Group or the Enlarged Group (as the case may be) than terms available to or from independent third parties.

2018 CTFE Master Facility Services Agreement

The major terms of the 2018 CTFE Master Facility Services Agreement are set out below:

Date	:	Upon completion of the Proposed Acquisition
Parties	:	(1) CTFE; and (2) the Company.
Duration	:	The 2018 CTFE Master Facility Services Agreement shall be for an initial term commencing on the Completion Date and ending on 30 June 2020 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2018 CTFE Master Facility Services Agreement shall be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.
Services to be provided by the Enlarged Group to the CTFE Group	:	Cleaning and Laundry Services, and such other types of services as members of the Enlarged Group and members of the CTFE Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the CTFE Group will, from time to time during the term of the 2018 CTFE Master Facility Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2018 CTFE Master Facility Services Agreement.

Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the CTFE Group or the Enlarged Group (as the case may be) than terms available to or from independent third parties.

2018 CTFJ Master Facility Services Agreement

The major terms of the 2018 CTFJ Master Facility Services Agreement are set out below:

Date	:	Upon completion of the Proposed Acquisition
Parties	:	(1) CTFJ; and (2) the Company.
Duration	:	The 2018 CTFJ Master Facility Services Agreement shall be for an initial term commencing on the Completion Date and ending on 30 June 2020 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2018 CTFJ Master Facility Services Agreement shall be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.
Services to be provided by the Enlarged Group to the CTFJ Group	:	Cleaning and Laundry Services, and such other types of services as members of the Enlarged Group and members of the CTFJ Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the CTFJ Group will, from time to time during the term of the 2018 CTFJ Master Facility Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2018 CTFJ Master Facility Services Agreement.

Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the CTFJ Group or the Enlarged Group (as the case may be) than terms available to or from independent third parties.

It is the intention of the Company that the services to be rendered and/or received under each of the 2018 Master Facility Services Agreements will be services which are substantially the same with, or closely ancillary to, the initial scope of the Rental and Related Services, IT Support Services and Cleaning and Laundry Services (as the case may be) as described above.

In the event that the parties to the 2018 Master Facility Services Agreements are willing to enter into transactions relating to other types of services which are substantially different from those stated in the 2018 Master Facility Services Agreements, the Company intends to enter into separate contracts to govern those transactions, and comply with the relevant Listing Rules requirements.

QUALIFICATIONS OF ENGAGEMENT

The engagement to be made pursuant to each of the 2018 Master Facility Services Agreements is subject to the following qualifications:

(1) the engagement only applies to services required for businesses, projects and/or premises for which the relevant member(s) of the Enlarged Group or the counterparties to the 2018 Master Facility Services Agreements (as the case may be) has (have) the right to select providers of the relevant Services;

(2) the engagement is not contrary to the terms of contracts governing the relevant businesses, projects or premises or any applicable laws, regulations or administrative directives promulgated by competent authorities to which the businesses, projects and/or premises of the relevant members of the Enlarged Group or the counterparties to the 2018 Master Facility Services Agreements (as the case may be) may relate; and

(3) in the event that the provider of a particular Service is required to be selected through auction or tender or other similar process, the engagement shall only become effective as and when the relevant member(s) of the Enlarged Group or the counterparties to the 2018 Master Facility Services Agreements (as the case may be) has (have) been selected by the relevant member(s) of the Enlarged Group or counterparties to the 2018 Master Facility Services Agreements (as the case may be) as the service provider as a result of the relevant auction or tender or other similar process.

The engagement to be made pursuant to the 2018 CTFE Master Facility Services Agreement and the 2018 CTFJ Master Facility Services Agreement is also subject to the following qualifications apart from the above:

(1) CTFE and CTFJ and each member of the CTFE Group and the CTFJ Group shall have the sole and absolute right and discretion to decide whether to engage any member of the Enlarged Group to provide the Cleaning and Laundry Services, and neither CTFE or CTFJ nor any member of the CTFE Group or the CTFJ Group shall be under any obligation or commitment to engage or procure the engagement of any member of the Enlarged Group to provide the Cleaning and Laundry Services; and

(2) the Company shall have no claim or right whatsoever against CTFE or CTFJ and/or any member of the CTFE Group or the CTFJ Group in the event that any member(s) of the CTFE Group or the CTFJ Group does/do not engage any member(s) of the Enlarged Group to provide the Cleaning and Laundry Services.

PRICING POLICIES

General principle

As a general principle, the prices and terms of the Definitive Agreements with respect to the Services Transactions to be entered into pursuant to each of the 2018 Master Facility Services Agreements shall be determined in the ordinary and usual course of business of the Enlarged Group and counterparties to the 2018 Master Facility Services Agreements, on normal commercial terms and negotiated on arm's length basis. In addition, such prices and terms shall be: (1) no less favourable to the Enlarged Group than those charged to independent third party customers of the Enlarged Group (in respect of the Cleaning and Laundry Services); (2) no less favourable to the Enlarged Group than those paid to any other independent third party landlords of similar properties in similar locations (in respect of the Rental and Related Services) or independent service providers of similar services (in respect of the IT Support Services); and (3) no less favourable to the counterparties to the 2018 Master Facility Services Agreements than those charged by and paid to their respective independent third party suppliers (in respect of the Cleaning and Laundry Services). Should the 2018 Master Facility Services Agreements be renewed, the Company will comply with the requirements under Chapter 14A of the Listing Rules.

Pricing policy and procedures

Subject to the general principle above, the pricing policy and procedures adopted and applied by the Enlarged Group in setting the contract prices and terms of the Services Transactions with counterparties to the 2018 Master Facility Services Agreements (as the case may be) are as follows:

(1) as regards the Rental and Related Services to be provided by members of the Doo's Associates Group to members of the Enlarged Group, the rental payable by the Enlarged Group will be determined by reference to the market rental of the property

concerned current at or close to the lease commencement date by reference to rentals comparables of similar properties in similar locations and where applicable, with comparable facilities, obtained from independent property agencies or parties;

(2) as regards the IT Support Services to be provided by members of the NWS Group to members of the Enlarged Group, the fees payable by the Enlarged Group will be determined by reference to the fee quotations provided to the Enlarged Group by other independent suppliers, taking into account factors including the nature and type of services to be rendered; and

(3) as regards the Cleaning and Laundry Services to be provided by members of the Enlarged Group to members of counterparties to the 2018 Master Facility Services Agreements, the fees payable by the counterparties to the 2018 Master Facility Services Agreements will be determined by reference to comparables of fee quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered.

Payment Terms

The parties to each of the 2018 Master Facility Services Agreements have not agreed on an overall payment mechanism (such as the manner and time of payment). The rental and service charges payable by and/or to the Enlarged Group (as the case may be) under the 2018 Master Facility Services Agreements will be made in accordance with the respective terms of each Definitive Agreement to be entered into between relevant parties in respect of the Services Transactions.

Based on the practice of previous transactions between the group members of the relevant parties to the 2018 Master Facility Services Agreements, the payment terms for each type of Services are summarised as below, and the Company anticipates that the future transactions to be carried out pursuant to the 2018 Master Facility Services Agreements will not significantly deviate from such past practice:

(1) as regards the Rental and Related Services, payment was usually made on a monthly basis in advance by the relevant members of the Target Group to the relevant members of the Doo's Associates Group at the beginning of each month;

(2) as regards the IT Support Services, payment was usually made by the relevant members of the Target Group to the relevant members of the NWS Group upon receipt of invoice which was usually issued annually; and

(3) as regards the Cleaning and Laundry Services, the relevant members of the Target Group usually issue invoice by the end of each month and require payment to be made in arrears by the relevant members of the counterparties to the 2018 Master Facility Services Agreements. Depending on the terms of each tender contract, the Target Group usually allows 30 to 120 days' of credit term for cleaning services, and 30 to 60 days' of credit term for laundry services.

Cleaning and Laundry Services

As the Cleaning and Laundry Services are usually provided as a contractor service, the Target Group normally secures its contract through a competitive tendering process, a brief description of which is set out as follows:

(i) Cleaning services

The marketing department identifies business opportunities by reviewing public tender notices and through invitations from customers to submit tenders for potential work. The marketing department is responsible for the preparation of tenders according to the tender preparation policies and procedures.

During such tendering process, the Waihong Cleaning Limited Group estimates the service charge of each service based on the estimated cost under each service contract, such as (i) the estimated manpower required according to the scope of services required by the customer; (ii) materials and consumables required; and (iii) equipment required, plus a profit margin. The estimated service charges may need to be adjusted in order to enhance the competitiveness of the Target Group's tenders.

The proposed profit margin for the cleaning services would be determined taking into account factors including the nature and complexity of the relevant project; the expected competitiveness of the tender based on the previous experience; the historical profit margin of similar type of existing contract. The Group adopts the same pricing policy and procedures in the determination of the service charge to the connected persons of the Group as well as to independent third party customers of the Group in order to ensure that the service charge as may be submitted by the Group to connected persons of the Group will be fair and reasonable and no less favourable to the Group than those offered to the independent third party customers. The reasonable profit margin and the service charge for the relevant services are approved by the marketing managers, general manager (operations), assistant general manager (finance and procurement) and directors in accordance with the company's approval procedures with limits of authority.

(ii) Laundry services

When the laundry service providers are invited to tender for a project, the relevant sales & marketing manager will prepare tender proposal with reference to information including (1) the costing for individual items obtained from accounts department; (2) the price of existing clients with similar background/grading of service; and (3) a profit margin.

The sales & marketing (S&M) manager obtains unit costs of individual items to be laundered from accounts department first, and the S&M manager will treat these unit costs as the basis for the tender proposal.

Then, as prices of individual items to be laundered differ depending on the background of the customers (for example, hotels of similar star rating) and the material of the item (for example, 100% cotton linen or 50% cotton & 50% polyester linen), the price offered for existing client with similar background and for items with similar material will be referred. In most of the cases, the price offered to two existing clients will be referred if available.

Other factors including the nature and complexity of the relevant project; the expected competitiveness of the tender based on the previous experience; the historical profit margin of similar type of existing contract, will be considered.

Finally, proposal for tender is concluded by the S&M manager after consolidation of all information mentioned above.

The proposal will be reviewed by the assistant general manager — finance & administration and approved by the director and general manager.

The Group adopts the same pricing policy and procedures in the determination of the service charge to the connected persons of the Group as well as to independent third party customers of the Group in order to ensure that the service charge as may be submitted by the Group to connected persons of the Group will be fair and reasonable and no less favourable to the Group than those offered to the independent third party customers. The reasonable profit margin and the service charge for the relevant services in the tender is concluded by the S&M manager after consolidation of all above factors reviewed by the assistant general manager — finance & administration and approved by the director and general manager.

Rental and Related Services

Rental is usually determined based on arm's length negotiations between the lessor and the lessee, taking into account factors including the market rental of the property concerned current at or close to the lease commencement date by reference to rentals comparables of similar properties in similar locations and where applicable, with comparable facilities, obtained from independent property agencies or parties.

In relation to the Rental and Related Services to be received by the Enlarged Group, the estimated increase in the Annual Caps as compared with their historical transaction amounts is mainly due to the adjustment of rental to market rate after completion of the Proposed Acquisition, and the expected surge in the Enlarged Group's demand in floor spaces for office premises, warehouse, car parking spaces for use in connection with the Enlarged Group's cleaning and laundry business.

Administration and support department manager of the Waihong Cleaning Limited Group considers the abovementioned factors, and submits the proposal to the assistant general manager (finance and procurement) and the general manager for approval.

Personnel and administration department manager of the New China Steam Laundry Limited Group considers the abovementioned factors, and submits the proposal to the assistant general manager (finance and administration) for approval.

IT Support Services

The service charges for the IT Support Services would usually be determined based on arm's length negotiations between the service provider and the service recipient, taking into account factors including the number of users, types of functions and the replacement costs of the relevant IT systems or software. It is expected that where comparables are available for the type of service concerned, they would also be taken into account when the service charges are determined.

Administration and support department manager considers the abovementioned factors, and submits the proposal to the assistant general manager (finance and procurement) and the general manager for approval.

HISTORICAL AGGREGATE TRANSACTION AMOUNTS

Historical transaction amounts in respect of the Services Transactions for the FY2016, FY2017 and the six months ended 31 December 2017 respectively are set out below:

	Transaction amounts		
Categories	**FY2016** *(HK$'000)*	**FY2017** *(HK$'000)*	**six months ended 31 December 2017** *(HK$'000)*
Services between the Target Group and the Doo's Associates Group			
Cleaning and Laundry Services provided by the Target Group to Doo's Associates Group	130,036	147,226	78,349
Rental and Related Services provided by the Doo's Associates Group to the Target Group	11,979	12,416	3,636
Services between the Target Group and the NWD Group			
Cleaning and Laundry Services provided by the Target Group to NWD Group	18,505	32,152	27,735
Services between the Target Group and the NWS Group			
Cleaning and Laundry Services provided by the Target Group to the NWS Group	17,800	25,621	10,811
IT Support Services provided by the NWS Group to the Target Group	101	108	56

Categories	Transaction amounts FY2016 (HK$'000)	FY2017 (HK$'000)	six months ended 31 December 2017 (HK$'000)
Services between the Target Group and the NWDS Group			
Cleaning and Laundry Services provided by the Target Group to the NWDS Group	11	nil#	nil#
Services between the Target Group and the CTFE Group			
Cleaning and Laundry Services provided by the Target Group to the CTFE Group	32	92	50
Services between the Target Group and the CTFJ Group			
Cleaning and Laundry Services provided by the Target Group to the CTFJ Group	302	256	129

#*Note:* The historical transaction amounts in FY2016 related to the Cleaning and Laundry Services provided to NWDS in Hong Kong. The Company understand that NWDS ceased to have such business need in FY2017 and FY2018. As such, there were no transaction amount applicable during these periods. Looking forward, the Target Group expects to tender for contracts with the NWDS Group for Cleaning and Laundry Services to be rendered at the department stores owned and operated by the NWDS Group in the PRC.

ANNUAL CAPS

The expected Annual Caps in respect of the Services Transactions contemplated under each of the 2018 Master Facility Services Agreements for the period commencing from the date of completion of the Proposed Acquisition and ending on 30 June 2018, FY2019 and FY2020 respectively are as follows:

Categories	Annual Caps 2018* (HK$'000)	FY2019 (HK$'000)	FY2020 (HK$'000)
2018 FSE Master Facility Services Agreement			
Cleaning and Laundry Services to be provided by the Enlarged Group to the Doo's Associates Group	41,849*	184,889	209,705
Rental and Related Services to be provided by the Doo's Associates Group to the Enlarged Group	4,801*	18,199	18,421

Categories	2018* (HK$'000)	Annual Caps FY2019 (HK$'000)	FY2020 (HK$'000)
2018 NWD Master Facility Services Agreement			
Cleaning and Laundry Services to be provided by the Enlarged Group to the NWD Group	13,483*	98,384	107,471
2018 NWS Master Facility Services Agreement			
Cleaning and Laundry Services to be provided by the Enlarged Group to the NWS Group	4,732*	21,385	31,152
IT Support Services provided by the NWS Group to the Enlarged Group	116*	122	128
2018 NWDS Master Facility Services Agreement			
Cleaning and Laundry Services to be provided by the Enlarged Group to the NWDS Group	nil*	2,286	4,572
2018 CTFE Master Facility Services Agreement			
Cleaning and Laundry Services to be provided by the Enlarged Group to the CTFE Group	1,683*	20,006	20,015
2018 CTFJ Master Facility Services Agreement			
Cleaning and Laundry Services to be provided by the Enlarged Group to the CTFJ Group	65*	260	262

**Note:* The proposed Annual Cap for the period commencing from the date of completion of the Proposed Acquisition and ending on 30 June 2018 is estimated on the assumption that completion of the Proposed Acquisition will take place on 10 April 2018.

#Note: The historical transaction amounts in FY2016 related to the Cleaning and Laundry Services provided to NWDS in Hong Kong. The Company understand that NWDS ceased to have such business need in FY2017 and FY2018. As such, there were no transaction amount applicable during these periods. Looking forward, the Target Group expects to tender for contracts with the NWDS Group for Cleaning and Laundry Services to be rendered at the department stores owned and operated by the NWDS Group in the PRC, and estimated the Annual Caps for FY2019 and FY2020 on the assumption that the Enlarged Group will be awarded with those contracts.

Bases of determination of the Annual Caps

The Annual Caps in respect of the Services Transactions contemplated under each of the 2018 Master Facility Services Agreements are determined with reference to:

(1) In relation to the Rental and Related Services to be provided by the Doo's Associates Group to the Enlarged Group:

a. the expected rentals as may be paid by the Enlarged Group under each of the 2018 Master Facility Services Agreements taking into account the current rentals and expected market rentals of similar properties in similar locations with reference to the opinion of an independent property valuer; and

b. the Enlarged Group's demand in floor spaces for office premises, warehouse, car parking spaces and other business uses of the Enlarged Group to cope with the Enlarged Group's business growth.

(2) In relation to the IT Support Services to be provided by the NWS Group to the Enlarged Group:

a. the historical annual or annualised amounts in respect of the IT Support Services provided by the NWS Group to the Target Group during the FY2016, FY2017 and the six months ended 31 December 2017; and

b. the projected annual or annualised amounts in respect of the IT Support Services to be provided by the NWS Group to the Enlarged Group in the period ending 30 June 2018, FY2019 and FY2020, having taken into account the following major factors:

i. the business growth and need of the Enlarged Group; and

ii. the estimated market prices of such services by reference to the current market prices after factoring into the expected increase in service costs as well as inflation.

(3) In relation to the Cleaning and Laundry Services to be provided by the Enlarged Group to the counterparties to the 2018 Master Facility Services Agreements:

a. the historical annual or annualised amounts in respect of the Cleaning and Laundry Services provided by the Target Group to the counterparties of the 2018 Master Facility Services Agreements during the FY2016, FY2017 and the six months ended 31 December 2017; and

b. the projected annual or annualised amounts in respect of the Cleaning and Laundry Services to be provided by the Enlarged Group to the counterparties of the 2018 Master Facility Services Agreements in the period ending 30 June 2018, FY2019 and FY2020, having taken into account the following major factors:

   i. the business growth and need of the Enlarged Group; and

   ii. the estimated market prices of such services by reference to the current market prices after factoring into the expected increase in service costs as well as inflation.

More specifically, the increment in each Annual Cap is determined based on the following considerations:

2018 FSE Master Facility Services Agreement

Cleaning and Laundry Services provided by the Enlarged Group to Doo's Associates Group

Regarding the Annual Cap for FY2018, the proposed Annual Cap of HK$41.8 million is estimated for a period of approximately three months from 10 April 2018 to 30 June 2018. The amount is based on the existing projects on hand and the historical transaction amounts for the six months ended 31 December 2017 of HK$78.3 million.

Regarding the Annual Caps for FY2019 and FY2020, the increase in Annual Caps is mainly due to (i) increment of approximately HK$4.1 million and approximately HK$8.6 million for FY2019 and FY2020 respectively from renewing existing contracts which include cleaning services to be provided to two commercial buildings in Wan Chai and Central and five residential properties; and (ii) newly awarded contracts and potential contracts including cleaning services to be provided to commercial buildings in Wan Chai, Mong Kok and Central, a commercial complex in Chai Wan and three residential properties with total transaction amount of approximately HK$19.0 million and approximately HK$30.0 million for FY2019 and FY2020 respectively.

Rental and Related Services provided by Doo's Associates Group to the Enlarged Group

Regarding the Annual Caps for FY2018 (a period of approximately three months from 10 April 2018 to 30 June 2018), FY2019 and FY2020, the increase in Annual Caps is mainly due to a new tenancy agreement in respect of New China Laundry Group Building to be entered into in April 2018 using the market rent with increment of transaction amount of approximately HK$2.4 million for FY2018 and approximately HK$10.7 million for both FY2019 and FY2020 respectively.

2018 NWD Master Facility Services Agreement

Cleaning and Laundry Services provided by the Enlarged Group to NWD Group

Regarding the Annual Cap for FY2018, the proposed Annual Cap of HK$13.5 million is estimated for a period of approximately three months from 10 April 2018 to 30 June 2018. The amount is based on the existing projects on hand and the historical transaction amounts for the six months ended 31 December 2017 of HK$27.7 million.

Regarding the Annual Caps for FY2019 and FY2020, the increase in Annual Caps is mainly due to a newly awarded contract and potential contracts including cleaning services to be provided to a mixed use development in Kowloon, a commercial building in North Point and a residential property in Central and laundry services to be provided to two hotels in Kowloon with total transaction amount of approximately HK$44.4 million and approximately HK$50.1 million for FY2019 and FY2020 respectively.

2018 NWS Master Facility Services Agreement

Cleaning and Laundry Services provided by the Enlarged Group to NWS Group

Regarding the Annual Cap for FY2018, the proposed Annual Cap of HK$4.7 million is estimated for a period of approximately three months from 10 April 2018 to 30 June 2018. The amount is based on the existing projects on hand and the historical transaction amounts for the six months ended 31 December 2017 of HK$10.8 million.

Regarding the Annual Cap for FY2020, the increase in Annual Cap is mainly due to potential contracts including cleaning services to be provided to a construction site in Tseung Kwan O with total transaction amount of approximately HK$14.8 million for FY2020.

IT Support Services provided by the NWS Group to the Enlarged Group

Regarding the Annual Caps for each of FY2018, FY2019 and FY2020, it is estimated that the Enlarged Group will have need for IT maintenance services; therefore, the proposed Annual Caps represent an estimation of the transaction amounts for one financial year's IT maintenance services for FY2018, FY2019 and FY2020 by reference to the historical transaction amounts for one financial year's IT maintenance services plus estimated annual inflation.

For the avoidance of doubt, the historical transaction amounts for the IT Support Services as disclosed in the Announcement referred to actual payments made by the Target Group in the relevant financial periods. With a view to providing the Company's shareholders with clearer information, the Board considers it more appropriate to disclose in this circular the actual historical transaction amounts incurred for the purpose of the IT Support Services, which is consistent with the basis of disclosure for the other Services Transactions.

2018 NWDS Master Facility Services Agreement

Cleaning and Laundry Services provided by the Enlarged Group to NWDS Group

Regarding the Annual Caps for FY2019 and FY2020, the increase in Annual Caps is mainly due to a potential cleaning contract to be provided to a department store in Mainland China in the second half of FY2019 with total transaction amount of approximately HK$2.3 million and approximately HK$4.6 million for FY2019 and FY2020 respectively.

2018 CTFE Master Facility Services Agreement

Cleaning and Laundry Services provided by the Enlarged Group to CTFE Group

Regarding the Annual Caps for FY2018 (a period of approximately three months from 10 April 2018 to 30 June 2018), FY2019 and FY2020, the increase in Annual Caps is mainly due to a potential cleaning contract to be provided to a commercial building in Mainland China with total annual transaction amount of approximately HK$1.7 million for FY2018 and approximately HK$19.9 million for both FY2019 and FY2020 respectively.

2018 CTFJ Master Facility Services Agreement

Cleaning and Laundry Services provided by the Enlarged Group to CTFJ Group

Regarding the Annual Caps for FY2018 (a period of approximately three months from 10 April 2018 to 30 June 2018), FY2019 and FY2020, the Annual Caps are based on existing projects on hand which are mainly for the cleaning services to be provided for one shop in Tsing Yi and two offices in a commercial building in Central with total annual transaction amount of approximately HK$52,000 for FY2018 and approximately HK$209,000 each year for both FY2019 and FY2020 respectively.

Shareholders and potential investors should note that the Annual Caps should not be construed as an assurance or forecast by the Company of the future revenues of the Enlarged Group.

REASONS FOR AND THE BENEFITS OF ENTERING INTO THE 2018 MASTER FACILITY SERVICES AGREEMENTS

The Services Transactions contemplated under each of the 2018 Master Facility Services Agreements are of a recurrent nature and, subject to completion of the Proposed Acquisition having taken place, will occur on a regular and continuing basis in the ordinary and usual course of business of the Enlarged Group and the counterparties to each of the 2018 Master Facility Services Agreements.

In line with the market practice and the Company's past practice, the Company considered it necessary for Listing Rules compliance purposes and administrative convenience to enter into a framework agreement with each of the holding companies of the relevant contract counterparties in order to better document and manage these continuing connected transactions. The 2018 Master Facility Services Agreements serve to streamline the Services Transactions between members of the Enlarged Group and members of the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group by providing a single basis upon which the Company could comply with the applicable reporting, announcement and (where applicable) independent shareholders' approval requirements under Chapter 14A of the Listing Rules and thereby reducing the administrative burden and costs of the Company in complying with these requirements.

Members of the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group are with profound experience and reputation in their respective areas of businesses or services and solid financial standing and have demonstrated themselves as reliable services providers or customers of New China Steam Laundry Limited Group and Waihong Cleaning Limited Group over the years. The Directors believe that the maintenance of the strategic business relationships with them will not only allow the realisation of synergies and economies of scale but will also continue to bring sustainable contribution to the Enlarged Group's growth in the long run.

The Directors (excluding the independent non-executive Directors (whose views are set out in the Letter from the Independent Board Committee in this circular) and those who are considered to have a material interest in the Proposed Acquisition as set out in the paragraph headed ''Approval by the Board'') are of the views that the terms of each of the 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder and the proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

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 management service.

Doo's Associates Group

To the best knowledge of the Directors, the principal businesses of the Doo's Associates Group are property investment, the provision of property leasing, cleaning and laundry, landscaping, property and facility management, project management, insurance consultancy and brokerage, and security and guarding services.

NWD Group

NWD is 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). As at the Latest Practicable Date and based on publically available information, CTFE and its subsidiaries were interested in approximately 44.32% of the total issued share capital of NWD.

To the best knowledge of the Directors, the principal businesses of NWD and its subsidiaries include property development and investment in the area of property, infrastructure, hotel operation, department store operation, commercial aircraft leasing, services and technology.

NWS Group

NWS is a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 659). As at the Latest Practicable Date and based on publically available information, NWD and its subsidiaries were interested in approximately 61.12% of the total issued share capital of NWS and CTFE was interested in approximately 2.49% of the total issued share capital of NWS.

To the best knowledge of the Directors, the principal businesses of NWS and its subsidiaries include: (i) the development, investment, operation and/or management of roads, environmental projects, commercial aircraft leasing as well as ports and logistics facilities; and (ii) the investment in and/or operation of facilities, construction, transport and strategic investments.

NWDS Group

NWDS is 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: 825). As at the Latest Practicable Date and based on publically available information, NWD was interested in approximately 74.99% of the total issued share capital of NWDS.

To the best knowledge of the Directors, the principal business of NWDS and its subsidiaries is the business of operating department stores and other related business and property investment operations in the PRC.

CTFE Group

CTFE is a company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date and based on publically available information, Chow Tai Fook Capital Limited had 81.03% control in Chow Tai Fook (Holding) Limited which in turn holds 100% direct interest in CTFE.

To the best knowledge of the Directors, CTFE is principally engaged in investment holding.

CTFJ Group

CTFJ is 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: 1929). As at the Latest Practicable Date and based on publically available information, Chow Tai Fook (Holding) Limited was interested in approximately 89.34% of the total issued share capital of CTFJ.

To the best knowledge of the Directors, the principal businesses of CTFJ and its subsidiaries include manufacturing and selling of mass luxury and high-end luxury jewellery, including gem-set products, gold products and platinum/karat gold products, and provision of related services; and distributing watches of various brands.

INTERNAL CONTROL MEASURES

The Group has established internal control measures for reporting and monitoring on continuing connected transactions which will be complied by the Enlarged Group upon completion of the Proposed Acquisition to ensure the compliance with Chapter 14A of the Listing Rules.

According to the Group's prevailing internal accounting policy and procedure manual, the designated officer of operation department and supporting department, will immediately report to the legal and company secretarial manager and senior finance manager with details of the possible notifiable or connected transactions to be entered by the Group for review and checking in order to determine the appropriate type of disclosure in compliance with Chapter 14A of the Listing Rules. For a transaction that falls within the scope of continuing connected transactions in the ordinary and usual course of business of the Group, the legal and company secretarial manager will check with the actual monthly continuing connected transaction and ensure the transaction amounts of the potential connected transactions should not exceed the Annual Caps of the continued connected transaction.

Meanwhile, the internal audit department of the Group will carry out annual assessment of the continuing connected transactions conducted by the Group for each financial year and report to the board of Directors. One of the assessment objectives was to ensure that the continuing connected transactions were carried out at arm's length and the terms are comparable to those projects of independent third parties.

Furthermore, pursuant to Chapter 14A of the Listing Rules:

(i) the independent non-executive Directors of the Company shall, on an annual basis, review the transactions contemplated under the 2018 Master Facility Services Agreements and confirm, among other matter, such transactions are according to the agreement governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole; and

(ii) the external auditors of the Group shall, on an annual basis, report on the transactions contemplated under the 2018 Master Facility Services Agreements and confirm, among other matter, whether anything has come to their attention that causes them to believe such transactions were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions.

LISTING RULES IMPLICATIONS

The Proposed Acquisition

FSE Holdings, which holds 75% of the Shares in issue in the Company as at the date of the Sale and Purchase Agreement, is a substantial shareholder of the Company under the Listing Rules. The Seller, being a wholly-owned subsidiary of FSE Holdings, is an Associate of FSE Holdings, and therefore a connected person of the Company. The Proposed Acquisition thus constitutes a connected transaction for the Company. As all of the applicable Percentage Ratios for the Proposed Acquisition exceed 5%, the Proposed Acquisition is subject to the reporting, announcement, and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Further, as some of the applicable Percentage Ratios in respect of the Proposed Acquisition are 25% or more but all of those ratios are 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 reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The 2018 Master Facility Services Agreements

Upon completion of the Proposed Acquisition, each Target Entity will become a wholly-owned subsidiary of the Company. As such, the continuing transactions entered into between New China Steam Laundry Limited Group and the Waihong Cleaning Limited Group on one side, and the Doo's Associates Group on the other will become continuing connected transactions of the Company.

Dr. Cheng is a connected person of the Company. Dr. Cheng is also the brother-in-law of Mr. Doo, 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). Dr. Cheng is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group. As such, each of the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group is therefore treated as a connected person of the Company.

As such, upon completion of the Proposed Acquisition, the continuing transactions entered into between the New China Steam Laundry Limited Group and the Waihong Cleaning Limited Group on one side, and the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group on the other will also become continuing connected transactions of the Company.

As the highest of the applicable Percentage Ratios in respect of Annual Caps of each of the 2018 FSE Master Facility Services Agreement and the 2018 NWD Master Facility Services Agreement exceeds 5%, the transactions contemplated under these agreements and the Annual Caps for the same are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest of the applicable Percentage Ratios in respect of Annual Caps of each of the 2018 NWS Master Facility Services Agreement, the 2018 NWDS Master Facility Services Agreement and the 2018 CTFE Master Facility Services Agreement exceeds 0.1% but is below 5%, the transactions under these agreements and the Annual Caps for the same are subject to the reporting, annual review and announcement requirements and exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the highest of the applicable Percentage Ratios in respect of Annual Caps of the 2018 CTFJ Master Facility Services Agreement is below 0.1%, the transactions thereunder and the Annual Caps for the same are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Nonetheless, with a view to adhering to enhanced corporate governance practices, the Company is willing to follow the relevant requirements applicable to a non-exempt connected transaction under Chapter 14A of the Listing Rules and subject each of the 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same to independent shareholders' approval.

The Company will seek the Independent Shareholders' approval for the Proposed Acquisition, each of the 2018 Master Facility Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same, at the EGM.

Approval by the Board

A Director whose name is set out opposite to the Proposed Acquisition and each of the 2018 Master Facility Services Agreements in the table below is regarded as having a material interest or potential conflict of interest in the corresponding Proposed Acquisition or the 2018 Master Facility Services Agreements.

Proposed Acquisition or Services Transactions contemplated under:	Director who is regarded as having a material interest or potential conflict of interest in the Proposed Acquisition or the relevant 2018 Master Facility Services Agreement	Basis upon which the Director is regarded as having a material interest or potential conflict of interest
Proposed Acquisition	Dr. Cheng	● He has interest in some members of the Doo's Associates Group
	Mr. Doo William Junior Guilherme	● He has interest in some members of the Doo's Associates Group ● He is a director of some members of the Doo's Associates Group
	Mr. Lam Wai Hon, Patrick	● He has interest in some members of the Doo's Associates Group ● He is a director of some members of the Doo's Associates Group
	Mr. Wong Kwok Kin, Andrew	● He has interest in some members of the Doo's Associates Group

Proposed Acquisition or Services Transactions contemplated under:	Director who is regarded as having a material interest or potential conflict of interest in the Proposed Acquisition or the relevant 2018 Master Facility Services Agreement	Basis upon which the Director is regarded as having a material interest or potential conflict of interest
	Mr. Lee Kwok Bong	● He is a director of FSE Holdings ● He has interest in some members of the Doo's Associates Group ● He is a director of some members of the Doo's Associates Group
2018 FSE Master Facility Services Agreement	Dr. Cheng	● He has interest in some members of the Doo's Associates Group
	Mr. Doo William Junior Guilherme	● He has interest in some members of the Doo's Associates Group ● He is a director of some members of the Doo's Associates Group
	Mr. Lam Wai Hon, Patrick	● He has interest in some members of the Doo's Associates Group ● He is a director of some members of the Doo's Associates Group
	Mr. Wong Kwok Kin, Andrew	● He has interest in some members of the Doo's Associates Group ● He is a director of FSE Holdings
	Mr. Lee Kwok Bong	● He has interest in some members of the Doo's Associates Group ● He is a director of some members of the Doo's Associates Group
2018 NWD Master Facility Services Agreement	Dr. Cheng	● He is a director of NWD ● He is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group
2018 NWDS Master Facility Services Agreement	Dr. Cheng	● He is a non-executive director of NWDS ● He is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group

Proposed Acquisition or Services Transactions contemplated under:	**Director who is regarded as having a material interest or potential conflict of interest in the Proposed Acquisition or the relevant 2018 Master Facility Services Agreement**	**Basis upon which the Director is regarded as having a material interest or potential conflict of interest**
2018 NWS Master Facility Services Agreement	Dr. Cheng	● He is a director of NWS ● He is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group
	Mr. Doo William Junior Guilherme	● He is a non-executive director of NWS
	Mr. Lam Wai Hon, Patrick	● He is a non-executive director of NWS
	Mr. Kwong Che Keung, Gordon	● He is an independent non-executive director of NWS
2018 CTFE Master Facility Services Agreement	Dr. Cheng	● He is a director of CTFE ● He is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group
2018 CTFJ Master Facility Services Agreement	Dr. Cheng	● He is a director of CTFJ ● He is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group
	Mr. Kwong Che Keung, Gordon	● He is an independent non-executive director of CTFJ

Each of the directors named above who was present at the Board meeting approving the Proposed Acquisition and the 2018 Master Facility Services Agreements had abstained from voting on the resolutions approving the Proposed Acquisition and the relevant 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder respectively and their Annual Caps in respect of which he is regarded as having a material interest (or as the case may be, a potential conflict of interest) as indicated in the table above.

RECOMMENDATION

Your attention is drawn to (i) the advice of the Independent Board Committee set out in its letter on pages 52 to 54 of this Circular, and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 55 to 105 of this Circular in respect of the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Proposed Acquisition on terms of the Sale and Purchase Agreement and the terms of each of the 2018 Master Facility Services Agreement, the Services Transactions contemplated under these agreements and the Annual Caps for the same are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Proposed Acquisition, the terms of each of the 2018 Master Facility Services Agreements, the Services Transactions contemplated under those agreements and the proposed Annual Caps for the same.

The Directors consider that the proposed Change of Company Name as set out in this Circular is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approved the proposed Change of Company Name.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlement of the Shareholders to attend and vote at the EGM (or at any adjournment thereof), the Company's register of members will be closed from Wednesday, 4 April 2018 to Tuesday, 10 April 2018 (both days inclusive) during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 3 April 2018.

EGM

The EGM will be held at 17/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Tuesday, 10 April 2018 at 11:30 a.m. to consider and, if thought fit, to approve the EGM Matters. A notice of the EGM is set out on pages EGM-1 to EGM-7 of this Circular.

The voting at the EGM will be taken by poll.

At the EGM, any Shareholders with a material interest in the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same are required to abstain from voting on the resolution approving the same at the EGM. As at the Latest Practicable Date, among these persons who are required to abstain from voting at the EGM, FSE Holdings holds 75% of Shares in issue in the Company. FSE Holdings will therefore abstain from voting at the EGM.

To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, apart from FSE Holdings, no other Shareholders are materially interested in the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same who are required to abstain from voting on the resolutions approving the same at the EGM as aforesaid.

A form of proxy for use in connection with the EGM is also enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

GENERAL

Completion of the Proposed Acquisition is subject to the fulfillment (or, as the case may be, waiver) of the conditions precedent under the Sale and Purchase Agreement, respectively. As the Proposed Acquisition may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Circular.

Yours faithfully
By order of the Board
FSE Engineering Holdings Limited
Dr. Cheng Kar Shun, Henry
Chairman

The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this Circular.

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)

20 March 2018

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET ENTITIES CARRYING OUT FACILITY SERVICES;
(2) CONTINUING CONNECTED TRANSACTION: 2018 MASTER FACILITY SERVICES AGREEMENTS;
(3) PROPOSED CHANGE OF COMPANY NAME, STOCK SHORT NAME AND COMPANY LOGO; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular dated 20 March 2018 (the "**Circular**") of which this letter forms part. Terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Services Transactions contemplated under those agreements and the Annual Caps for the same, and to advise the Independent Shareholders as to whether, in our opinion, the Proposed Acquisition, the terms of each of the 2018 Master Facility Services Agreements, the Services Transactions contemplated under those agreements and the Annual Caps for the same are on normal commercial terms and in the ordinary and usual course of business of the Enlarge Group, fair and reasonable in so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Ballas Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the EGM Matters and whether the Proposed Acquisition, the 2018 Master Facility Services Agreements, the Services Transactions contemplated under those agreements and the Annual Caps for the same are on normal commercial terms and in the ordinary and usual course of business of the Enlarge Group, in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote. We wish to draw your attention to the letter from the Board as set out on pages 9 to 51 of the Circular as well as the letter from the Independent Financial Adviser as set out on pages 55 to 105 of the Circular.

Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung and Dr. Tong Yuk Lun, Paul, being the independent non-executive Directors who do not have a material interest in the following transactions:

(i) the Proposed Acquisition; and

(ii) the 2018 FSE Master Facility Services Agreement, the 2018 NWD Master Facility Services Agreement, the 2018 NWDS Master Facility Services Agreement, the 2018 CTFE Master Facility Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same,

consider that:

(a) the Proposed Acquisition is not in the ordinary and usual course of business of the Group;

(b) the 2018 FSE Master Facility Services Agreement, the 2018 NWD Master Facility Services Agreement, the 2018 NWDS Master Facility Services Agreement, the 2018 CTFE Master Facility Services Agreement, the Services Transactions contemplated under those agreements are in the ordinary and usual course of business of the Enlarged Group;

(c) having taken into account the advice of the Independent Financial Adviser, the Proposed Acquisition, the 2018 FSE Master Facility Services Agreement, the 2018 NWD Master Facility Services Agreement, the 2018 NWDS Master Facility Services Agreement, the 2018 CTFE Master Facility Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same are:

    i. on normal and commercial terms;

    ii. fair and reasonable so far as the Company and the Independent Shareholders are concerned; and

    iii. in the interests of the Company and the Shareholders as a whole; and

(d) accordingly, it is recommended that the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM in relation to the Proposed Acquisition, the 2018 FSE Master Facility Services Agreement, the 2018 NWD Master Facility Services Agreement, the 2018 NWDS Master Facility Services Agreement, the 2018 CTFE Master Facility Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same.

Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung and Dr. Tong Yuk Lun, Paul, being the independent non-executive Directors who do not have a material interest in the 2018 NWS Master Facility Services Agreement, the 2018 CTFJ Master Facility Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same, consider that:

(a) the 2018 NWS Master Facility Services Agreement, the 2018 CTFJ Master Facility Services Agreement, the Services Transactions contemplated under those agreements are in the ordinary and usual course of business of the Enlarged Group;

(b) having taken into account the advice of the Independent Financial Adviser, the 2018 NWS Master Facility Services Agreement, the 2018 CTFJ Master Facility Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same are:

i. on normal and commercial terms;

ii. fair and reasonable so far as the Company and the Independent Shareholders are concerned; and

iii. in the interests of the Company and the Shareholders as a whole; and

(c) accordingly, it is recommended that the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM in relation to the 2018 NWS Master Facility Services Agreement, the 2018 CTFJ Master Facility Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same.

Yours faithfully
Independent Board Committee

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

BALLAS
CAPITAL

Unit 1802, 18/F
1 Duddell Street
Central
Hong Kong

20 March 2018

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET ENTITIES CARRYING OUT FACILITY SERVICES; AND (2) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition, and the Services Transactions contemplated under each of the 2018 Master Facility Services Agreements (including the respective Annual Caps) (collectively, the "**Non-Exempt CCTs**"), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company (the "**Circular**") to the Shareholders dated 20 March 2018, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 27 February 2018 (after trading hours of the Stock Exchange), the Board announced that the Buyer conditionally agreed to acquire from the Seller the Sale Share at the Consideration (subject to adjustment, if any), by entering into the Sale and Purchase Agreement in respect of the Proposed Acquisition. Furthermore, in the ordinary and usual course of business of the Target Group, the Waihong Cleaning Limited Group and the New China Steam Laundry Limited Group regularly entered into continuing transactions with the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group. As these continuing transactions are expected to continue after Completion, in order to facilitate the compliance with relevant requirements under Chapter 14A of the Listing Rules after Completion, the Company proposes to enter into the 2018 Master Facility Services Agreement upon Completion to govern the terms and the annual caps of the Non-Exempt CCTs.

FSE Holdings, which holds 75% of the Shares in issue in the Company as at the Latest Practicable Date, is a substantial Shareholder under the Listing Rules. The Seller, being a wholly-owned subsidiary of FSE Holdings, is an associate of FSE Holdings, and therefore a connected person of the Company. The Proposed Acquisition thus constitutes a connected transaction for the Company. As all of the applicable Percentage Ratios for the Proposed Acquisition exceed 5%, the Proposed Acquisition is subject to the reporting, announcement, and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Upon completion of the Proposed Acquisition, each Target entity will become a wholly-owned subsidiary of the Company. As such, the continuing transactions entered into between the Waihong Cleaning Limited Group and the New China Steam Laundry Limited Group on one side and the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group on the other side will become continuing connected transactions of the Company. As the highest of the applicable Percentage Ratios in respect of the respective Annual Caps of each of the 2018 FSE Master Facility Services Agreement and the 2018 NWD Master Facility Services Agreement are more than 5%, the transactions contemplated under these agreements and the respective Annual Caps for the same are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Although the highest of the applicable Percentage Ratios in respect of the respective Annual Caps of each of the 2018 NWS Master Facility Services Agreement, the 2018 NWDS Master Facility Services Agreement, the 2018 CTFE Master Facility Services Agreement and the 2018 CTFJ Master Facility Services Agreement are below 5% and therefore are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, with a view to adhering to enhanced corporate governance practices, the Company is willing to follow the relevant requirements applicable to non-exempt connected transactions under Chapter 14A of the Listing Rules and subject each of the Non-Exempt CCTs and the Annual Caps for the same to independent shareholders' approval.

At the EGM, any Shareholders with a material interest in the Proposed Acquisition and the Non-Exempt CCTs are required to abstain from voting on the resolution approving the same at the EGM. As at the Latest Practicable Date, among these persons who are required to abstain from voting at the EGM, FSE Holdings holds 75% of the Shares. FSE Holdings will therefore abstain from voting at the EGM. To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, apart from FSE Holdings, no other Shareholders are materially interested in the Proposed Acquisition and the Non-Exempt CCTs.

The Independent Board Committee comprising all the independent non-executive Directors, being Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung and Dr. Tong Yuk Lun, Paul, has been established to advise the Independent Shareholders in relation to the Proposed Acquisition and the Non-Exempt CCTs (including the respective Annual Caps).

INDEPENDENCE DECLARATION

Ms. Heidi Cheng of Ballas Capital Limited was one of the two persons signing off the opinion letter from the independent financial adviser contained in the Company's circular dated 9 May 2017. As this previous engagement was for the role of an independent financial adviser to the Company, it is respectfully submitted that such engagement would not affect the independence of Ballas Capital Limited for acting as the independent financial adviser to the Company in respect of the Proposed Acquisition and the Non-Exempt CCTs. As at the Latest Practicable Date, Ms. Heidi Cheng and Mr. Aaron Ko of Ballas Capital Limited are not aware of any relationships or interests between Ballas Capital Limited and the Company or any other parties that could be reasonably regarded as a hindrance to Ballas Capital Limited's independence as defined under the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition and the Non-Exempt CCTs.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company.

The Directors have declared in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the Target Group, the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group, the CTFJ Group or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

A. Background information of the Group

(i) Background and financial results of the Group

The Group is principally engaged in the electrical and mechanical engineering business and the environmental management services business in Hong Kong. The electrical and mechanical engineering business mainly includes the provision of engineering services and trading of building materials, and the environmental management business mainly includes the trading of environmental products and the provision of related engineering consultancy and assessment services. For FY2015, FY2016 and FY2017, over 90% of the Group's revenue derived from its electrical and mechanical engineering business.

Set out below is a summary of the Group's financial performance for the three years ended 30 June 2017 as extracted from the Company's annual reports for the years ended 30 June 2016 and 2017 (the "**Annual Reports**"), and for the six months ended 31 December 2016 and 2017 as extracted from the Company's results announcement for the six months ended 31 December 2017 (the "**Interim Announcement**").

	For the six months ended 31 December		For the year ended 30 June		
	2016* ("HFY2017")	2017 ("HFY2018")	2015 ("FY2015")	2016* ("FY2016")	2017 ("FY2017")
HK$'millions	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Revenue	1,769.3	1,763.3	2,825.1	3,471.9	3,700.1
— Electrical & mechanical engineering	*1,738.5*	*1,729.4*	*2,780.5*	*3,418.3*	*3,646.0*
— Environmental management services	*30.8*	*33.9*	*44.6*	*53.6*	*54.1*
Cost of sales	(1,573.8)	(1,556.4)	(2,492.0)	(3,100.0)	(3,293.2)
Gross profit	**195.5**	**206.9**	**333.1**	**371.9**	**406.9**
Other (losses)/gains, net	(0.2)	2.6	5.6	0.5	3.6
General and administrative expenses	(100.1)	(112.5)	(185.8)	(201.6)	(208.5)
Operating profit	**95.2**	**97.0**	**152.9**	**170.8**	**202.0**
Finance income	6.8	9.8	16.4	10.8	14.5
Finance cost	—	—	(0.2)	—	—
Profit before income tax	**102.0**	**106.8**	**169.1**	**181.6**	**216.5**
Income tax expenses	(19.7)	(20.0)	(19.9)	(18.4)	(42.7)
Profit attributable to equity holders	**82.3**	**86.8**	**149.2**	**163.2**	**173.8**

* *Comparative figures have been restated upon the change in accounting policy of leasehold land and buildings.*

Comparison of historical results between years/periods for material items

FY2015 vs FY2016

As shown in the table above, revenue generated from the Group's electrical and mechanical engineering business has been the main source of income, which represented approximately 98.4% and 98.5% of the Group's revenue in FY2015 and FY2016, respectively.

Revenue of the Group for FY2016 was approximately HK$3,471.9 million, which represented an increase of approximately 22.9% as compared to that of approximately HK$2,825.1 million in FY2015. As noted from the Annual Reports, such increase was mainly derived from the increase in income from installation services, environmentally-related contracting and maintenance services.

Gross profit of the Group for FY2016 was approximately HK$371.9 million, which represented an increase of approximately 11.6% as compared to that of approximately HK$333.1 million in FY2015. Such increase in gross profit was in line with the overall growth of the Group's revenue. Gross profit margin, however, decreased slightly from approximately 11.8% for FY2015 to 10.7% for FY2016. Such decrease was mainly due to the decrease in gross profit margin from the Group's electrical and mechanical engineering business from approximately 11.6% for FY2015 to 10.5% for FY2016.

General and administrative expenses of the Group for FY2016 was approximately HK$201.6 million, which represented an increase of approximately 8.5% as compared to that of approximately HK$185.8 million in FY2015. As noted from the Annual Reports, the increase was mainly attributable to the non-recurring listing expenses of approximately HK$16.8 million. Excluding such non-recurring listing expenses, the Group's general and administrative expenses would have remained stable.

Finance income of the Group for FY2016 was approximately HK$10.8 million, which represented a decrease of approximately 34.1% as compared to that of approximately HK$16.4 million in FY2015. As noted from the Annual Reports, such decrease was mainly attributable to the decrease in both the market interest rate and the Group's bank deposits placed in the PRC.

As a result of the above fluctuations, in particular the increase in revenue during the year, the Group recorded profit attributable to equity holders of approximately HK$163.2 million in FY2016, which represented an increase of approximately 9.4% as compared to that of approximately HK$149.2 million in FY2015.

FY2016 vs FY2017

Similar to FY2016, revenue generated from the Group's electrical and mechanical engineering business remained to be the main source of income, which represented approximately 98.5% of the Group's revenue for FY2017.

Revenue of the Group for FY2017 was approximately HK$3,700.1 million, which represented an increase of approximately 6.6% as compared to that of approximately HK$3,471.9 million in FY2016. As noted from the Annual Reports, such increase was mainly attributable to increase in revenue from installation services, water treatment projects and biotechnology installation and maintenance services.

Gross profit of the Group for FY2017 was approximately HK$406.9 million, which represented an increase of approximately 9.4% as compared to that of approximately HK$371.9 million in FY2016. Such increase in gross profit was in line with the overall growth of the Group's revenue. Gross profit margin remained relatively stable at approximately 10.7% and 11.0% in FY2016 and FY2017, respectively.

General and administrative expenses of the Group for FY2017 was approximately HK$208.5 million, which remained relatively stable as compared to that of approximately HK$201.6 million in FY2016.

Finance income of the Group for FY2017 was approximately HK$14.5 million, which represented an increase of approximately 34.3% as compared to that of approximately HK$10.8 million in FY2016. As noted from the Annual Reports, such increase was mainly due to the increase in average principal and the market interest rate on the Group's bank deposit placed in Hong Kong.

As a result of the above fluctuations, in particular the increase in revenue and other net gains during the year, the Group recorded approximately HK$173.8 million in profit attributable to equity holders in FY2017, which represented an increase of approximately 6.5% as compared to that of approximately HK$163.2 million in FY2016.

HFY2017 vs HFY2018

Similar to HFY2017, revenue generated from the Group's electrical and mechanical engineering business remained to be the main source of income, which represented approximately 98.3% and 98.1% of the Group's revenue in HFY2017 and HFY2018, respectively.

Revenue of the Group for HFY2018 was approximately HK$1,763.3 million, representing a decrease of approximately 0.3% as compared to that of approximately HK$1,769.3 million in HFY2017. As noted from the Interim Announcement, such decrease was mainly attributable to decrease in revenue of HK9.1 million of the E&M engineering segment.

Gross profit of the Group for HFY2018 was approximately HK$206.9 million, which represented an increase of approximately 5.8% as compared to that of approximately HK$195.5 million in HFY2017. Such increase in gross profit was driven by the Group's electrical and mechanical engineering business with segment gross profit margin having improved from approximately 10.8% to 11.5%. Gross profit margin of the Group's environmental management services segment remained relatively stable at 26.6% and 25.7% for HFY2017 and HFY2018 respectively.

General and administrative expenses of the Group for HFY2018 was approximately HK$112.5 million, which represented an increase of approximately 12.5% as compared to that of approximately HK$100.1 million in HFY2017. As noted from the Interim Announcement, such increase was mainly attributable to the increase in staff cost from annual salary increment and employment of additional staff to cope with business expansion, and increase in depreciation charges for property and associated leasehold improvement for the Group's office acquired in FY2017.

Finance income of the Group increased by HK$3.0 million from approximately HK$6.8 million for HFY2017 to approximately HK$9.8 million for HFY2018. The increase was mainly due to the higher interest income from investment in available-for-sale financial assets and financial assets at fair value through profit or loss during HFY2018.

As a result of the above fluctuations, in particular the increase in gross profit contribution mostly from the core business segment during HFY2018, the Group recorded approximately HK$86.8 million in profit attributable to equity holders, which represented an increase of approximately 5.5% as compared to that of approximately HK$82.3 million in HFY2017.

Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2017 as extracted from the Interim Announcement.

HK$'millions	**As at 31 December 2017** (unaudited)	**% of total assets**
Non-current assets		
Property, plant and equipment	372.8	14.3%
Land use rights	21.6	0.8%
Intangible assets	35.7	1.4%
Deferred income tax assets	12.1	0.5%
Available-for-sale financial assets	94.7	3.6%
	536.9	**20.6%**
Current assets		
Inventories	31.7	1.2%
Amounts due from customers for contract works	281.1	10.8%
Trade and other receivables	894.7	34.4%
Financial assets at fair value through profit or loss	93.8	3.6%
Available-for-sale financial assets	—	0.0%
Cash and bank balances	765.9	29.4%
	2,067.2	**79.4%**
Total assets	**2,604.1**	**100.0%**

		% of total liabilities
Current liabilities		
Amounts due to customers for contract works	311.1	19.0%
Trade and other payables	1,265.5	77.5%
Taxation payable	37.6	2.3%
	1,614.2	**98.8%**
Non-current liabilities		
Deferred income tax liabilities	19.0	1.2%
	19.0	**1.2%**
Total liabilities	**1,633.2**	**100.0%**
Net current assets	**453.0**	
Net assets	**970.9**	
Equity		
Share capital	45.0	
Reserves	925.9	
	970.9	

As at 31 December 2017, the Group's total assets amounted to approximately HK$2,604.1 million, which mainly comprised (i) trade and other receivables of approximately 34.4%; (ii) cash and bank balances of approximately 29.4%; and (iii) property, plant and equipment of approximately 14.3%, of total assets.

As at 31 December 2017, the Group's total liabilities amounted to approximately HK$1,633.2 million, which mainly comprised (i) trade and other payables of approximately 77.5%; and (ii) amounts due to customers for contract works of approximately 19.0%, of total liabilities.

As at 31 December 2017, the Group recorded net assets attributable to equity holders of approximately HK$970.9 million.

B. Background information of the Target Group

(i) Business of the Target Group

The Target Group is principally engaged in facility services in Hong Kong, including cleaning and laundry services, and is one of the leading players in the environmental hygiene service market in Hong Kong. As at 31 December 2017, the Target Group had a total of approximately 6,000 employees.

The Target Group's cleaning services are operated through the Waihong Cleaning Limited Group, which offer a wide range of office support, residential and public sector associated services and related services in Hong Kong and the PRC, such as general cleaning, waste management and disposal, external wall and window cleaning, pest control and clinical waste management. Such services are rendered at commercial buildings, including office buildings and shopping arcades, hotels and serviced apartments, residential complexes, public transportations and other venues such as governmental institutions, theme parks, airport facilities, academic institutions, financial institutions and medical institutions.

The Target Group's laundry services are operated through the New China Steam Laundry Limited Group, which offer laundry, dry cleaning and linen management services to corporate customers, including major high-end hotels, restaurant chains, theme parks, airlines and clubs; and also operate three dry cleaning and laundry valet outlets under its "Kleaners" brand in Hong Kong.

Although the principal business of the Target Group is different from that of the Group, we understand from management of the Company that some of the Directors have sufficient expertise and relevant experience in the services industry and are competent in managing and operating the Target Group after Completion. Please refer to the Letter from the Board for details on each person's relevant experience. Given that three of the Directors have served as directors of New China Laundry Limited and Waihong Environmental Services Limited, which are the major operating companies of the Target Group, and have been responsible for, among other things, the overall strategic planning and operational management of those companies, we agree with the Company that its senior management team has sufficient expertise and experience in evaluating the Proposed Acquisition.

(ii) Financial results

Set out below is a summary of the Target Group's financial performance for the three years ended 30 June 2015, 2016 and 2017, and six months ended 31 December 2016 and 2017 as extracted from (i) the accountants' report on the Reported Group as set out in Appendix II to this circular; and (ii) the reconciliation between the Reported Group and the Target Group in the management discussion and analysis of the Target Group as set out in Appendix III to this circular.

	For the six months ended 31 December		**For the year ended 30 June**		
	2016	**2017**	**2015**	**2016**	**2017**
HK$'millions	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	552.5	618.9	994.0	1,016.5	1,130.4
— Cleaning services	*472.1*	*535.5*	*822.4*	*857.9*	*971.4*
— Laundry services	*80.4*	*83.4*	*171.6*	*158.6*	*159.0*
Cost of sales	(479.4)	(537.6)	(857.5)	(872.0)	(981.8)
Gross profit	**73.1**	**81.3**	**136.5**	**144.5**	**148.6**
— Cleaning services	*50.1*	*58.5*	*91.2*	*94.8*	*103.7*
— Laundry services	*23.0*	*22.8*	*45.3*	*49.7*	*44.9*
Other (losses)/gains, net	0.7	0.5	2.7	(0.3)	1.2
General and administrative expenses	(41.6)	(41.1)	(82.6)	(83.1)	(88.6)
Operating profit	**32.2**	**40.7**	**56.6**	**61.1**	**61.2**
Finance cost	(0.2)	(0.1)	(0.4)	(0.4)	(0.4)
Profit before income tax	**32.0**	**40.6**	**56.2**	**60.7**	**60.8**
Income tax expenses	(5.3)	(6.7)	(9.4)	(10.1)	(9.7)
Profit attributable to equity holders	**26.7**	**33.9**	**46.8**	**50.6**	**51.1**

Comparison of historical results between years/periods for material items

FY2015 vs FY2016

As shown in the table above, revenue generated from cleaning services has been the main source of income, which represented approximately 82.7% and 84.4% of the Target Group's revenue in FY2015 and FY2016, respectively.

Revenue of the Target Group was approximately HK$1,016.5 million, which remained relatively stable as compared to that of approximately HK$994.0 million in FY2015 with a small increase of approximately 2.3%. In line with the increase in revenue, cost of sales of the Target Group also increased by approximately 1.7% from approximately HK$857.5 million in FY2015 to HK$872.0 million in FY2016.

Gross profit margin for the cleaning business remained relatively stable at approximately 11.1% for FY2015 and FY2016, while the gross profit margin for the laundry business increased from approximately 26.4% for FY2015 to 31.3% for FY2016. As discussed with and understood from the management of the Target Group, such increase was mainly attributable to the decrease in fuel and utilities cost of the laundry business, as laundry business normally relies heavily on fuel costs for its machine operation and transportation. As a result of the increase in gross profit margin of the laundry business, gross profit of the Target Group for FY2016 increased by a relatively larger percentage than that of revenue for FY2016. Gross profit of the Target Group amounted to approximately HK$144.5 million, which represented an increase of approximately 5.9% as compared to that of approximately HK$136.5 million in FY2015.

Other losses, net of the Target Group for FY2016 was approximately HK$0.3 million as compared to other gains, net of the Target Group of approximately HK$2.7 million for FY2015. As discussed with and understood from the management of the Target Group, such decrease was mainly attributable to loss on disposal of property, plant and equipment of approximately HK$1.2 million.

General and administrative expenses of the Target Group for FY2016 remained relatively stable as compared to FY2015 at approximately HK$83.1 million and HK$82.6 million, respectively.

As a result of the above fluctuations, the Target Group recorded profit attributable to equity holders of approximately HK$50.6 million in FY2016, which represented an increase of approximately 8.1% as compared to that of approximately HK$46.8 million in FY2015.

FY2016 vs FY2017

Similar to FY2016, revenue generated from cleaning services has been the main source of income, which represented approximately 85.9% of the Group's revenue in FY2017.

Revenue of the Target Group for FY2017 was approximately HK$1,130.4 million, which represented an increase of approximately 11.2% as compared to that of approximately HK$1,016.5 million in FY2016. As discussed with and understood from the management of the Target Group, such increase was mainly due to the income recognised from new cleaning service contracts during FY2017. In line with the increase in revenue, cost of sales of the Target Group also increased by approximately 12.6% from approximately HK$872.0 million in FY2016 to HK$981.8 million in FY2017.

Gross profit margin for cleaning business remained relatively stable at approximately 11.1% for FY2016 and 10.7% for FY2017, while gross profit margin for the laundry business decreased from approximately 31.3% for FY2016 to 28.2% for FY2017. As discussed with and understood from the management of the Target Group, such decrease was mainly attributable to the increase in fuel and utilities cost of the laundry business. As mentioned above, laundry business normally relies heavily on fuel costs for its machine operation and transportation. As a result of the decrease in gross profit margin of the laundry business, gross profit of the Target Group for FY2017 increased by a relatively smaller percentage than that of revenue for FY2017. Gross profit of the Target Group for FY2017 was approximately HK$148.6 million, which represented an increase of approximately 2.8% as compared to that of approximately HK$144.5 million in FY2016.

Other gains, net of the Target Group for FY2017 was approximately HK$1.2 million as compared to other losses, net of the Target Group of approximately HK$0.3 million for FY2016. As discussed with and understood from the management of the Target Group, other losses, net in FY2016 was mainly attributable to loss on disposal of property, plant and equipment of approximately HK$1.2 million.

General and administrative expenses of the Target Group for FY2017 was approximately HK$88.6 million, which represented an increase of approximately 6.6% as compared to that of approximately HK$83.1 million in FY2016. As discussed with and understood from the management of the Target Group, such increase was mainly attributable to increase in staff cost (salaries and bonus) and donation of approximately HK$2.5 million to a university.

As a result of the above fluctuations, the Target Group recorded profit attributable to equity holders of approximately HK$51.1 million in FY2017, which represented an increase of approximately 1.0% as compared to that of approximately HK$50.6 million in FY2016.

HFY2016 vs HFY2017

Similar to HFY2016, the Target Group's income from cleaning services has remained to be the main source of income, which represented approximately 85.4% and 86.5% of the Group's revenue in 1HFY2016 and 1HFY2017, respectively.

Revenue of the Target Group was approximately HK$618.9 million, which represented an increase of approximately 12.0% as compared to that of approximately HK$552.5 million in HFY2016. As discussed with and understood from the management of the Target Group, such increase was mainly due to the income recognised from new cleaning service contracts during HFY2017. In line with the increase in revenue, cost of sales of the Target Group also increased by approximately 12.1% from approximately HK$479.4 million in HFY2016 to HK$537.6 million in HFY2017.

Gross profit margin for the cleaning business remained relatively stable at approximately 10.6% for HFY2016 and 10.9% for HFY2017, while the gross profit margin for laundry services decreased slightly from approximately 28.6% for HFY2016 to 27.3% for HFY2017. As discussed with and understood from the management of the Target Group, such decrease was mainly attributable to the increase in fuel and utilities cost of the laundry business. As a result of the decrease in gross profit margin of the laundry business, gross profit of the Target Group for HFY2017 increased by a relatively smaller percentage than that of revenue for HFY2017. Gross profit of the Target Group for HFY2017 was approximately HK$81.3 million, which represented an increase of approximately 11.2% as compared to that of approximately HK$73.1 million in HFY2016.

General and administrative expenses of the Target Group for HFY2017 remained relatively stable as compared to HFY2016 at approximately HK$41.1 million and HK$41.6 million, respectively.

As a result of the above fluctuations, in particular the increase in revenue during HFY2017, the Target Group recorded profit attributable to equity holders of approximately HK$33.9 million in HFY2017, which represented an increase of approximately 27.0% as compared to that of approximately HK$26.7 million in HFY2016.

Financial position

Set out below is a summary of the financial position of the Reported Group as at 31 December 2017 as extracted from the accountants' report on the Reported Group as set out in Appendix II to this circular. For the avoidance of doubt, the Reported Group represents the Target Group including Macro Brilliant Limited and its subsidiary. Macro Brilliant Limited and its subsidiary were part of the Target Group during the three years ended 30 June 2015, 2016 and 2017, and six months ended 31 December 2017, and have been disposed of subsequently. Macro Brilliant Limited and its subsidiary will therefore not form part of the Target Group to be acquired by the Buyer. Please refer to the management discussion and analysis of the Target Group as set out in Appendix III to this circular for the reconciliation between the Reported Group and the Target Group's net asset and net tangible asset values.

HK$'millions	**As at 31 December 2017** (audited)	**% of total assets**
Non-current asset		
Intangible assets	16.3	3.2%
Deposits	3.2	0.6%
Deferred tax assets	0.0	0.0%
Property, plant and equipment	111.2	21.8%
	130.7	**25.6%**
Current assets		
Inventories	2.6	0.5%
Trade and other receivables, net	248.8	48.8%
Amount due from FSE Management Company Limited	1.5	0.3%
Cash and cash equivalents	126.5	24.8%
	379.4	**74.4%**
Total assets	**510.1**	**100.0%**

		% of total liabilities
Current liabilities		
Trade and other payables	161.2	40.2%
Amount due to FSE Management Company Limited	179.1	44.7%
Income tax payable	6.2	1.6%
Borrowings	10.0	2.5%
	356.5	**89.0%**
Non-current liabilities		
Deferred income tax liabilities	11.5	2.9%
Long service payment liabilities	32.7	8.1%
	44.2	**11.0%**
Total liabilities	**400.7**	**100.0%**
Net current assets	**22.9**	
Net assets	**109.4**	
EQUITY		
Share capital	—	
Reserves	109.4	
	109.4	

As at 31 December 2017, the Reported Group's total assets amounted to approximately HK$510.1 million, which mainly comprised (i) trade and other receivables, net of approximately 48.8%; (ii) cash and cash equivalents of approximately 24.8%; and (iii) plant and equipment of approximately 21.8%, of total assets. Property, plant and equipment amounted to approximately HK$111.2 million, which mainly comprised (i) leasehold land and buildings of approximately 52.5%, (ii) plant and machinery of approximately 33.7% and (iii) motor vehicles of approximately 10.2%, of total property, plant and equipment.

As at 31 December 2017, the Reported Group's total liabilities amounted to approximately HK$400.7 million, which mainly comprised (i) trade and other payables of approximately 40.2%; (ii) amount due to FSE Management Company Limited of approximately 44.7%; and (iii) long service payment liabilities of 8.1%.

With regards to the amount due to FSE Management Company Limited of approximately HK$179.1 million as at 31 December 2017 (which has included the interim dividend of HK$85.0 million declared by companies within the Reported Group for HFY2017), as disclosed in the '10. Dividends' and '30. Subsequent Event' section of the notes to the accountants' report of the Reported Group as set out in Appendix II to this circular, the Reported Group has drawn down bank borrowings amounted to HK$70.0 million and HK$60.0 million in January 2018 and February 2018, respectively, and will utilise these borrowed funds, together with internal resources, to settle the net amount due to FSE Management Company Limited before Completion.

As at 31 December 2017, the Reported Group recorded net assets attributable to equity holders of approximately HK$109.4 million.

(iii) Major customers of the Target Group

Top customers of the Target Group included property management companies, hotels, transportation companies, airport and amusement parks in Hong Kong. The largest customer of the Target Group from FY2015 to FY2017 was a transportation company in Hong Kong, and this customer accounted for approximately 17.9% of the Target Group's revenue in FY2017. The contract with this transportation company expired on 31 January 2018 and such contract was not renewed. Although it is expected that the expiration of this contract will affect the Target Group's revenue for year 2018, we understand from management of the Target Group that new contracts have been and will be secured to (at least partially if not fully) compensate for part or all of the loss in revenue from this contract. We also understand from and agree with management of the Target Group that for industries which contracts are normally awarded through a tendering process, it is a normal market phenomenon that service providers may sometimes fail to renew service contracts upon their expiry due to reasons which may or may not be directly related to the service providers. Customers ultimately have the choice to select which service providers to use. As further understood from management of the Company, the Buyer and Seller took into account this inherent business risk of the Target Group when determining the initial consideration of the Proposed Acquisition. Given the fact that initial consideration of the Proposed Acquisition has an implied P/E Ratio that is close to the low-end of the range of P/E Ratios of the Comparables (as defined and explained in further details in the section headed "F. Fairness and reasonableness of the Consideration" below), we consider that the initial consideration of the Proposed Acquisition has already factored in this inherent business risk of the Target Group.

Save for the above, the Target Group has maintained long-term relationships with a majority of its other existing top customers with years of relationship of over ten years. The top two to five customers, in aggregate, accounted for approximately 38.0% of the Target Group's revenue for FY2017, and the terms of these contracts are generally two to three years.

C. Industry overview

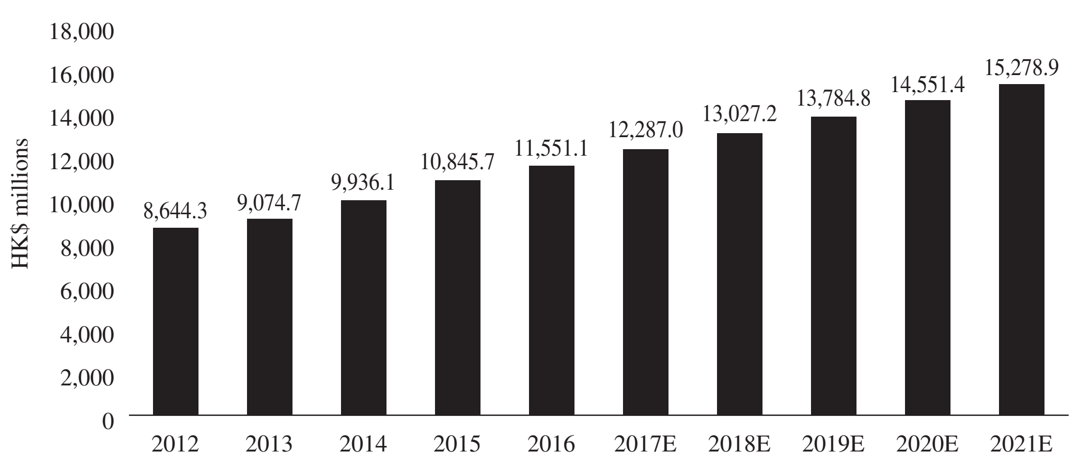
The Target Group is principally engaged in the provision of environmental hygiene service in Hong Kong. Set out below is a summary of the industry overview of such market based on an industry report from Frost & Sullivan.

Market size

The total revenue of the environmental hygiene service industry in Hong Kong was approximately HK$8,644.3 million in 2012 and experienced a compound annual growth rate ("**CAGR**") of approximately 7.5% to HK$11,551.1 million in 2016. The market size is projected to further expand and reach HK$15,278.9 million in 2021, representing a CAGR of approximately 5.6% from 2017 to 2021.

Set out below is the chart showing the market size of the environmental hygiene service market by revenue from 2012 to 2021:

Market size of the environmental hygiene service market in Hong Kong by revenue (2012–2021E)



Source: Frost & Sullivan

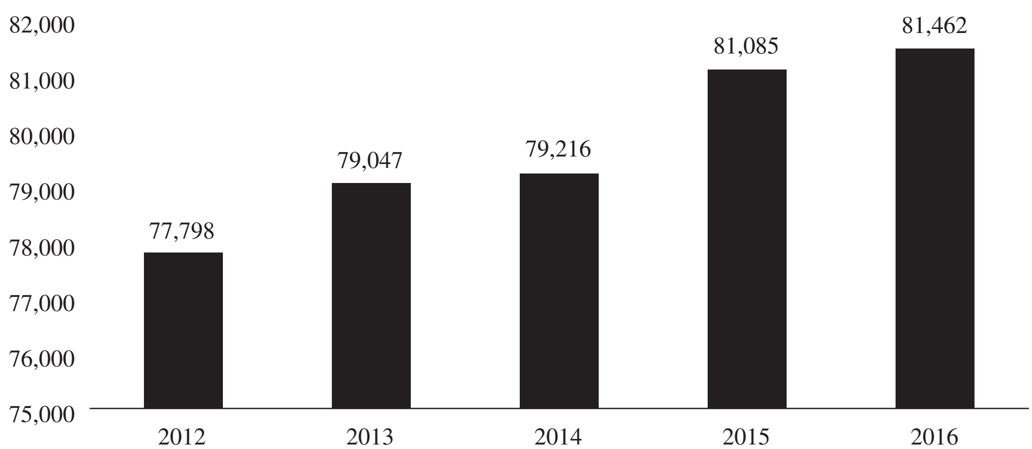
Market drivers

1. *Increasing hygiene awareness due to past large-scale disease outbreaks*

Due to the outbreak of SARS in 2003, the human swine influenza A (H1N1) in 2009, the Avian Influenza A (H7N9) in 2011 and Zika virus in 2016, there has been an increasing public awareness on hygiene and demand for environmental hygiene services.

The demand for environmental hygiene service providers has therefore surged, causing the number of professional staff and workers in the industry to also increase. The number of professional staff and workers in the environmental hygiene industry increased at a CAGR of approximately 1.2% from 77,798 persons in 2012 to 81,462 persons in 2016.

Number of professional staff and workers in the environmental hygiene service industry in Hong Kong (2012–2016)



Note: Figures above represent all staff working in general cleaning including pest management, waste management and other related services.

Source: Frost & Sullivan

2. *Government regulations on environmental hygiene standard*

The past disease outbreaks have raised the Hong Kong Government's concern on public health and hygiene issues. It has placed more emphasis on public hygiene control to avoid future large-scale disease outbreaks. In its 2017 Policy Address, the Hong Kong Government planned to introduce financial incentives to drive a behavioural and cultural change, and encourage the community to practice waste reduction and clean recycling more proactively.

Major Opportunities

1. Growing potentials in highly technical services

In recent years, traditional environmental hygiene services industry of simple and general cleaning has been advanced into a more extensive range of technical services coverage, such as waste collection and disposal, pest management, exterior wall cleaning, producing development potentials and opportunities in these value-added areas. These technical and value-added activities are expected to lead the overall industry expansion.

2. Growing potentials in waste management services

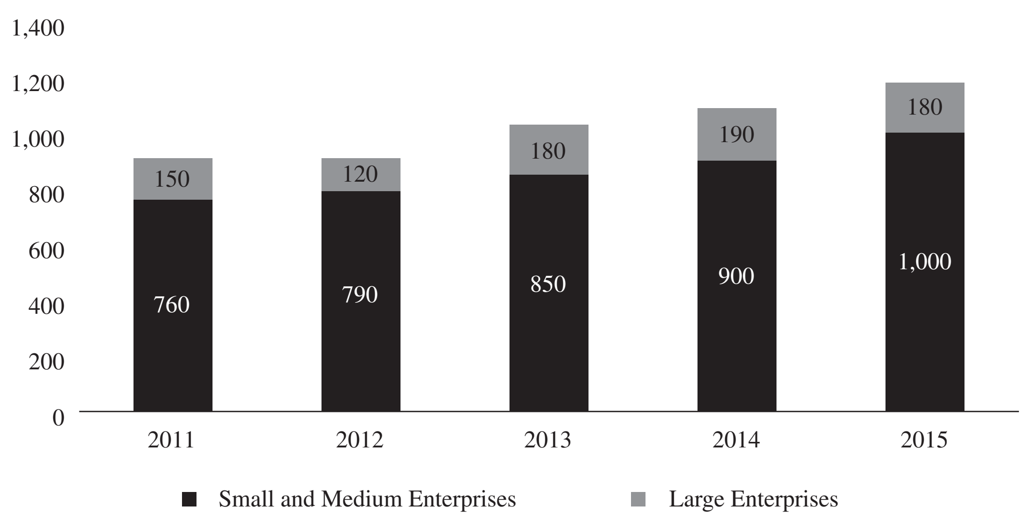
The demand for waste management services is expected to see a growth due to the increasing concerns over environmental issues. Government has put a lot of effort to implement waste management policies, hence service providers will have the opportunity to expand into these areas to cater these needs. As one of the key businesses of the Target Group comprises the provision of cleaning services in Hong Kong, such as general cleaning, waste management and disposal, external wall and window cleaning, pest control and clinical waste management, an increase in demand for waste management services in the future will create market opportunities for waste management service providers such as the Target Group.

Competitive Landscape

Environmental hygiene service market in Hong Kong

According to Frost & Sullivan, the number of environmental hygiene service providers in Hong Kong have increased at a CAGR of approximately 6.7% from 910 in 2011 to 1,180 in 2015. Most of these new service providers are small and medium scale enterprises which only a small number are able to expand their business scale.

Number of environmental hygiene service providers in Hong Kong (2011–2015)

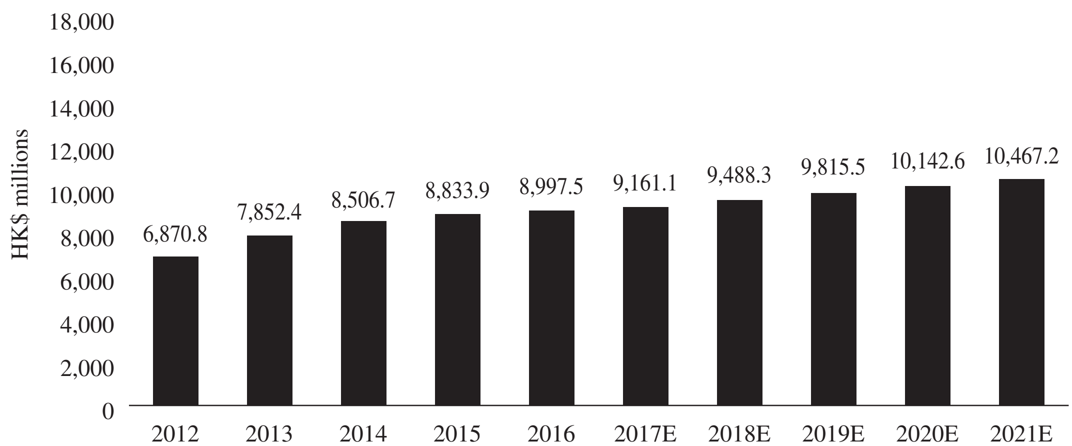


Source: Frost & Sullivan

The market concentration is high, with an aggregate market share of approximately 57.3% coming from the top 10 players in 2017. Waihong Cleaning Limited Group ranked third among these top ten players in terms of revenue by contributing approximately 7.9% of entire market in 2017.

Laundry service market in Hong Kong

Market size of the environmental hygiene service market in Hong Kong by revenue (2012–2021E)



Source: Frost & Sullivan

In view of the tourist industry and increasing number of hotels and restaurants, the total revenue of the laundry service market was approximately HK$6,870.8 million in 2012 and experienced a CAGR at approximately 7.0% to HK$8,997.5 million in 2016. The total revenue is expected to reach approximately HK$10,467.2 million in 2021.

In 2016, the number of market players in the laundry service market was approximately 500 to 600, which approximately 95% are small and medium enterprises. The number of large enterprises has been increasing over the past years while the number of small and medium enterprises has been decreasing as a result of market competition.

New China Steam Laundry Limited Group is one of the major market players and accounted for approximately 1.7% of the laundry service market in Hong Kong in terms of revenue as at 30 June 2017.

Based on the information above, we consider the environmental hygiene service market in Hong Kong to have considerable growth potential as a result of increasing health and hygiene awareness in Hong Kong. The Target Group, being one of the top ranked players in the industry by revenue, is therefore well-positioned to benefit from the anticipated industry growth in the years to come.

D. Reasons and benefits of the Proposed Acquisition

As stated in the Letter from the Board, the Group is principally engaged in the electrical and mechanical ("**E&M**") and environmental management services with majority of its operations focus in servicing the Hong Kong market. The Group has been exploring opportunities to expand its services scope in order to add momentum to the growth of the Group and the Directors believe that the Proposed Acquisition can offer the following key benefits to the Group:

Diversify income stream

The Group has over 40 years of operating history and a strong customer network with leading companies, which provides the Group a stable source of revenue. The Company has been consistently seeking opportunities that can further expand its business scale and diversify its revenue stream. The Proposed Acquisition is therefore expected to bring a positive financial impact to the Group and achieve diversification of its current business.

The Target Group recorded total revenue of approximately HK$1,130.4 million for the year ended 30 June 2017, which represents approximately 23.4% of the total revenue of the Enlarged Group during the same period on a combined and adjusted basis. As such, it is expected that the Target Group will have a material contribution to the income stream of the Enlarged Group after Completion.

Increase the Group's profitability and provide higher return to the Shareholders through good utilisation of the Group's cash on hand

The Group has achieved progressive growth in net profit over the past few years which allowed it to distribute an increasing level of dividend for the Shareholders. As understood from the Company, the Directors expect to maintain the Company's dividend payout ratio of not less than 30% after completion of the Proposed Acquisition. For the three most recent financial years ended 30 June 2017, the Target Group recorded net profit of approximately HK$46.8 million, HK$50.6 million and HK$51.1 million, respectively. As the Target Group has been profit-making historically and the Proposed Acquisition will not result in any dilution on the Company's shareholding, it is expected that the Proposed Acquisition will have a positive impact on the earnings per share of the Company, and thereby enhance the value of the Shareholders. The Directors therefore believe that the Proposed Acquisition represents a good investment for the Group to utilise its cash on hand to engage in businesses that could enhance recurring profit in the long term and lead to an accretion to the Company's earnings per Share, which ultimately may lead to an increase in dividends being distributed to the Shareholders. In short, the ability to enhance Shareholders' return in the long term is one of the key reasons for the Company to enter into the Proposed Acquisition.

Re-allocate resources to achieve synergies and better deployment of resources

The Directors believe that the Proposed Acquisition could bring potential cross-selling opportunities among the client base of the Group and the Target Group in areas of water testing services, odour removal services at refuse collection centres; broader client base to promote its municipal solid waste discharging services etc. The Directors also believe that the Group could optimise the deployment of manpower across various business segments to improve operation efficiency and cost control.

In terms of cross-selling opportunities, after Completion, the Enlarged Group will have a larger client base shared by the engineering business and cleaning and laundry business. For example, customers which are main contractors in a construction project may need to engage sub-contractors for both engineering management services and general waste collection services; as the Enlarged Group will have experience and expertise in both of these areas, its tender submission may be considered more competitive than other service providers.

In terms of better use of manpower across various business segments, after Completion, staff (especially frontline workers) of the Enlarged Group will be able to have the opportunity to apply his/her skills in other jobs (that requires little additional training or qualification) which were not available to him/her before Completion. For example, a cleaner can be assigned with the task of changing the air-conditioner filter at the venue that he/she is cleaning. As a result of this, the customer receives additional value from the Enlarged Group as a service provider.

Re-position the Group into a leading diversified services player in Hong Kong with market leadership position

The combination of the Group's existing business operations and the Target Group's business operations will allow the Group to re-position itself into a leading diversified services player in Hong Kong, covering E&M services, property services (including cleaning and laundry services) and environmental management services, with industry leading position in respective areas. The Target Group's environmental hygiene service business is one of the top three players in the Hong Kong market for FY2017 in terms of revenue according to Frost & Sullivan. Please refer to the section headed "C. Industry overview" above for more information on the industry of the Target Group.

Our view

Having considered the above, although the Proposed Acquisition does not fall within the ordinary and usual course of business of the Group, given the aforesaid benefits expected to be accrued to the Group and the market leading position of the Target Group, we concur with the view of the Directors that the Proposed Acquisition is beneficial and in the interests of the Company and the Independent Shareholders as a whole.

E. Key terms of the Sale and Purchase Agreement

For details of the terms of the Sale and Purchase Agreement, please refer to the paragraph headed "THE PROPOSED ACQUISITION" in the Letter from the Board. Principal terms of the Sale and Purchase Agreement are summarised as follows:

(i) Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Buyer has conditionally agreed to acquire from the Seller the Sale Shares, representing the entire issued share capital of the Target Company.

(ii) The Consideration

The initial consideration for the Proposed Acquisition is HK$502,000,000 (subject to NTAV adjustment, if any, as mentioned below) and was agreed after arm's length negotiations between the Seller and the Buyer having taken into consideration various factors, including but not limited to (i) the audited financials of the Target Group for FY2017; (ii) the adjustments to arrive at the FY2017 Adjusted Net Profit (as defined and explained in further details under the section headed "F. Fairness and reasonableness of the Consideration" below); (iii) the business valuation of the Target Group conducted by an independent professional valuer based on historical financial performance of the Target Group; and (iv) the NTAV of the Target Group as at 31 December 2017. We consider the aforementioned factors to be fair as the initial consideration was primarily determined based on the latest available financial performance and financial position of the Target Group, details of which are set out in Appendix II and III to this circular. As the Target Group's historical financial performance and financial position had been relatively stable and we do not note any material unexpected fluctuations in the financial statement line items of the Target Group from FY2015 to FY2017, we consider the latest available financial information of the Target Group (i.e. financial information for FY2017) to be a good indicator of the earning power of the Target Group and therefore is a fair and reasonable point of reference to use when the Buyer and the Seller were determining the valuation (i.e. the initial consideration) of the Target Group. We also understand that the Seller and Buyer made reference to the business valuation of the Target Group conducted by an independent professional valuer, which comprised of the market approach, which is similar to the comparable company analysis we used to analyse the fairness and reasonableness of the Consideration as highlighted in the section headed "F. Fairness and reasonableness of the Consideration" below, and the income approach. The details of such business valuation, such as, among other things, the valuation methodologies, valuation amounts (as disclosed in the Letter from the Board, the fair value of the Target Group as at 31 December 2017 was in the range between HK$578 million and HK$644 million according to such business valuation), assumptions and comparables used are set out in Appendix V to this circular. For the avoidance of doubt, we did not rely on such business valuation report when forming our opinion on whether the Consideration is fair and reasonable. We consider our analysis on the Consideration, details of which are set out in the section headed "F. Fairness and reasonableness of the Consideration" below, are sufficient in allowing us to form an accurate opinion on the fairness and reasonableness of the Consideration. Even though we did not rely on such business valuation report to form our opinion, as part of our independent work performed, we discussed with management of the Company to understand, among other things, the methodologies and assumptions used by the independent valuer to derive the range of indicated values of the Target Group as at 31 December 2017. From such discussion, we did not note any irregularities in relation to the business valuation report nor we did have any disagreements on the methodologies and assumptions used in the business valuation report. Hence, we consider it reasonable that the Seller and the Buyer would make reference to, among other things, the business valuation report when determining the Consideration.

Pursuant to the Sale and Purchase Agreement, the Buyer shall at its own costs and expenses deliver to the Seller a completion balance sheet (the "**Completion Balance Sheet**") showing the NTAV of the Target Group as at the Completion Date, which shall either be (i) (if the financial statements can be agreed to by the Seller and the Buyer) an unaudited consolidated balance sheet of the Target Group as at the Completion Date, which shall be delivered within 60 days after the Completion Date; or (ii) (if the financial statements cannot be agreed to by the Buyer and the Seller) an audited consolidated balance sheet of the Target Group as the Completion Date, which shall be delivered within 90 days after the Completion Date. If the NTAV of the Target Group as at the Completion Date is greater than the NTAV of the Target Group as at 31 December 2017, 100% of the difference shall be added to the initial consideration for the Sale Shares, or if the NTAV of the Target Group as at the Completion Date is smaller than the NTAV of the Target Group as at 31 December 2017, 100% of the difference shall be deducted from the initial consideration for the Sale Shares. After performing the above adjustment, any excess in the initial consideration paid on Completion Date shall be refunded by the Seller to the Buyer by cheque without interest, and any shortfall in the initial consideration shall be paid by the Buyer to the Seller by cheque without interest, within 7 business days following the delivery of the Completion Balance Sheet by the Buyer to the Seller.

For our analysis on the fairness and reasonableness of the Consideration, please refer to the section headed "F. Fairness and reasonableness of the Consideration" below. With regards to the aforementioned NTAV adjustment mechanism, we consider it fair as the initial consideration will be adjusted dollar-for-dollar according to the difference in the Target Group's NTAV between 31 December 2017 (i.e. the date of reference of the NTAV used by the Seller and the Buyer to determine the initial consideration) and Completion Date (i.e. the date on which the Consideration will be paid by the Buyer to the Seller).

(iii) Terms of payment

The Consideration shall be paid by the Buyer to the Seller in cash on the Completion Date.

(iv) Conditions precedent

Please refer to the sub-section headed "Conditions precedent to Completion" in the Letter from the Board for details of the conditions of the Proposed Acquisition.

If the Conditions shall not be fulfilled (or, as the case may be, waived) by the prescribed date and time, the Sale and Purchase Agreement shall automatically terminate with immediate effect.

(v) Completion

Subject to the fulfillment (or, as the case may be, waived) of the Conditions, completion of the Proposed Acquisition shall take place on the Completion Date.

(vi) Other key terms

Prior to the execution of the Sale and Purchase Agreement, the Seller has provided certain corporate guarantees for the performance of some obligations by certain member of the Target Group in favour of certain lending banks and contract counterparties of the Target Group. Pursuant to the Sale and Purchase Agreement, the existing corporate guarantees provided by the Seller that are subsisting as at the Completion Date are to remain in place for a period of one year thereafter (or such other period as may be agreed between the Seller and the Buyer). The Buyer shall use its reasonable endeavours to procure such existing corporate guarantees provided by the Seller to be released and replaced by such new corporate guarantees provided by the Group as soon as practicable and not later than the expiration of the aforesaid one-year period or such other period as the Buyer and the Seller may agree.

We consider the above term to be beneficial to the Group as the Seller will continue to support the Target Group within a reasonable timeframe after Completion, and this gives time to the Company to replace the credit support required for the operations of the Target Group after Completion to ensure smooth transition.

F. Fairness and reasonableness of the Consideration

The Target Group is principally engaged in the provision of facility services including cleaning and laundry services. The Target Group's cleaning services are operated through the Waihong Cleaning Limited Group and the Target Group's laundry services are operated through the New China Steam Laundry Limited Group. For each of FY2015, FY2016 and FY2017, revenue generated from the Waihong Cleaning Limited Group i.e. cleaning services accounted for more than 80% of the Target Group's total revenue. In assessing the fairness and reasonableness of the Consideration, we have primarily adopted the price-to-earnings approach which has been considered as a suitable approach for analysing companies that have a track record of generating profits. Given that the Target Group was profitable in each of FY2015, FY2016 and FY2017, we consider that the price-to-earnings ratio is a suitable method to evaluate the fairness of the Consideration.

We have conducted research on comparable companies which (i) are listed on the Stock Exchange; (ii) are principally engaged in cleaning and environmental services (which at least 50% of the total revenue is attributable to such business based on the latest published results announcement); and (iii) were profit making in their most recent financial year. When determining the above, we have taken into account the principal business of the Target Group, the Target Group's revenue contribution from cleaning services that accounted for more than 80% of the Target Group's revenue for each of FY2015, FY2016 and FY2017. Based on the relevant criteria above, we have identified four comparable companies (the "**Comparables**") with details set out below. We consider that the Comparables represent the exhaustive list of comparable companies under the relevant criteria above.

Company name	**Stock exchange**	**Stock code**	**Principal business**	**Market capitalisation**	**Net profit**	**P/E Ratio**
						(approximately times)
				HK$'million	*HK$'million*	
				(Note 1)	*(Note 2)*	*(Note 3)*
Baguio Green Group Limited	Main Board of the Stock Exchange	1397	Principally engaged in the provision of cleaning and environmental services.	340.3	25.0	13.6
Man Shing Global Holdings Limited	GEM of the Stock Exchange	8309	Principally engaged in the provision of cleaning solutions and other value-added cleaning services.	204.0	14.2 *(Note 4)*	14.4
Winson Holdings Hong Kong Limited	GEM of the Stock Exchange	8421	Principally engaged in the provision of environmental hygiene, pest management and related services.	258.0	19.1 *(Note 5)*	29.7
Lapco Holdings Limited	GEM of the Stock Exchange	8472	Principally engaged in the provision of environmental hygiene services.	248.0	15.7 *(Note 6)*	15.8
					Mean	**18.4**
					Median	**15.1**
					High	**29.7**
					Low	**13.6**

	The Consideration	**FY2017 Adjusted Net Profit (defined below)**	**Implied P/E ratio of the Proposed Acquisition**
			(approximately times)
	HK$	*HK$'million*	
Implied multiple of the Proposed Acquisition	502,000,000	50.6 *(Note 7)*	9.9 *(Note 8)*

Source: Bloomberg and the website of the Stock Exchange

Notes:

(1) Data regarding the market capitalisations are extracted from Bloomberg as at 15 March 2018, being the Latest Practicable Date.

(2) The respective net profit attributable to owners of the company of the Comparables are based on their latest published full-year results announcements.

(3) The price-to-earnings ratios of the Comparables are calculated by dividing their market capitalisations as at the Latest Practicable Date by their net profit based on their latest published results announcement.

(4) This excludes the non-recurring listing expense of approximately HK$11.5 million incurred during the latest financial year ended 31 March 2017.

(5) This excludes the non-recurring listing expense of approximately HK10.4 million incurred during the latest financial year ended 31 March 2017.

(6) This excludes the non-recurring listing expense of approximately HK$6.9 million incurred during the latest financial year ended 31 December 2016.

(7) As discussed with management of the Target Group and the Company, the net profit of the Target Group for FY2017 should be adjusted for the following non-recurring items when assessing the fairness and reasonableness of the Consideration based on the P/E Ratio:

Items	*HK$'000*	**Remarks**
Net profit of the Target Group for FY2017	**51,113**	
Add:		
Management fee	5,800	*Remark (a)*
Donation	2,481	*Remark (b)*
Minus:		
Difference between market rental and rental of tenancy agreement between the New China Steam Laundry Limited Group and the Doo's Associates Group	(8,856)	*Remark (c)*
Net tax effects:		
Net tax effects as a result of the above adjustments using a tax rate of 16.5%	95	*Remark (d)*
Adjusted net profit of the Target Group for FY2017 (the "FY2017 Adjusted Net Profit")	**50,633**	

Remarks to the Adjusted Net Profit calculations

a. Historically, the holding company of the Target Group provided management support and received annual management fee. As this arrangement expired on 30 June 2017 and will not continue after Completion, this management fee should be excluded from the net profit of the Target Group.

b. Donation represents a non-recurring item.

c. The rental stipulated in the tenancy agreement currently entered into between the New China Steam Laundry Limited Group and the Doo's Associates Group is below market rental. A new tenancy agreement will be entered into between the parties to reflect market rental in around April 2018.

d. The overall tax effects are estimated by 16.5%* (HK$8,856,000 – HK$5,800,000 – HK$2,481,000) = approximately HK$95,000.

(8) The implied price-to-earnings ratio of the Proposed Acquisition is calculated by dividing the Consideration of HK$502,000,000 by the FY2017 Adjusted Net Profit.

With regards to the adjustments made to each of the net profit of the Target Group (the "**Target Group Adjustments**") and the net profit of the Comparables (the "**Comparables Adjustments**") to derive the respective P/E Ratios, we consider the basis in making the Target Group Adjustments and the Comparables Adjustments to be consistent as the purpose of making these adjustments is to remove certain non-recurring/ one-off items from their respective net profits. Each company has different non-recurring/ one-off items and hence the Target Group Adjustments and the Comparables Adjustment are different. We have only adjusted for the listing expenses for the Comparables (for the ones that have incurred listing expenses) as listing expenses are the only material non-recurring expenses we note from their respective published financial results.

With reference to the above table, the implied P/E Ratio of the Proposed Acquisition is approximately 9.9 times, which is close to the low end of the range of the P/E Ratio of the Comparables of approximately 13.6 to 29.7 times. Having considered that the implied P/E Ratio of the Proposed Acquisition is relatively low and represents an attractive valuation multiple as compared to the Comparables, we consider that the Consideration is fair and reasonable so far as the Company and the Independent Shareholders are concerned. We consider our independent work performed on the Consideration to conclude its fairness and reasonableness, which mainly comprise our analysis on and comparison of the implied P/E Ratio of the Proposed Acquisition against the P/E Ratios of the Comparables, to be sufficient as performing such comparable companies analysis allows us to analyse whether the Buyer is acquiring the Target Group from the Vendor at a valuation that is higher or lower or comparable to companies which are engaged in the same/similar lines of business. In this case, as mentioned previously, we conclude that the implied P/E Ratio represents an attractive valuation multiple from the perspective of the Company and its Independent Shareholders.

Our view

Having considered the above, we are of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Group and the Independent Shareholders as a whole.

G. Financial effects of the Proposed Acquisition

(i) Earnings

After Completion, each entity of the Target Group will become a wholly-owned subsidiary of the Company and their respective financial results, assets and liabilities will be consolidated in the financial statements of the Company. The Proposed Acquisition will therefore widen the earnings base of the Group going forward.

(ii) Net assets

As set out in the unaudited pro form financial information of the Enlarged Group in Appendix IV to this circular, assuming Completion to have occurred as at 31 December 2017, the total assets of the Group of approximately HK$2,604.1 million will decrease to total assets of the Enlarged Group of approximately HK$2,554.1 million as at 31 December 2017. Total liabilities of the Group of approximately HK$1,633.2 million will increase to total liabilities of the Enlarged Group of approximately HK$1,992.9 million as at 31 December 2017. As a result of the above, net tangible assets of the Group of approximately HK$935.3 million will decrease to net tangible assets of the Enlarged Group of approximately HK$509.2 million as at 31 December 2017.

(iii) Working capital

Pursuant to the Sale and Purchase Agreement, the Proposed Acquisition will be paid for by the Buyer in cash on the Completion Date. As stated in the Letter from the Board, the payment of Consideration will be funded by internal resources of the Group.

As extracted from the interim results announcement of the Company for the six months ended 31 December 2017, the Group's cash and bank balances amounted to approximately HK$765.9 million as at 31 December 2017. We are therefore satisfied that the Group will have sufficient internal resources to finance the Consideration of HK$502,000,000 for the Proposed Acquisition.

Our view

Having considered the aforesaid potential financial effects, we concur with management of the Company that the entering into of the Sale and Purchase Agreement will not have a material adverse impact on the Group's earnings and financial position.

H. The Non-Exempt CCTs

In their ordinary and usual course of business, members of the Waihong Cleaning Limited Group and the New China Steam Laundry Limited Group regularly entered into continuing transactions with the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group. It is expected that the above continuing transactions, which will be carried out in the ordinary and normal course of business of the Enlarged Group, will continue after Completion. As such, the Company proposes to enter into each of the 2018 Master Facility Services Agreements with the respective connected person upon Completion.

2018 Master Facility Services Agreements

(1) Principal terms

For details of the terms of each of the 2018 Master Facility Services Agreements, please refer to the paragraph headed "THE 2018 MASTER FACILITY SERVICES AGREEMENTS" in the Letter form the Board.

Principal terms of each of the 2018 Master Facility Services Agreements are summarised below:

Parties : (1a) the Seller (for the 2018 FSE Master Facility Services Agreement);

(1b) NWD (for the 2018 NWD Master Facility Services Agreement);

(1c) NWS (for the 2018 NWS Master Facility Services Agreement);

(1d) NWDS (for the 2018 NWDS Master Facility Services Agreement);

(1e) CTFE (for the 2018 CTFE Master Facility Services Agreement);

(1f) CTFJ (for the 2018 CTFJ Master Facility Services Agreement); and

(2) the Company.

Duration : Each of the 2018 Master Facility Services Agreements shall be for an initial term of three years commencing on the Completion Date and ending on 30 June 2020 (both days inclusive).

Services to be provided by the Enlarged Group to the respective connected person under each of the agreements : Cleaning and Laundry Services, and such other types of services as members of the Enlarged Group and members of the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group may agree upon from time to time in writing.

Services to be provided by the respective connected person to the Enlarged Group under each of the agreements : (1) Rental and Related Services, and such other types of services as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing.

The premises to be leased by the Doo's Associates Group to the Enlarged Group include:

(i) Units 11–15, 8/F., Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong, having an aggregate floor area of approximately 9,143 square feet;

(ii) the whole of New China Laundry Group Building, No. 6 Yip Cheong Street, Fanling, New Territories, Hong Kong, having an aggregate floor area of approximately 101,463 square feet; and

(iii) Valet shop at Convention Plaza, 11/F, Convention Plaza Apartments, 1 Harbour Road, Wanchai, Hong Kong, having an aggregate floor area of 230 square feet

and such other premises as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing.

(2) IT Support Services, and such other types of services as members of the Enlarged Group and members of the Enlarged Group and members of the NWS Group may agree upon from time to time in writing.

Definitive agreements : Members of the Enlarged Group and members of each of the Doo's Associates Group, the NWD Group, the NWS Group, the NWDS Group, the CTFE Group and the CTFJ Group will, from time to time during the term of the 2018 Master Facility Services Agreements, respectively, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder.

Pricing principal : On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to and from independent third parties.

Payment terms

Although the 2018 Master Facility Services Agreements did not specify the relevant payment terms for each of the Services, we understand from management of the Company and as disclosed in the Letter from the Board that based on the practice of previous transactions between the group members of the relevant parties to the 2018 Master facility Services Agreements as summarised below, the Company anticipates that the future transactions to be carried out pursuant to the 2018 Master Facility Services Agreements will not significantly deviate from such past practice:

— as regards to the Cleaning and Laundry Services, the relevant members of the Target Group usually issued invoice by the end of each month and require payment to be made in arrears by the relevant members of the counterparties to the 2018 Master Facility Services Agreement. Depending on the terms of each tender contract, the Target group usually allow 30 to 120 days of credit term for cleaning services, and 30 to 60 days of credit term for laundry services. As part of our due diligence work performed, we note from the Comparables' latest published financial results that the credit terms which they offer to their customers are generally in line with the credit terms offered by the Target Group;

— as regards to the Rental and Related Services, payment would usually be made on a monthly basis in advanced by the relevant members of the Target Group to the relevant members of the Doo's Associates Group at the beginning of each month. We consider rental payments made on a monthly basis to be in line with general market norm; and

— as regards to the IT Support Services, payment would usually be made by the relevant members of the Target Group to relevant members of the NWS Group upon receipt of invoice which was usually issued annually. We also consider payments to be made after the issuance of invoice by the service provider to be in line with general market norm.

Taking into account the above, we consider the payment terms of the 2018 Master Facility Services Agreements to be fair and reasonable.

Pricing principal

With regards to the pricing principal of the 2018 Master Facility Services Agreements, to ensure the Non-Exempt CCTs will be conducted on normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to and from independent third parties, we understand from the Company that they will have the following procedures in place for the Cleaning and Laundry Services, the Rental and Related Services and the IT Support Services.

Cleaning and Laundry Services

Cleaning and Laundry Services relate to (i) cleaning services including general cleaning, waste management and disposal, external wall and window cleaning, pest control and clinical waste management rendered at commercial buildings, residential buildings, public transportations and other public institutions and facilities; and (ii) laundry services including laundry, dry cleaning and linen management services to corporate customers and the operation of dry cleaning and laundry retail valet outlets.

For Cleaning and Laundry Services to be provided by members of the Enlarged Group to members of the counterparties to the 2018 Master Facility Services Agreement, as stated in the Letter from the Board, the fees payable by the counterparties to the Enlarged Group will be determined by reference to comparables of fee quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered.

We understand from management of the Target Group that historically for almost all of the Cleaning and Laundry Services provided by the Waihong Cleaning Limited Group or the New China Steam Laundry Limited Group, their respective customers would first invite them to a tender (or similar processes) to bid for a service contract, and the contractor who wins the tender will secure the service contract to provide the required Cleaning and Laundry Services for a given term. We further understand from management of the Target Group that as part of the internal tender procedures, before the Waihong Cleaning Limited Group or the New China Steam Laundry Limited Group responded to these tender invitations, there will normally be a discussion with the respective groups' general manager to confirm the tendering strategies taking into account factors such as the estimated profit margin of the potential contract, length of business relationship and any potential development of strategic partnerships in the future with the customer. In relation to the estimated profit margin, it would normally be determined based on factors including the nature and complexity of the relevant project, the expected competitiveness of the tender based on previous experience, and the historical profit margin of similar type of existing contracts. After considering these factors, the Waihong Cleaning Limited Group or the New China Steam Laundry Limited Group will submit quotations for the tenders by making reference to internal unit cost lists (if any), as well as similar existing contracts entered into by the Waihong Cleaning Limited Group or the New China Steam Laundry Limited Group with other customers. For example, for the New China Steam Laundry Limited Group, prices of individual items laundered for existing clients with similar background such as similar star rating of hotels, similar material of items such as 100% or 50% cotton linen and 50% polyester linen, and similar item sizes such as queen or king-size bedding products, will be referred to, if available. We understand from management of the Target Group that this is to ensure the prices charged by the Waihong Cleaning Limited Group or the New China Steam Laundry Limited Group are generally in line for contracts which are of similar nature, criteria, requirements and services. For the purpose of our due diligence work performed, we have reviewed all the contracts entered into by the Waihong Cleaning Limited Group or the New China Steam Laundry Limited Group with their respective top five customers for each of FY2015, FY2016 and FY2017 (the "**FY15–17 Top Customers**"), which consisted of independent third parties and certain counterparties to the 2018 Master Facility Services Agreement i.e. connected persons of the Company upon Completion. In addition to the aforementioned contract reviews, we have also reviewed (i) the respective internal tender manual of each of the Waihong Cleaning Limited Group and the New China Steam Laundry Limited Group; and (ii) the full set of tender walkthrough documents for the contract tenders relating to the FY15–17 Top Customers. Based on the above due diligence work performed, we note that the contract tenders for the FY15–17 Top Customers adhered to the procedures stipulated in the respective internal tender manual of each of the Waihong Cleaning Limited Group and the New China Steam Laundry Limited Group, respectively. Moreover, we also note from the internal correspondences of various responsible staffs and departments from each of the Waihong Cleaning Limited Group and the New China Steam Laundry Limited Group that they have communicated on the estimation of the profit margin as described in the procedures above and have made reference to the price of items charged to other existing customers before submitting the relevant tender quotation. The above findings allow us to conclude that based on the documents reviewed for the FY15-17 Top Customers, the Waihong Cleaning Limited Group and the New China Steam Laundry Limited Group followed the same internal procedures when responding to tenders and submitting quotations to customers regardless of whether they are independent third parties or connected parties.

As mentioned previously, with regards to the pricing policy and procedures to be adopted and applied by the Enlarged Group for the Cleaning and Laundry Services after Completion, the fees payable by the relevant counter parties to the Enlarged Group will be determined by reference to comparables of fee quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered. Such pricing policy and procedures to be adopted by the Enlarged Group are therefore generally consistent with what the Target Group has historically adopted, in particular procedures relating to making references to quotations/existing contracts entered into between the Target Group and other customers for similar type of services when deciding on the tender price. We understand this is to ensure the prices to be charged by the Enlarged Group will generally be similar for contracts which are of similar nature, criteria, requirements and services. We also understand from the Company that for contracts to be entered into between the Enlarged Group and its customers for the provision of Cleaning and Laundry Services after Completion, the Enlarged Group will have to go through very similar procedures as the Target Group in the past. Given the above, we consider that the Enlarged Group will have internal procedures in place to ensure the Cleaning and Laundry Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

Rental and Related Services

For Rental and Related Services to be provided by members of the Doo's Associates Group to members of the Enlarged Group, as stated in the Letter from the Board, the rental payable by the Enlarged Group will be determined by reference to the market rental of the property concerned current at or close to the lease commencement date by reference to rentals comparables of similar properties in similar locations and where applicable, with comparable facilities, obtained from independent property agencies or parties.

Throughout the term of the 2018 Master Facility Services Agreements, a substantial portion of the Rental and Related Services are expected to be attributable to the tenancy agreement between the New China Steam Laundry Limited Group and the Doo's Associates Group. We understand from the Company that the tenancy agreement currently entered into between the New China Steam Laundry Limited Group and the Doo's Associates Group is below market rental, and a new tenancy agreement will be entered into between the two parties reflecting market rental with commencement date expected to be around April 2018. We have discussed with management of the Company to understand that when determining the revised rental fees to reflect market rental, the Company has made reference to market rentals for comparable office spaces in nearby locations obtained from independent property agencies. As the revised rental fee is based on fees charged in the market, we consider the Rental and Related Services to be provided to the Enlarged Group after Completion to be on normal commercial terms.

IT Support Services

IT Support Services relate to the maintenance and support of computer software-related matters, such as solving software and hardware conflicts and usability problems and supplying updates and patches for bugs, security holes in the programme and other services as required by in-house staff as and when necessary.

For IT Support Services to be provided by members of the NWS Group to members of the Enlarged Group, the fees payable by the Enlarged Group would usually be determined based on arm's length negotiations between the service provider and the service recipient, taking into account factors including the number of users, types of functions and the replacement costs of the relevant information technology systems or software. It is expected that where comparables are available for the type of service concerned, such comparables would also be taken into account when the service charges are determined.

As part of our due diligence work performed, we selected the one and only existing contract entered into between the Target Group and the NWS Group, which relates to the provision of software system maintenance services by the NWS Group to the Waihong Cleaning Limited Group, and understood that as part of the Target Group's internal procedures, it also obtained fee quotations from independent third party suppliers for fee comparison purpose before selecting NWS Group as the service provider for the relevant IT Support Services. As further understood from management of the Target Group, factors such as pricing and the type of services required would be considered. As such, we consider the Target Group to have internal control procedures in place to ensure the fees to be charged by the NWS Group for the IT Support Services will be no less favourable to the Enlarged Group than terms available from independent third parties.

Our view

Based on the above, in particular that (i) the entering into each of the 2018 Master Facility Services Agreements fall within the ordinary and usual course of business of the Enlarged Group after Completion; (ii) the Enlarged Group will have internal control procedures in place to ensure the Non-Exempt CCTs will be conducted on normal commercial terms, negotiated on arm's length basis and at prices and on terms no favourable to the Enlarged Group than terms available to and from independent third parties after Completion; (iii) each of the 2018 Master Facility Services Agreements do not restrict the Group from providing Cleaning and Laundry Services to, receiving Rental and Related Services from, and receiving IT Support Services from, its independent third parties; and (iv) the major terms of each of the 2018 Master Facility Services Agreements are fair and reasonable, we concur with the view of the Company that the terms of each of the 2018 Master Facility Services Agreements are fair and reasonable, on normal commercial terms and in the interests of the Group and the Independent Shareholders as a whole.

(2) The Annual Caps

Historical transaction amounts

As disclosed in the Letter from the Board, the following table sets out the historical amounts in respect of the Services Transactions for each of FY2016, FY2017 and the six months ended 31 December 2017:

	Historical amounts		
Categories	**FY2016**	**FY2017**	**six months ended 31 December 2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Services between the Target Group and the Doo's Associates Group			
Cleaning and Laundry Services provided by the Target Group to Doo's Associates Group	130,036	147,226	78,349
Rental and Related Services provided by the Doo's Associates Group to the Target Group	11,979	12,416	3,636
Services between the Target Group and the NWD Group			
Cleaning and Laundry Services provided by the Target Group to NWD Group	18,505	32,152	27,735
Services between the Target Group and the NWS Group			
Cleaning and Laundry Services provided by the Target Group to NWS Group	17,800	25,621	10,811
IT Support Services provided by the NWS Group to the Target Group	101	108	56

Categories	FY2016	FY2017	six months ended 31 December 2017
	Historical amounts		
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Services between the Target Group and the NWDS Group			
Cleaning and Laundry Services provided by the Target Group to NWDS Group	11	nil#	nil#
Services between the Target Group and the CTFE Group			
Cleaning and Laundry Services provided by the Target Group to CTFE Group	32	92	50
Services between the Target Group and the CTFJ Group			
Cleaning and Laundry Services provided by the Target Group to CTFJ Group	302	256	129

#Note: The historical transaction amounts in FY2016 related to the Cleaning and Laundry Services provided to NWDS in Hong Kong. The Company understand that NWDS ceased to have such business need in FY2017 and FY2018. As such, there were no transaction amount applicable during these periods. Looking forward, the Target Group expects to tender for contracts with the NWDS Group for Cleaning and Laundry Services to be rendered at the department stores owned and operated by the NWDS Group in the PRC.

Annual Caps

As disclosed in the Letter from the Board, the following table sets out the respective Annual Caps in respect of the Services Transactions for each of FY2018, FY2019 and FY2020:

Categories	Annual Caps FY2018* *(HK$'000)*	FY2019 *(HK$'000)*	FY2020 *(HK$'000)*
2018 FSE Master Facility Services Agreement			
Cleaning and Laundry Services to be provided by the Enlarged Group to the Doo's Associates Group	41,849*	184,889	209,705
Rental and Related Services to be provided by the Doo's Associates Group to the Enlarged Group	4,801*	18,199	18,421
2018 NWD Master Facility Services Agreement			
Cleaning and Laundry Services to be provided by the Enlarged Group to the NWD Group	13,483*	98,384	107,471
2018 NWS Master Facility Services Agreement			
Cleaning and Laundry Services provided by the Target Group to NWS Group	4,732*	21,385	31,152
IT Support Services provided by the NWS Group to the Target Group	116*	122	128

Categories	Annual Caps FY2018* (HK$'000)	FY2019 (HK$'000)	FY2020 (HK$'000)
2018 NWDS Master Facility Services Agreement			
Cleaning and Laundry Services provided by the Target Group to NWDS Group	nil*	2,286	4,572
2018 CTFE Master Facility Services Agreement			
Cleaning and Laundry Services provided by the Target Group to CTFE Group	1,683*	20,006	20,015
2018 CTFJ Master Facility Services Agreement			
Cleaning and Laundry Services provided by the Target Group to CTFJ Group	65*	260	262

**Note:* The Annual Caps for FY2018 are estimated on the assumption that completion of the Proposed Acquisition will take place on 10 April 2018.

With respect to the 2018 Master Facility Services Agreements, as set out in the Letter from the Board, the respective Annual Caps have been determined based on the following factors:

(i) in relation to the Cleaning and Laundry Services to be provided by the Enlarged Group to the Doo's Associates Group and the NWD Group:

a. the historical annual or annualised amounts in respect of the Cleaning and Laundry Services provided by the Target Group to the counterparties during FY2016, FY2017 and the six months ended 31 December 2017; and

b. the projected annual or annualised amounts in respect of the Cleaning and Laundry Services to be provided by the Enlarged Group to the counterparties during the three years ending FY2018, FY2019 and FY2020, having taken into account the following major factors:

— the business growth and need of the Enlarged Group; and

— the estimated market prices of such services by reference to the current market prices after factoring into the expected increase in service costs as well as inflation.

Furthermore, as stated in the Letter from the Board, the estimated increase in Annual Caps for the Cleaning and Laundry Services as compared with historical transaction amounts is mainly due to the estimated future demand for Cleaning and Laundry Services from the group members of the counterparties of the 2018 Master Facility Services Agreements with which the Target Group has a long-term business relationship. The forecasted increase in the Annual Caps is mostly due to a number of new and potential cleaning service contracts which are expected to commence near the end of FY2018 or during FY2019, which cover cleaning services to be provided for mainly commercial and residential properties, a commercial complex, and a mixed use development in Kowloon. In addition, when estimating the Annual Caps, the Company has also applied an increment on the service charges for estimated renewal of the existing cleaning contracts of the Cleaning and Laundry Services under each of the 2018 Master Facility Services Agreements, based on historical percentage of increase, the historical and expected future increase in minimum wage and general inflation.

(ii) in relation to the Rental and Related Services to be provided by the Doo's Associates Group to the Enlarged Group:

a. the expected rentals as may be paid by the Enlarged Group under each of the 2018 Master Facility Services Agreements taking into account the current rentals and expected market rentals of similar properties in similar locations; and

b. the Enlarged Group's demand in floor spaces for office premises, warehouse, car parking spaces and other business uses of the Enlarged Group to cope with the Enlarged Group's business growth.

Furthermore, as stated in the Letter from the Board, the estimated increase in Annual Caps for the Rental and Related Services as compared with historical amounts is mainly due to the adjustment of rental to market rate after Completion.

(iii) in relation to the IT Support Services to be provided by the NWS Group to the Enlarged Group:

a. the historical annual or annualised amounts in respect of the IT Support Services provided by the NWS Group to the Target Group during FY2016, FY2017 and the six months ended 31 December 2017; and

b. the projected annual or annualised amounts in respect of the IT Support Services to be provided by the NWS Group to the Enlarged Group during the three years ending FY2018, FY2019 and FY2020, having taken into account the following major factors:

— the business growth and need of the Enlarged Group; and

— the estimated market prices of such services by reference to the current market prices after factoring into the expected increase in service costs as well as inflation.

Furthermore, as stated in the Letter from the Board, the estimated increase in Annual Caps for the IT Support Services is mainly due to the expected growth of cleaning business which requires continuing maintenance, improvement, upgrading and development of the computer systems currently used by the Target Group.

In assessing the fairness and reasonableness of the Annual Caps, we have reviewed and discussed with the Company with regards to the underlying calculations. The Annual Caps predominantly relate to the Cleaning and Laundry Services to be provided by the Enlarged Group to its connected persons. We understand from the underlying calculations that the Company's projections of the Annual Caps are mainly based on existing/secured contracts of both the Waihong Cleaning Limited Group and the New China Steam Laundry Limited Group. Other than existing contracts, the Company has also estimated contracts which the Enlarged Group will successfully tender for and commence providing services to during FY2019 and FY2020. As the Enlarged Group will be one of the leading reputable contractors for providing Cleaning and Laundry Services in the market and has long term business relationships with the respective counter parties of the 2018 Master Facility Services Agreements, we concur with management of the Company that the Enlarged Group will have a good chance in successfully renewing a majority of its existing contracts and obtaining certain new contracts with the respective counter parties of the 2018 Master Facility Services Agreements in the years to come.

Set out below is our analysis on the respective Annual Caps for each of the 2018 Master Facility Services Agreements based on the underlying calculations we reviewed.

2018 FSE Master Facility Services Agreement

With regards to the Annual Caps for FY2018, they are estimated on the assumption that completion of the Proposed Acquisition will take place on 10 April 2018. As such, the Annual Caps for FY2018 are estimated for a period of approximately three months from April 2018 to the end of June 2018. The amount of Cleaning and Laundry Services to be provided by the Enlarged Group during this period of approximately HK$41.8 million have been determined based on existing contracts and the historical transaction amounts for the six months ended 31 December 2017 of approximately HK$78.3 million. The amount of HK$41.8 million is in line with the historical six-month amount of approximately HK$78.3 million pro-rated for three months, which is equal to approximately HK$39.2 million. With regards to the Annual Caps relating to the Rental and Related Services to be provided by the Doo's Associates Group to the Enlarged Group for FY2018 of approximately HK$4.8 million, this amount is larger than the historical transaction amount of approximately HK$3.6 million for the six months ended 31 December 2017 as it is expected that the New China Steam Laundry Limited Group will enter into a new tenancy agreement for its administrative headquarters with the Doo's Associates Group with upward revision in rental fee to reflect market rental starting from April 2018. We have discussed with management of the Company to understand that when determining the revised rental fees to reflect market rental, the Company has made reference to market rentals for comparable office spaces in nearby locations.

With regards to the Annual Caps for FY2019, the amount of Cleaning and Laundry Services to be provided by the Enlarged Group of approximately HK$184.9 million are forecasted to increase by approximately HK$25.0 million, or 15.6%, in value from the projected amount of HK$159.9 million for FY2018. Such forecasted increase is mainly due to a number of new cleaning service contracts of the Waihong Cleaning Limited Group which are expected to commence near the end of FY2018 and during the second half of FY2019. These contracts cover cleaning services to be provided for mainly several residential properties, a commercial complex in Chai Wan, and commercial buildings in Wanchai, Mongkok and Central. In addition to these contracts which are expected to commence near the end of FY2018 and during FY2019, we also understand from the Company that for the residential and commercial properties which the Waihong Cleaning Limited Group have been providing cleaning services to for many years and have a good track record in contract renewal, the Annual Caps for FY2019 in relation to the Cleaning and Laundry Services have also assumed and factored in successful renewals before commencement of or during FY2019 for these residential properties, and have included a growth rate in fees for the renewed contracts based on the historical growth rates from FY2017 to FY2018. For the Annual Caps relating to the Rental and Related Services to be provided by the Doo's Associates Group to the Enlarged Group for FY2019 of approximately HK$18.2 million, it is forecasted to be larger than the historical amounts for each of FY2016, FY2017 and FY2018. Such forecasted increase is mainly due to the New China Steam Laundry Limited Group signing a new tenancy agreement for its administrative headquarters with the Doo's

Associates Group with upward revision in rental fee to reflect market rental, and such tenancy agreement is expected to commence in April 2018. The effects from such upward revision in rental fees will be partially offset by the fact that no more management fees will be paid by the Target Group to the Doo's Associates Group after the end of FY2017 as the management fee arrangement ceased since then. The management fees paid to the Doo's Associates Group were part of the Rental and Related Services historical amounts for FY2016 and FY2017.

With regards to the Annual Caps for FY2020, the amount of Cleaning and Laundry Services to be provided by the Enlarged Group of approximately HK$209.7 million are forecasted to increase by approximately HK$24.8 million, or 13.4%, in value from the projected amount of HK$184.9 million for FY2019. We understand that such forecasted increase mainly comes from the expected growth in fees for contracts which are expected to be renewed, and the growth rates for these contracts are based on the historical growth rates from FY2018 to FY2019. We also understand that as mentioned previously, there may be new cleaning service contracts for several residential properties which the Enlarged Group is expected to successfully tender for and commence providing services to during the second half of FY2019, and thus the income for these contracts will have a full-year effect for FY2020. The Annual Caps for the Rental and Related Services to be provided by the Doo's Associates Group to the Enlarged Group for FY2020 are expected to remain stable as compared to that for FY2019.

2018 NWD Master Facility Services Agreement

With regards to the Annual Caps for FY2018, they are estimated for a period of approximately three months from April 2018 to the end of June 2018. The amount of Cleaning and Laundry Services to be provided by the Enlarged Group during this period of approximately HK$13.5 million have been determined based on existing contracts and the historical transaction amounts for the six months ended 31 December 2017 of approximately HK$27.7 million. The amount of approximately HK$13.5 million is in line with the historical six-month amount of approximately HK$27.7 million pro-rated for three months, which is equal to approximately HK$13.9 million.

With regards to the Annual Caps for FY2019, the amount of Cleaning and Laundry Services to be provided by the Enlarged Group of approximately HK$98.4 million are forecasted to increase by approximately HK$44.6 million, or 82.9%, in value from the projected amount of HK$53.8 million for FY2018. Such forecasted increase is mainly due to a number of new cleaning service contracts of the Waihong Cleaning Limited Group which are expected to commence near the end of FY2018 or during FY2019. These contracts cover cleaning services to be provided for mainly a mixed-use development in Kowloon, and both commercial and residential properties. The total transaction amount for the mixed-use development in Kowloon is expected to amount to approximately HK$38 million for FY2019, which contributes to a significant approximately 85% of the growth in Annual Caps in FY2019.

With regards to the Annual Caps for FY2020, the amount of Cleaning and Laundry Services to be provided by the Enlarged Group of approximately HK$107.5 million are forecasted to increase by approximately HK$9.1 million, or 9.2%, in value from the projected amount of HK$98.4 million for FY2019. We understand that such forecasted increase mainly comes from the expected growth in fees for contracts which are expected to be renewed, and the growth rates for these contracts are based on the respective historical growth rates from FY2018 to FY2019.

2018 NWS Master Facility Services Agreement

With regards to the Annual Caps for FY2018, they are estimated for a period of approximately three months from April 2018 to the end of June 2018. The amount of Cleaning and Laundry Services to be provided by the Enlarged Group during this period of approximately HK$4.7 million have been determined based on existing contracts and the historical transaction amounts for the six months ended 31 December 2017 of approximately HK$10.8 million. The amount of approximately HK$5 million is in line with the historical six-month amount of approximately HK$10.8 million pro-rated for three months, which is equal to approximately HK$5.4 million. With regards to the Annual Caps relating to the IT Support Services to be provided by the NWS Group to the Enlarged Group for FY2018 of approximately HK$0.1 million, it is related to the ongoing provision of software system maintenance services for the administrative office of the Waihong Cleaning Limited Group. This amount is expected to remain relatively stable up to FY2020.

With regards to the Annual Caps for FY2019, the amount of Cleaning and Laundry Services to be provided by the Enlarged Group of approximately HK$21.4 million are forecasted to remain relatively stable as compared to the projected amount of HK$20.0 million for FY2018. The small increase mainly comes from several cleaning service contracts for residential properties and a construction site which the Enlarged Group expects to successfully tender for and commence providing services to during FY2019. The Annual Caps for the IT Support Services to be provided by the NWS Group to the Enlarged Group for FY2019 are expected to remain relatively stable.

With regards to the Annual Caps for FY2020, the amount of Cleaning and Laundry Services to be provided by the Enlarged Group of approximately HK$31.2 million are forecasted to increase by approximately HK$9.8 million, or 45.8%, in value from the projected amount of HK$21.4 million for FY2019. We understand that such forecasted increase mainly comes from the full-year effect of some of the aforementioned new cleaning service contracts which are expected to commence during the latter part of FY2019, and several new cleaning service contracts for both private and public residential developments which the Enlarged Group is expected to successfully tender for and commence providing services to during FY2020. The Annual Caps for the IT Support Services to be provided by the NWS Group to the Enlarged Group for FY2020 are expected to remain relatively stable.

2018 NWDS Master Facility Services Agreement

As explained previously, the Annual Caps for FY2018 is nil because it is not expected that any service contracts will commence between the Enlarged Group and NWDS during the year. Going forward, the Enlarged Group, however, expects to tender for a cleaning service contract from NWDS for a department store in the PRC. As such, with regards to the Annual Caps for FY2019, the amount of Cleaning and Laundry Services to be provided by the Enlarged Group is estimated to be approximately HK$2.3 million. We understand from management of the Company that such amount is attributable to a cleaning service contract for a department store in the PRC which the Enlarged Group is expected to successfully tender for and commence providing services to around mid-FY2019. With regards to the Annual Caps for FY2020, the amount of Cleaning and Laundry Services to be provided by the Enlarged Group is estimated to be approximately HK$4.6 million. The increase in amount from FY2019 is due to the full-year effect of the aforementioned cleaning service contract for the department store in the PRC.

2018 CTFE Master Facility Services Agreement

With regards to the Annual Caps for FY2018, they are estimated for a period of approximately three months from April 2018 to the end of June 2018. The amount of Cleaning and Laundry Services to be provided by the Enlarged Group is estimated to be approximately HK$1.7 million, which is substantially larger than the historical transaction amounts between the Target Group and the CTFE Group. We understand from management of the Company that such increase is attributable to a cleaning service contract for a commercial building in the PRC which the Enlarged Group is expected to successfully tender for and commence providing services to during the last month of FY2018. The Annual Caps for FY2019 of approximately HK$20.0 million therefore reflects the full-year effect of this new cleaning service contract. The term of such contract is expected to last until almost the end of FY2020, hence the Annual Caps for FY2020 is almost identical to that of FY2019. Regarding this potential contract, we discussed with and understand from management of the Target Group that Waihong Cleaning Limited Group was invited and submitted the tender to provide cleaning services for this commercial building in FY2015. Although the Waihong Cleaning Limited Group was not awarded the contract in FY2015, management of the Target Group is of the view that the probability of being invited again to tender for this service contract is likely. As such, to cater for the probability of winning the tender and securing this service contract, we consider it fair and reasonable that the Enlarged Group has taken into account this potential contract when determining the Annual Caps for FY2019.

2018 CTFJ Master Facility Services Agreement

With regards to the Annual Caps for FY2018, they are estimated for a period of approximately three months from April 2018 to the end of June 2018. The amount of Cleaning and Laundry Services to be provided by the Enlarged Group during this period of approximately HK$65,000 have been determined based on existing contracts and the historical transaction amounts for the six months ended 31 December 2017 of approximately HK$129,000 pro-rated for three months. The Annual Caps for FY2019 and FY2020 of approximately HK$0.3 million, respectively, have also been determined based on existing contracts and hence, are generally in line with the historical amounts for FY2016, FY2017 and the projected FY2018 of approximately HK$0.3 million. From the underlying calculations we reviewed, we understand that the aforementioned existing projects on hand are mainly for the cleaning services provided for a shop in Tsing Yi and a commercial building in Central.

Internal control procedures regarding the Annual Caps

As stated in the Letter from the Board, the Group has established internal control measures for reporting and monitoring on the continuing connected transactions which will be complied by the Enlarged Group upon Completion to ensure compliance with Chapter 14A of the Listing Rules. According to the Group's prevailing internal accounting policy and procedure manual, the designated officer of operation department and supporting department will immediately report to the legal and company secretarial manager and senior finance manager with details of possible notifiable or connected transactions to be entered by the Group for review and checking in order to determine the appropriate type of disclosure in compliance with Chapter 14A of the Listing Rules. For a transaction that falls within the scope of continuing connected transactions in the ordinary and usual course of business of the Group (such as the Non-Exempt CCTs), the legal and company secretarial manager will check with the actual transactions on a monthly basis to ensure they do not exceed the annual caps of the continuing connected transactions.

As part of our independent work performed, we have discussed with management of the Company to understand the aforementioned internal control procedures and have obtained and reviewed the relevant internal control policy. Given such internal control procedures in place, in particular that there will be a designated person (i.e. the legal and company secretarial manager) monitoring the actual transaction values of the continuing connected transactions on a regular monthly basis, we consider the Enlarged Group to have the appropriate internal control procedures in place to ensure the Annual Caps under each of the 2018 Master Facility Services Agreements will not be exceeded.

Our view

Based on the factors described above and our review of the underlying calculations from the Company, we concur with the view of the Company that the respective Annual Caps under each of the 2018 Master Facility Services Agreements are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. We also consider the Enlarged Group to have the relevant internal control procedures in place to ensure the Annual Caps under each of the 2018 Master Facility Services Agreements will not be exceeded.

We would, however, like to highlight that as the Annual Caps relate to future events and are based upon assumptions that may or may not remain valid for the whole period up to 30 June 2020, we express no opinion as to how closely the actual value of the Cleaning and Laundry Services provided by the Enlarged Group or actual value of the Rental and Related Services received by the Enlarged Group or actual value of the IT Support Services received by the Enlarged Group pursuant to each of the 2018 Master Facility Services Agreements shall correspond to the respective Annual Caps.

I. Requirements by the Listing Rules regarding the Non-Exempt CCTs

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Non-Exempt CCTs are subject to the following annual review requirements:

(a) each year the independent non-executive Directors must review the Non-Exempt CCTs and confirm in the annual report and accounts that they have been entered into:

- in the ordinary and usual course of business of the Group;
- on normal commercial terms or better; and
- according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

(b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Non-Exempt CCTs:

- has not been approved by the Board;
- were not, in all material respects, in accordance with the pricing policies of the Group if the Non-Exempt CCTs involve the provision of goods or services by the Group;

- were not entered into, in all material respects, in accordance with the terms of the relevant agreement(s) governing the Non-Exempt CCTs; and

- have exceeded the respective Annual Caps.

(c) the Company must allow, and ensure that the relevant counter parties to the Non-Exempt CCTs allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Non-Exempt CCTs.

(d) the Company must promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) above, respectively. The Stock Exchange may require the Company to re-comply with the announcement and Shareholders' approval requirements and may impose additional conditions.

In light of the reporting requirements attached to the Non-Exempt CCTs, in particular, (i) the restriction of transaction value by way of the annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the Non-Exempt CCTs and the annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Non-Exempt CCTs and safeguard the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons regarding the Proposed Acquisition and the Non-Exempt CCTs, including, among others:

(i) the Group will be able to diversify from its core business via the Proposed Acquisition, and the Proposed Acquisition will allow the Enlarged Group to solidify its position in the market as a service provider covering a wide spectrum of services from engineering services to environmental and cleaning services;

(ii) the Target Group is one of the leading market players in the environmental hygiene service market with an established customer base, and its stable financial results track record will strengthen the recurring income stream of the Enlarged Group going forward, which is expected to benefit the Company and its Shareholders;

(iii) the implied P/E Ratio of the Proposed Acquisition is relatively lower than the range of the P/E Ratio of the Comparables, which means the Group is able to acquire the Target Company at an attractive valuation multiple;

(iv) the key terms of the Sale and Purchase Agreement, represent normal commercial terms and are fair and reasonable;

(v) the entering into each of the 2018 Master Facility Services Agreements gives flexibility to the Enlarged Group to continue to transact with certain connected persons of the Company who have also been long term customers of the Target Group, and from our due diligence work performed, we note that the Target Group has internal control procedures in place to ensure the Non-Exempt CCTs will be conducted on normal commercial terms, negotiated on arm's length basis and at prices and on terms no favourable to the Enlarged Group than terms available to and from independent third parties after Completion; and

(vi) from our review and understanding of the Annual Caps based on the underlying calculations and explanations provided by the Company, we are of the view that the Annual Caps have been determined with reasonable assumptions and basis;

we are of the opinion that (i) while the Proposed Acquisition is not in the ordinary and usual course of business of the Company, the terms of the Proposed Acquisition are on normal commercial terms, and fair and reasonable; and (ii) the Non-Exempt CCTs (including the respective Annual Caps) are in the ordinary and usual course of business of the Company, on normal commercial terms, and fair and reasonable, so far as the Group and the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the Non-Exempt CCTs (including the respective Annual Caps).

Yours faithfully,
For and on behalf of
Ballas Capital Limited

Heidi Cheng	**Aaron Ko**
Managing Director	*Assistant Director*

Note: Ms. Heidi Cheng of Ballas Capital Limited has been a responsible officer of Type 6 (advising on corporate finance) regulated activity since 2003 and Mr. Aaron Ko of Ballas Capital Limited has been a licensed representative of Type 6 (advising on corporate finance) regulated activity since 2010. Ms. Heidi Cheng and Mr. Aaron Ko of Ballas Capital Limited have participated in and completed various advisory transactions involving acquisitions and continuing connected transactions.

1. FINANCIAL SUMMARY

A summary of the financial information with respect to the profits and losses, financial record and position of the Group for the three financial years ended 30 June 2015, 30 June 2016 and 30 June 2017 is set out in a comparative table on page 139 of the annual report of the Company for the year ended 30 June 2017. The audited financial statements of the Group for the year ended 30 June 2017 together with the notes thereto are contained in the annual report of the Company for the year ended 30 June 2017 published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.fseng.com.hk/) and are incorporated in this Circular by way of reference.

2. STATEMENT OF INDEBTEDNESS

As at 31 January 2018, the Target Group has an unsecured short-term bank loan of HK$80.0 million, guaranteed by FSE Management Company Limited; and a guarantee issued by banks for performance bonds amounting to HK$64.0 million. The Target Group is generally required to provide a counter-indemnity and collateral to the bank that issues a performance bond.

As at 31 January 2018, the Group has guarantee issued by banks for performance bonds amounting to HK$227.0 million. The Group is generally required to provide a counter-indemnity and collateral to the bank that issues a performance bond.

As at 31 January 2018, being the latest practicable date for the purpose of this statement of indebtedness, save as disclosed above in the paragraph headed "Statement of Indebtedness", and apart from the intra-group liabilities and normal trade payables, the Directors were not aware of the Enlarged Group having any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other contingent liabilities.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in this Circular, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 30 June 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that following the completion of the Proposed Acquisition, after taking into account the financial resources available to the Enlarged Group, including the available credit facilities, the internally generated funds from operations, and cash and bank balances of the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular, in the absence of unforeseeable circumstances.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group will take the Proposed Acquisition a step to expand its business scale and broaden its revenue stream. On one hand, the Enlarged Group will continue to provide a comprehensive range of E&M engineering and environmental management services as its core business and on the other hand, the acquired business operations offer a wide range of office support, residential and public sector associated services and related services in Hong Kong and the PRC, such as general cleaning, waste management and disposal, external wall and window cleaning, pest control and clinical waste management. Such services are rendered at commercial buildings, including office buildings and shopping arcades, hotels and serviced apartments, residential complexes, public transportations and other venues such as governmental institutions, theme parks, airport facilities, academic institutions, financial institutions and medical institutions. The acquired business operations also offers laundry, dry cleaning and linen management services to corporate customers, including major high-end hotels, restaurant chains, theme parks, airlines and clubs; and also operate three dry cleaning and laundry retail valet outlets under its ‘‘Kleaners’’ brand in Hong Kong.

Although the Hong Kong Government has unveiled a series of new policies and initiatives in the public and infrastructure projects, there are challenges and uncertainties in the global political and economic environment that necessitate attention, like the formal Brexit negotiations, China's economic growth prospects, further balance-sheet shrinkage and interest rate normalisation measures by the US Federal Reserve, and most recently the unclear trade and fiscal stimulus policies initiated by the US president. Within the current broadly benign global economic conditions, Hong Kong is anticipated to maintain reasonable economic growth but the operating environment at large for businesses in the city still warrants caution and enterprises should be well-prepared for any potential impact from industry volatilities. The combination of the Group's business operations and the Proposed Acquisition's business operations will bring in synergistic effects by broadening customer network, enhancing bargaining power in procurement and better labour and manpower deployment which will increase the operational and cost efficiency in the long run. The Directors believe that the Proposed Acquisition will bring in positive financial impact to the Group and provide a higher return to the shareholders of the Company through better utilization of the Group's working capital.

The Completion will not affect the operation of the Group's core business, rather the Proposed Acquisition will bring a new source of income with steady growth such that the financial position of the Enlarged Group could be enhanced. The Enlarged Group shall endeavour to maintain a strong financial position to stay poised for new investment as well as exploring for alternative business opportunities as and when they arise. As of the Latest Practicable Date, the Company has not identified any alternative business opportunities.

The following is the text of a report set out on pages II-1 to II-3, received from the Target Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF FSE ENGINEERING HOLDINGS LIMITED

Introduction

We report on the historical financial information of Crystal Brilliant Limited (the "**Target Company**") and its subsidiaries (together, the "**Reported Group**") set out on pages II-4 to II-39, which comprises the combined statements of financial position as at 30 June 2015, 2016 and 2017 and 31 December 2017, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years/period then ended (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-39 forms an integral part of this report, which has been prepared for inclusion in the circular of FSE Engineering Holdings Limited (the "**Company**") dated 20 March 2018 (the "**Circular**") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Note 1 and Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Reported Group for the Relevant Periods ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements and management accounts of the Target Company and its subsidiaries now comprising the Reported Group for the Relevant Periods. The directors of the respective companies now comprising the Reported Group are responsible for the preparation of the respective company's financial statements that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and for such internal control as the directors determine is necessary to enable the preparation of respective companies' financial statements that are free from material misstatement, whether due to fraud or error.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Note 1 and Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the combined financial position of the Reported Group as at 30 June 2015, 2016 and 2017 and 31 December 2017 and of its combined financial performance and its combined cash flows for the Relevant Periods in accordance with the basis of presentation and preparation set out in Note 1 and Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Reported Group which comprises the combined statements of comprehensive income, changes in equity and cash flows for the six months ended 31 December 2016 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Note 1 and Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Note 1 and Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

20 March 2018

I HISTORICAL FINANCIAL INFORMATION OF THE REPORTED GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in HK dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Combined statements of comprehensive income

		Year ended 30 June			Six months ended 31 December	
		2015	2016	2017	2016	2017
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	*5*	993,963	1,016,543	1,130,443	552,496	618,931
Cost of operations	*7*	(857,460)	(871,999)	(981,784)	(479,422)	(537,663)
Gross profit		136,503	144,544	148,659	73,074	81,268
Other income/(loss), net	*6*	2,652	(263)	1,150	694	533
Administrative expenses	*7*	(82,087)	(82,627)	(88,073)	(41,320)	(40,808)
Operating profit		57,068	61,654	61,736	32,448	40,993
Finance costs	*8*	(417)	(454)	(373)	(173)	(177)
Profit before income tax		56,651	61,200	61,363	32,275	40,816
Income tax expenses	*9*	(9,476)	(10,209)	(9,763)	(5,287)	(6,727)
Profit for the year/period		47,175	50,991	51,600	26,988	34,089
Other comprehensive income for the year/period						
Item that will not be reclassified subsequently to combined statements of comprehensive income						
— Remeasurement gain on long service payment liabilities, net of tax		—	—	—	—	2,121
Total comprehensive income for the year/period		47,175	50,991	51,600	26,988	36,210

Combined statements of financial position

		As at 30 June			As at 31 December
		2015	**2016**	**2017**	**2017**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*13*	120,685	115,819	113,113	111,185
Intangible assets	*14*	17,516	17,036	16,556	16,316
Deposits and prepayment		—	740	2,038	3,167
Deferred income tax assets	*15*	14	21	27	27
		138,215	133,616	131,734	130,695
Current assets					
Inventories	*16*	4,196	3,088	2,598	2,620
Trade and other receivables, net	*17*	209,416	199,763	220,591	248,756
Amount due from FSE Management Company Limited	*18*	—	1,500	1,500	1,500
Cash and cash equivalents	*19*	104,820	132,345	135,730	126,523
		318,432	336,696	360,419	379,399
Total assets		456,647	470,312	492,153	510,094
EQUITY					
Combined share capital	*20*	—	—	—	—
Reserves	*21*	153,119	156,610	158,210	109,420
Total equity		153,119	156,610	158,210	109,420

		As at 30 June			As at 31 December
		2015	**2016**	**2017**	**2017**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	*15*	12,044	11,210	10,944	11,504
Long service payment liabilities	*22*	30,786	33,305	34,479	32,701
		42,830	44,515	45,423	44,205
Current liabilities					
Trade and other payables	*23*	132,505	143,740	154,137	161,155
Amount due to FSE Management Company Limited	*24*	90,489	81,358	90,845	179,106
Borrowings	*25*	30,000	30,000	30,000	10,000
Income tax payable		7,704	14,089	13,538	6,208
		260,698	269,187	288,520	356,469
Total liabilities		303,528	313,702	333,943	400,674
Total equity and liabilities		456,647	470,312	492,153	510,094
Net current assets		57,734	67,509	71,899	22,930

Combined statements of changes in equity

	Combined share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*
At 1 July 2014	—	147,444	147,444
Profit and total comprehensive income for the year	—	47,175	47,175
Dividends *(Note 10)*	—	(41,500)	(41,500)
At 1 July 2015	—	153,119	153,119
Profit and total comprehensive income for the year	—	50,991	50,991
Dividends *(Note 10)*	—	(47,500)	(47,500)
At 1 July 2016	—	156,610	156,610
Profit and total comprehensive income for the year	—	51,600	51,600
Dividends *(Note 10)*	—	(50,000)	(50,000)
At 1 July 2017	—	158,210	158,210
Profit for the period	—	34,089	34,089
Other comprehensive income			
Remeasurement gains on long service payment liabilities	—	2,540	2,540
Deferred tax on remeasurement of long service payment liabilities	—	(419)	(419)
Total comprehensive income for the period	—	36,210	36,210
Dividends *(Note 10)*	—	(85,000)	(85,000)
At 31 December 2017	—	109,420	109,420
(unaudited)			
At 1 July 2016	—	156,610	156,610
Profit and total comprehensive income for the period	—	26,988	26,988
At 31 December 2016	—	183,598	183,598

Combined statements of cash flows

	Note	Year ended 30 June 2015 HK$'000	2016 HK$'000	2017 HK$'000	Six months ended 31 December 2016 HK$'000 (unaudited)	2017 HK$'000
Cash flows from operating activities						
Cash generated from operations	*26(a)*	65,443	104,773	73,388	28,566	30,521
Interest paid		(417)	(454)	(373)	(173)	(177)
Hong Kong profits tax paid		(5,805)	(4,665)	(10,586)	(10,714)	(13,916)
Net cash generated from operating activities		59,221	99,654	62,429	17,679	16,428
Cash flows from investing activities						
Addition to property, plant and equipment		(26,438)	(19,095)	(18,851)	(7,238)	(8,981)
Proceeds from disposal of property, plant and equipment		462	5,078	302	137	73
Interest received		17	19	18	10	12
Net cash used in investing activities		(25,959)	(13,998)	(18,531)	(7,091)	(8,896)
Cash flows from financing activity						
Repayment of short term loans	*26(b)*	—	—	—	—	(20,000)
Change in balance with FSE Management Company Limited	*26(b)*	10,730	(16,631)	9,487	(17,235)	3,261
Dividends paid		(35,000)	(41,500)	(50,000)	—	—
Net cash used in financing activity		(24,270)	(58,131)	(40,513)	(17,235)	(16,739)
Net increase/(decrease) in cash and cash equivalents		8,992	27,525	3,385	(6,647)	(9,207)
Cash and cash equivalents at beginning of year/period		95,828	104,820	132,345	132,345	135,730
Cash and cash equivalents at end of year/period		104,820	132,345	135,730	125,698	126,523

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

General information

Crystal Brilliant Limited (the "**Target Company**") was incorporated in the British Virgin Islands on 1 February 2018 with limited liability. The address of its registered office is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The immediate holding company is FSE Management Company Limited ("**FMC**"), a limited liability company incorporated in Hong Kong. The ultimate holding company is FSE Holdings Limited ("**FHL**"), a limited liability company incorporated in Cayman Islands.

The Target Company is an investment holding company. The Target Company and its subsidiaries comprising the Reported Group (collectively the "**Reported Group**") are principally engaged in the provision of laundry services, management of cleaning and waste disposal services, and recycling and environmental disposal services. Details of the subsidiaries are set out in Note 27.

During the Relevant Periods, the Reported Group holds 100% equity interests in Macro Brilliant Limited and its subsidiary (the "**Non-Target Group**"). The Non-Target Group has been disposed of before the completion of the acquisition.

The Target Group represents the Reported Group excluding the Non-Target Group.

Reorganisation

In preparation of a proposed acquisition by FSE Facility Services Group Limited (the "**Proposed Acquisition**"), a wholly-owned subsidiary of FSE Engineering Holdings Limited ("**FSEEH**"), the Reported Group underwent a reorganisation (the "**Reorganisation**") with details as set out below:

(i) The Target Company was incorporated in the British Virgin Islands on 1 February 2018 with a total of 1 share issued and a share capital of US$1;

(ii) New China Steam Laundry Limited, a wholly-owned subsidiary of FMC, transferred the entire issued share capital in Non-Target Group to FMC on 26 February 2018; and

(iii) New China Steam Laundry Limited and its subsidiaries (collectively, the "**Laundry Group**") and Waihong Cleaning Limited and its subsidiaries (collectively, the "**Cleaning Group**") were transferred to the Target Company on 14 March 2018.

Upon completion of the aforementioned Reorganisation on 14 March 2018, the Target Company was then wholly-owned by FMC before the acquisition by FSE Facility Services Group Limited.

Basis of presentation

As the Target Company, the Laundry Group and the Cleaning Group are under common control of FHL, the Reorganisation has been accounted for as a business combination under common control. The Historical Financial Information has been presented as if the current group structure had been in existence throughout the Relevant Periods or since the date when the combining entities first came under the control of FHL, where it is a shorter period. The combined statement of financial position of the Reported Group as of 30 June 2015, 2016, 2017 and 31 December 2017 have been prepared to present the assets and liabilities of the companies comprising the Reported Group as if the group structure had been in existence as of those dates.

The Historical Financial Information also includes the assets and liabilities of the Non-Target Group because the Non-Target Group was not managed separately and was financially controlled within the Reported Group, and its operations were an integral part of the business of the Reported Group during the Relevant Periods. The financial information of the Non-Target Group during the Relevant Periods is as follows:

		As at 30 June		As at 31 December
	2015	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	64,043	61,863	59,829	58,394
Total liabilities	54,987	52,383	49,863	48,205
Net assets	9,056	9,480	9,966	10,189

		Year ended 30 June		Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit and total comprehensive income for the year/period	425	424	487	305	222

2 BASIS OF PREPARATION

The significant accounting policies applied in the preparation of these Historical Financial Information are set out below. These policies have been consistently applied to all the years/period presented, unless otherwise stated.

The Historical Financial Information of the Reported Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and under the historical cost convention.

The preparation of Historical Financial Information 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 accounting policies of the Target Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

The following new standards and amendments to existing standards, that are relevant to the Reported Group's operation, have been issued but not yet effective for the financial period of the Reported Group beginning on 1 January 2018 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 40	Transfers of Investment Property	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 Amendment	Clarifications to HKFRS 15	1 January 2018
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration	1 January 2018
Annual Improvements	2014–2016 Cycle	1 January 2018
HKFRS 9 Amendment	Prepayment features with negative compensation and modifications of financial liabilities	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 10 and HKAS 28 Amendments	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Reported Group has already commenced an assessment of the related impact to the Reported Group but is not yet in a position to state whether there will be any substantial changes to the Reported Group's significant accounting policies and presentation of financial information, except for the followings:

HKFRS 9, "Financial instruments"

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The Reported Group has decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018.

The Reported Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

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

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

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

HKFRS 15, "Revenue from contracts with customers"

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

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

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

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

HKFRS 16, "Leases"

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Reported Group's operating leases. As at the reporting date, the Reported Group has non-cancellable operating lease commitments of HK$25.7 million. This will result in the recognition of an asset and a liability for future payments, and the Reported Group expects there will not be any material effect on the profit or loss.

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

The standard is mandatory to the Reported Group's reporting period beginning on or after 1 July 2019. At this stage, the Reported Group does not intend to adopt the standard before its effective date.

(a) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Reported Group has control. The Reported Group controls an entity when the Reported Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are combined from the date on which control is transferred to the Reported Group. They are decombined from the date that control ceases.

Business combinations under common control

Business combinations under common control refers to combinations where the combining entities are controlled by the same party or parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is recorded in other reserve. Any direct transaction cost attributable to the business combination is recorded in the consolidated statements of comprehensive income in the current period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

The Reported Company applies merger accounting to account for the business combinations under common control in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

Business combinations not under common control

The Reported Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Reported Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Reported Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. All other components of non controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expenses as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised in the combined income statement.

Inter company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Reported Group.

(ii) Disposal of subsidiaries

When the Reported Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in combined statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Reported Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are reclassified to combined statement of equity as specified/permitted by applicable HKFRSs.

(b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Reported Group and the cost of the asset can be measured reliably. All other repairs and maintenance are charged to the combined statement of comprehensive income during the financial year/period in which they are incurred.

Leasehold improvements are depreciated over the period of the lease. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Land and building	Shorter of remaining lease terms or useful life
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures, equipment and others	4 years
Plant and machinery	2 to 7 years
Motor vehicles	5 years

The residual values and estimated useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount (Note 2(g)).

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised with "other income" in the combined statement of comprehensive income.

(c) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Trademarks and brand names

Separately acquired trademarks and brand names are shown at historical cost. Trademarks and brand names acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and brand names have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and brand names over their estimated useful lives of 25 years.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(e) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Reported Group will not be able to collect all amounts due according to the original terms of receivable. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the provision is recognised in the combined statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivable. Subsequent recoveries of amounts previously written off are credited in the combined statement of comprehensive income.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(f) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less bank overdrafts.

(g) Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in combined statement of comprehensive income for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

(h) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

(i) Provisions

Provisions are recognised when the Reported Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(j) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the combined statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Reported Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(k) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

(l) Current and deferred income tax

The tax expense for the year/period comprises current and deferred income tax. Tax is recognised in the combined statement of comprehensive income, except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Reported Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined balance sheet. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except deferred income tax liability where the timing of the reversal of the temporary differences can be controlled by the Reported Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(m) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable, for the services in the ordinary course of the Reported Group's activities. Revenue is stated net of returns, rebates and discounts, allowances for credit and other revenue reducing factors after eliminating sales within the Reported Group.

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Reported Group and specific criteria for each of the activities have been met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the activities have been resolved. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifies of each arrangement.

(i) Revenues from the provision and management of cleaning and waste disposal services, provision of recycling and environmental services, laundry services and pest control services are recognised when the services are rendered.

Amounts received prior to provision of services are included in deferred revenue.

(ii) Interest income is recognised on a time proportion basis using effective interest method.

(iii) Rental of table cloth is recognised in accordance with the terms of the rental agreements on an accrual basis.

(n) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the combined statement of comprehensive income on a straight-line basis over the period of the lease.

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plan

Provisions for bonus plans are recognised when the Reported Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Defined contribution schemes

Contributions to defined contribution schemes, including the Mandatory Provident Fund ("**MPF**") Scheme and Occupational Retirement Schemes Ordinance ("**ORSO**") scheme, are expensed as incurred. Except for the MPF Scheme, contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

(iv) Long service payment liabilities

The Reported Group's net obligation in respect of long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed by using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the combined statement of comprehensive income so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlements accrued under the Reported Group's MPF and ORSO scheme that is attributable to contributions made by the Reported Group.

Changes in the present value of the long service payment liabilities resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(p) Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Reported Group's and Target Company's financial statements in the period when the dividends are approved by the Target Company's shareholders or directors, where appropriate.

(q) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Reported Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The combined financial statements are presented in Hong Kong dollars, which is the Target Company's functional and the Reported Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statement of comprehensive income.

(iii) Group companies

The results and financial position of all the Reported Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of that reporting period;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The activities of the Reported Group expose it to credit risk and liquidity risk. The overall risk management programme of the Reported Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Reported Group. Risk management is carried out by management under policies approved by the Board of Directors.

(i) Credit risk

The credit risk of the Reported Group arises from cash and cash equivalents, amount due from FMC and trade and other receivables. Credit risk with respect to cash at bank is minimal as cash is placed with reputable banks.

The Reported Group monitors its exposure to credit risk in respect of amount due from FMC through monitoring its financial position on a regular basis.

The Reported Group has no significant concentrations of credit risk. It has policies in conducting credit assessment to new customers and to ensure that services are rendered to customers with an appropriate credit history. It carries out follow-up actions on overdue amounts to minimise the credit risk to counterparties.

The maximum exposure to credit risk is represented by the carrying amounts of these receivables in the combined statement of financial position. The Reported Group does not hold any collateral as security.

(ii) Liquidity risk

Financial liabilities of the Reported Group mature within 12 months from the end of the reporting years/period. The Reported Group maintains undrawn available credit lines and cash deposits to reduce liquidity risk and to allow for flexibility in meeting funding requirements.

(b) Capital risk management

The Target Group's objectives when managing capital are to safeguard the Reported Group's ability to continue as a going concern in order to provide returns for shareholders. The capital structure of the Reported Group consists of total equity as shown in on the combined statement of financial position. The overall strategies is consistent throughout the Relevant Periods.

In order to maintain or adjust the capital structure, the Reported Group may adjust the amount of dividends paid to shareholders.

(c) Fair value estimation

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Reported Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period are addressed below.

Property, plant and equipment

The estimated useful lives and residual values of property, plant and equipment are determined by management based on the internal accounting guidelines and industrial practices of similar property, plant and equipment. Management will revise the depreciation charges where useful lives and residual values are different to previously estimated.

Income taxes

The Reported Group is subject to income tax in Hong Kong. Judgement is required in determining the provision for taxation. There are transactions and calculations for which the ultimate tax determination may be uncertain during the ordinary course of business. The Reported Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income taxation in the financial period in which such determination is made.

Long service payment liabilities

The present value of the long service payment liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for long service payment liabilities include the discount rate. Any changes in these assumptions will impact the carrying amount of long service payment liabilities.

The Reported Group determines the appropriate discount rate at the end of each year/period. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the long service payment liabilities. In determining the appropriate discount rate, the Reported Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the liabilities will be paid, and that have terms to maturity approximating the terms of the related long service payment liabilities.

Other key assumptions for long service payment liabilities are based in part on current market conditions. Additional information is disclosed in note 22.

5 REVENUE

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cleaning services	822,421	857,878	971,415	472,122	535,492
Laundry services	171,542	158,665	159,028	80,374	83,439
	993,963	1,016,543	1,130,443	552,496	618,931

The profit for the year/period of the Cleaning Group and the Laundry Group are as follows:

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cleaning Group	37,651	37,607	40,307	20,602	25,964
Laundry Group	9,524	13,384	11,293	6,386	8,125

6 OTHER INCOME/(LOSS), NET

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Gain/(loss) on disposal of property, plant and equipment, net	349	(1,177)	19	133	59
Interest income	17	19	18	10	12
Ex-gratia payment from the government for retirement of motor vehicle	1,837	637	726	488	327
Sundries	449	258	387	63	135
	2,652	(263)	1,150	694	533

7 EXPENSES BY NATURE

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Depreciation	16,583	17,706	21,274	9,968	10,895
Amortisation of intangible assets	480	480	480	240	240
(Reversal of)/provision for impairment of trade receivables	(14)	178	436	19	(626)
Operating lease rentals	5,069	5,187	5,696	2,851	3,266
Staff costs *(Note 11)*	704,294	721,790	791,263	387,037	419,829
Subcontracting fee	66,362	81,218	112,371	52,033	73,348
Cleaning materials and consumables	62,747	52,664	54,077	26,414	29,304
Auditor's remuneration					
— Provision for the year/period	669	547	673	405	353
— Under-provision in prior years/period	1	15	109	—	—
Other expenses	83,356	74,841	83,478	41,775	41,862
Total cost of operations and administrative expenses	939,547	954,626	1,069,857	520,742	578,471

8 FINANCE COSTS

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Interest on short-term bank borrowings	417	454	373	173	177

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the years/period.

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Hong Kong profits tax					
Provision for the year/period	8,142	11,005	10,272	5,417	6,586
Under/(over) provision in prior years/periods	179	45	(237)	(32)	—
Deferred income tax *(Note 15)*	1,155	(841)	(272)	(98)	141
	9,476	10,209	9,763	5,287	6,727

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

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before income tax	56,651	61,200	61,363	32,275	40,816
Calculated at a tax rate of 16.5% (2016: 16.5%)	9,348	10,098	10,125	5,325	6,734
Income not subject to taxation	(38)	(6)	(3)	(2)	(2)
Expenses not deductible for taxation purpose	106	95	112	47	47
Under/(over) provision in prior years/ periods	179	45	(237)	(32)	—
Other temporary differences	(119)	(23)	(234)	(51)	(52)
Income tax expense	9,476	10,209	9,763	5,287	6,727

10 DIVIDENDS

First interim dividend of HK$41,500,000, HK$47,500,000, HK$23,000,000, HK$85,000,000 was declared by companies within the Reported Group to the then shareholders during the years ended 30 June 2015, 2016 and 2017 and the six months ended 31 December 2017 respectively.

Furthermore, second interim dividend of HK$27,000,000 was declared by companies within the Reported Group to the then shareholders during the year ended 30 June 2017.

11 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Wages, salaries and other allowances	675,939	694,573	762,775	370,603	403,440
Pension costs on defined contribution plans	28,355	27,217	28,488	16,434	16,389
	704,294	721,790	791,263	387,037	419,829

12 BENEFITS AND INTERESTS OF DIRECTORS OF THE LAUNDRY GROUP AND THE CLEANING GROUP

During the years/period, except as disclosed below, no emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors of the underlying business. No consideration was provided to or receivable by third parties for making available directors' services during the years/period. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities during the years/period.

No director of the Target Company or Reported Group had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Target Company's business to which the Target Company was or is a party that subsisted at the end of the years/period or at any time during the years/ period.

The value of their services to the Reported Group approximates the management fee paid by the Reported Group to the holding companies (Note 29).

13 PROPERTY, PLANT AND EQUIPMENT

	Land and building *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures, equipment and others *HK$'000*	Plant and machinery *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Net book value						
At 1 July 2014	65,293	989	4,447	28,497	11,717	110,943
Additions	—	741	2,662	18,554	4,481	26,438
Depreciation	(1,977)	(694)	(2,321)	(8,224)	(3,367)	(16,583)
Disposals	—	—	(32)	(33)	(48)	(113)
At 1 July 2015	63,316	1,036	4,756	38,794	12,783	120,685
Additions	—	577	1,685	4,426	12,407	19,095
Depreciation	(1,977)	(868)	(2,019)	(8,359)	(4,483)	(17,706)
Disposals	—	—	(1,586)	(315)	(4,354)	(6,255)
At 1 July 2016	61,339	745	2,836	34,546	16,353	115,819
Additions	—	1,004	2,424	13,445	1,978	18,851
Depreciation	(1,978)	(707)	(1,983)	(11,173)	(5,433)	(21,274)
Disposals	—	—	—	(283)	—	(283)
At 1 July 2017	59,361	1,042	3,277	36,535	12,898	113,113
Additions	—	206	783	6,805	1,187	8,981
Depreciation	(989)	(245)	(1,133)	(5,805)	(2,723)	(10,895)
Disposals	—	—	—	(11)	(3)	(14)
At 31 December 2017	58,372	1,003	2,927	37,524	11,359	111,185
At 30 June 2015						
Cost	94,039	4,402	38,133	132,094	35,794	304,462
Accumulated depreciation	(30,723)	(3,366)	(33,377)	(93,300)	(23,011)	(183,777)
Net book value	63,316	1,036	4,756	38,794	12,783	120,685
At 30 June 2016						
Cost	94,039	4,979	33,118	134,398	33,251	299,785
Accumulated depreciation	(32,700)	(4,234)	(30,282)	(99,852)	(16,898)	(183,966)
Net book value	61,339	745	2,836	34,546	16,353	115,819
At 30 June 2017						
Cost	94,039	5,983	31,258	134,039	34,622	299,941
Accumulated depreciation	(34,678)	(4,941)	(27,981)	(97,504)	(21,724)	(186,828)
Net book value	59,361	1,042	3,277	36,535	12,898	113,113
At 31 December 2017						
Cost	94,039	6,189	28,570	136,235	35,750	300,783
Accumulated depreciation	(35,667)	(5,186)	(25,643)	(98,711)	(24,391)	(189,598)
Net book value	58,372	1,003	2,927	37,524	11,359	111,185

14 INTANGIBLE ASSETS

	Goodwill	Trademarks and brand names	Total
	HK$'000	*HK$'000*	*HK$'000*
Net book value			
At 1 July 2014	7,916	10,080	17,996
Amortisation	—	(480)	(480)
At 1 July 2015	7,916	9,600	17,516
Amortisation	—	(480)	(480)
At 1 July 2016	7,916	9,120	17,036
Amortisation	—	(480)	(480)
At 1 July 2017	7,916	8,640	16,556
Amortisation	—	(240)	(240)
At 31 December 2017	7,916	8,400	16,316
At 30 June 2015			
Cost	7,916	14,560	22,476
Accumulated amortisation	—	(4,960)	(4,960)
Net book value	7,916	9,600	17,516
At 30 June 2016			
Cost	7,916	14,560	22,476
Accumulated amortisation	—	(5,440)	(5,440)
Net book value	7,916	9,120	17,036
At 30 June 2017			
Cost	7,916	14,560	22,476
Accumulated amortisation	—	(5,920)	(5,920)
Net book value	7,916	8,640	16,556
At 31 December 2017			
Cost	7,916	14,560	22,476
Accumulated amortisation	—	(6,160)	(6,160)
Net book value	7,916	8,400	16,316

Impairment tests for goodwill

Goodwill is allocated to the cash generating units ("**CGU**") for the purpose of impairment tests. The allocation is made to those CGU or groups of CGUs that are expected to be benefit from the business combination in which the goodwill arise and is identified at the lowest level of which goodwill is monitored. For the purpose of impairment test, the recoverable amount of the business unit is determined based on value-in-use calculations. The key assumptions adopted on growth rates and discount rates used in the value-in-use calculations are based on management's best estimates and past experience.

A summary of the goodwill allocation to CGU is presented below.

	As at 30 June			**As at 31 December**
	2015	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cleaning services	7,916	7,916	7,916	7,916

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period which the growth rates stated as below. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below. The terminal growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

The key assumptions used for value-in-use calculations for each year/period end are as follows:

	As at 30 June			**As at 31 December**
	2015	**2016**	**2017**	**2017**
Cash flows in first five years				
Gross profit margin	10.4%–12.1%	10.8%–12.1%	10.5%–11.7%	10.8%–11.7%
Growth rate	2%–3%	2%–4%	2%–3%	2%–3%
Pre-tax discount rate	9.6%	9.4%	9.5%	9.5%
Cash flows beyond five-year period				
Terminal growth rate	1%	1%	1%	1%
Pre-tax discount rate	9.6%	9.4%	9.5%	9.5%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments and business life-cycle. On the basis of these reviews, management concluded that there was no impairment losses on goodwill in the combined income statement for the years ended 30 June 2015, 2016, 2017; and for the six months ended 31 December 2017.

A reasonably possible change in a key assumption would not cause the recoverable amount to fall below the carrying value of the CGU.

15 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

	As at 30 June			As at 31 December
	2015	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred income tax assets	15	21	27	27
Deferred income tax liabilities	(12,045)	(11,210)	(10,944)	(11,504)
	(12,030)	(11,189)	(10,917)	(11,477)

Deferred income tax assets

	Tax losses	**Accelerated accounting depreciation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2014	47	17	64
Credited/(charged) to profit or loss	163	(2)	161
At 1 July 2015	210	15	225
Credited to profit or loss	662	6	668
At 1 July 2016	872	21	893
(Charged)/credited to profit or loss	(242)	6	(236)
At 1 July 2017	630	27	657
Charged to profit or loss	(103)	—	(103)
At 31 December 2017	527	27	554

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Reported Group has recognised all the tax losses. These tax losses have no expiry dates.

Deferred income tax liabilities

	Accelerated depreciation allowance *HK$'000*	Fair value adjustment on trademarks and brand names *HK$'000*	Fair value adjustment on property, plant and equipment arising from business combination *HK$'000*	Remeasurement of long service payment liabilities *HK$'000*	Total *HK$'000*
At 1 July 2014	(7,045)	(1,664)	(2,230)	—	(10,939)
(Charged)/credited to the combined statements of comprehensive income	(1,511)	79	116	—	(1,316)
At 1 July 2015	(8,556)	(1,585)	(2,114)	—	(12,255)
(Charged)/credited to the combined statements of comprehensive income	(22)	79	116	—	173
At 1 July 2016	(8,578)	(1,506)	(1,998)	—	(12,082)
Credited to the combined statements of comprehensive income	313	79	116	—	508
At 1 July 2017	(8,265)	(1,427)	(1,882)	—	(11,574)
(Charged)/credited to the combined statements of comprehensive income	(136)	40	58	—	(38)
Charged to other comprehensive income	—	—	—	(419)	(419)
At 31 December 2017	(8,401)	(1,387)	(1,824)	(419)	(12,031)

16 INVENTORIES

	As at 30 June 2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	As at 31 December 2017 *HK$'000*
At cost				
Spare parts and consumables	4,196	3,088	2,598	2,620

17 TRADE AND OTHER RECEIVABLES, NET

	As at 30 June			As at 31 December
	2015	2016	2017	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables				
Third parties	161,298	155,700	174,695	193,182
Related companies	31,743	27,513	29,298	37,094
	193,041	183,213	203,993	230,276
Less: provision for impairment				
Third parties	(78)	(202)	(631)	(9)
Related companies	(2)	(27)	(6)	(2)
	(80)	(229)	(637)	(11)
Other receivables and prepayments	16,455	16,779	17,235	18,491
	209,416	199,763	220,591	248,756

Trade and other receivables are denominated in Hong Kong dollars. The balances are measured at amortised cost and their carrying amounts approximate their fair values.

The Reported Group's credit terms on trade receivables are mainly 30 days.

The ageing analysis of the Reported Group's trade receivables based on invoice date is as follows:

	As at 30 June			As at 31 December
	2015	2016	2017	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current–90 days	183,172	176,582	196,937	216,907
91–180 days	9,515	6,622	6,240	11,779
Over 180 days	354	9	816	1,590
	193,041	183,213	203,993	230,276

As of 30 June 2015, 2016, 2017, and 31 December 2017, trade receivables of HK$92,205,000, HK$87,445,000, HK$97,242,000, and HK$116,443,000 respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 30 June			As at 31 December
	2015	2016	2017	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Past due:				
Current–90 days	82,711	80,168	90,823	103,085
91–180 days	9,220	7,277	6,240	11,779
Over 180 days	274	—	179	1,579
	92,205	87,445	97,242	116,443

Movements in the provision for impairment of trade receivables are as follows:

	As at 30 June			As at 31 December
	2015	2016	2017	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year/period	278	80	229	637
(Reversal of)/provision for impairment	(14)	178	436	(626)
Receivables written off during the year/period	(184)	(29)	(28)	—
At end of year/period	80	229	637	11

The above provision for impairment of trade receivables, which are individually determined to be impaired, relates to customers that have prolonged their repayment due to unexpected financial difficulties.

The provision for impaired receivables have been charged to the combined statement of comprehensive income (Note 7). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

18 AMOUNT DUE FROM FSE MANAGEMENT COMPANY LIMITED

The balance is unsecured, interest free and has no fixed terms of repayment.

The carrying amount of the balance approximates its fair value and is denominated in Hong Kong dollars.

19 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are denominated in Hong Kong dollars and their carrying amounts approximate their fair values.

20 COMBINED SHARE CAPITAL

As mentioned in note 1 above, the Historical Financial Information has been prepared as if the structure after the Reorganisation had been in existence throughout the years ended 30 June 2015, 2016 and 2017 and the six months ended 31 December 2017, or since the respective dates of establishment of the combining companies, or since the date when the combining companies first came under the control of FHL, whichever is the shorter period. Combined share capital during the Relevant Periods represents the combined share capital of New China Steam Laundry Limited and Waihong Cleaning Limited.

	As at 30 June			As at 31 December
Share capital of New China Steam Laundry Limited	2015	2016	2017	2017
	HK$	*HK$*	*HK$*	*HK$*
Issued and fully paid:				
1 ordinary share	1	1	1	1

	As at 30 June			As at 31 December
Share capital of Waihong Cleaning Limited	2015	2016	2017	2017
	HK$	*HK$*	*HK$*	*HK$*
Issued and fully paid:				
1 ordinary share	1	1	1	1

21 RESERVES

	Merger reserve *(Note a)* *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 July 2014	137,014	10,430	147,444
Profit and total comprehensive income for the year	—	47,175	47,175
Dividends *(Note 10)*	—	(41,500)	(41,500)
At 1 July 2015	137,014	16,105	153,119
Profit and total comprehensive income for the year	—	50,991	50,991
Dividends *(Note 10)*	—	(47,500)	(47,500)
At 1 July 2016	137,014	19,596	156,610
Profit and total comprehensive income for the year	—	51,600	51,600
Dividends *(Note 10)*	—	(50,000)	(50,000)
At 1 July 2017	137,014	21,196	158,210
Profit for the period	—	34,089	34,089
Other comprehensive income			
Remeasurment gain on long service payment liabilities	—	2,540	2,540
Deferred tax on remeasurment gain of long service payment liabilities	—	(419)	(419)
Total comprehensive income for the period	—	36,210	36,210
Dividends *(Note 10)*	—	(85,000)	(85,000)
At 31 December 2017	137,014	(27,594)	109,420
(unaudited)			
At 1 July 2016	137,014	19,596	156,610
Profit and total comprehensive income for the period	—	26,988	26,988
At 31 December 2016	137,014	46,584	183,598

Note (a): The balance represents the net asset values attributable to the Laundry Group and the Cleaning Group at the date when the combining companies first came under the control of FHL. This balance has been made to the merger reserve in the Historical Financial Information.

22 LONG SERVICE PAYMENT LIABILITIES

Under the Hong Kong Employment Ordinance, the Reported Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Reported Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Reported Group's MPF and ORSO schemes that are attributable to contributions made by the Reported Group. The Reported Group has not set aside any assets to fund any remaining obligations.

The liability recognised in the combined statement of financial position is the present value of unfunded obligations and its movements are as follows:

	As at 30 June			As at 31 December
	2015	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Beginning of the year/period	29,184	30,786	33,305	34,479
Expenses recognised in the combined statement of comprehensive income	2,354	3,646	2,010	1,440
Remeasurement gain recognised in other comprehensive income	—	—	—	(2,540)
Benefits paid	(752)	(1,127)	(836)	(678)
End of the year/period	30,786	33,305	34,479	32,701

Significant actuarial assumptions adopted for the purpose of the actuarial valuation are as follows:

	As at 30 June			As at 31 December
	2015	**2016**	**2017**	**2017**
Discount rate	1.30%	1.30%	1.30%	1.30%
Long term rate of salary increases	3.80%–4.80%	3.80%–4.80%	3.80%–4.80%	3.80%–4.80%
Long term rate of increase of maximum salary and amount of long service payment and MPF Relevant Income limit	3.0%	3.0%	3.0%	3.0%
Long term average expected return on MPF and ORSO balances	3.75%–4.25%	3.75%–4.25%	3.75%–4.25%	3.75%–4.25%

The below analysis shows how the long service payment liability as at each year/period end date would have increased/(decreased) as a result of 0.25% change in significant actuarial assumptions:

	As at 30 June						As at 31 December	
	2015		**2016**		**2017**		**2017**	
Assumption	**Increase in 0.25%**	**Decrease in 0.25%**	**Increase in 0.25%**	**Decrease in 0.25%**	**Increase in 0.25%**	**Decrease in 0.25%**	**Increase in 0.25%**	**Decrease in 0.25%**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Long term rate of salary increases	2,041	(2,027)	1,675	(1,718)	2,096	(2,110)	2,069	(2,068)
Long term average expected return on MPF and ORSO balances	(1,326)	1,328	(1,560)	1,511	(1,439)	1,419	(1,405)	1,416

The above sensitivity analyses are based on change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the long service payment liability to significant actuarial assumptions, the same actuarial valuation method has been applied as when calculating the long service payment liability recognised within the combined statement of financial position.

23 TRADE AND OTHER PAYABLES

	As at 30 June			As at 31 December
	2015	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables				
Third parties	20,613	21,193	28,693	34,791
Related companies	2,658	3,355	3,334	3,955
Deferred revenue	7,441	8,967	4,607	3,884
Accruals for annual leave	16,710	16,323	16,996	15,271
Accruals for bonus	7,959	9,561	11,463	12,598
Other payables and accruals	77,124	84,341	89,044	90,656
	132,505	143,740	154,137	161,155

Trade and other payables are denominated in Hong Kong dollars. The balances are measured at amortised cost and their carrying amounts approximate their fair values.

The ageing analysis of the Reported Group's trade payables based on invoice date is as follows:

	As at 30 June			As at 31 December
	2015	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1–90 days	23,271	24,548	32,027	38,746

24 AMOUNTS DUE TO FSE MANAGEMENT COMPANY LIMITED

The balances are unsecured, interest free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values and are denominated in Hong Kong dollars.

25 BORROWINGS

	As at 30 June			As at 31 December
	2015	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current				
Bank borrowings-secured	30,000	30,000	30,000	10,000

Borrowings are interest bearing at effective interest rates of 1.4%, 1.5%, 1.2%, and 1.5% per annum for the years ended 30 June 2015, 2016, 2017, and for the six months ended 31 December 2017 respectively. The carrying amounts of the borrowings approximate its fair values and are denominated in Hong Kong dollar.

Borrowings are secured by a corporate guarantee provided by FMC.

26 NOTE TO THE COMBINED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash generated from operations:

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before income tax	56,651	61,200	61,363	32,275	40,816
Adjustment for:					
Interest income	(17)	(19)	(18)	(10)	(12)
Interest on short-term borrowings	417	454	373	173	177
Depreciation	16,583	17,706	21,274	9,968	10,895
Amortisation of intangible assets	480	480	480	240	240
(Gain)/loss on disposal of property, plant and equipment	(349)	1,177	(19)	(133)	(59)
(Reversal of)/provision for impairment of trade receivables	(14)	178	436	19	(626)
Long service payment liabilities					
Expenses recognised in the statement of comprehensive income	2,354	3,646	2,010	1,268	1,440
Benefit paid	(752)	(1,127)	(836)	(298)	(678)
Operating cash flows before changes in working capital	75,353	83,695	85,063	43,502	52,193
Change in working capital:					
— Inventories	(462)	1,108	490	146	(22)
— Trade and other receivables	(25,381)	8,735	(22,562)	(22,426)	(28,668)
— Trade and other payables	15,933	11,235	10,397	7,344	7,018
Cash generated from operations	65,443	104,773	73,388	28,566	30,521

(b) Net (debt)/cash reconciliation

This section sets out an analysis of net (debt)/cash and the movements in net (debt)/cash for each of the years/period presented.

	As at 30 June			As at 31 December
	2015	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents	104,820	132,345	135,730	126,523
Amount due to FMC *(note 24)*	(90,489)	(81,358)	(90,845)	(179,106)
Borrowings — repayable within one year *(note 25)*	(30,000)	(30,000)	(30,000)	(10,000)
Net (debt)/cash	(15,669)	20,987	14,885	(62,583)

	Cash and cash equivalents *HK$'000*	Amount due to FMC *HK$'000*	Borrowings due within one year *HK$'000*	Total *HK$'000*
Net debt as at 1 July 2015	95,828	(73,259)	(30,000)	(7,431)
Cash flows	8,992	(10,730)	—	(1,738)
Other non-cash movements *(note 26(c))*	—	(6,500)	—	(6,500)
Net debt as at 30 June 2015	104,820	(90,489)	(30,000)	(15,669)
Cash flows	27,525	15,131	—	42,656
Other non-cash movements *(note 26(c))*	—	(6,000)	—	(6,000)
Net cash as at 30 June 2016	132,345	(81,358)	(30,000)	20,987
Cash flows	3,385	(9,487)	—	(6,102)
Net cash as at 30 June 2107	135,730	(90,845)	(30,000)	14,885
Cash flows	(9,207)	(3,261)	20,000	7,532
Other non-cash movements *(note 26(c))*	—	(85,000)	—	(85,000)
Net debt as at 31 December 2017	126,523	(179,106)	(10,000)	(62,583)

(c) Major non-cash transactions

Payment of dividends of HK$6,500,000, HK$6,000,000 and HK$85,000,000 during the years ended 30 June 2015, 2016 and the six months ended 31 December 2017 respectively were settled through current account with FMC.

27 SUBSIDIARIES

Particulars of the subsidiaries are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Percentage of interest directly held — As at 30 June 2015	2016	2017	As at 31 December 2017
Bright Team Enterprises Limited	Hong Kong	Provision of transportation services to fellow subsidiaries	1 ordinary share paid up to HK$1	100	100	100	100
Kleaners Limited	Hong Kong	Laundry services	5,000,000 ordinary shares paid up to HK$5,000,000	100	100	100	100
New China Laundry Limited	Hong Kong	Laundry services	40,000,002 ordinary shares and 704,000 non-voting deferred shares paid up to HK$40,704,002	100	100	100	100
New United Laundry Limited	Hong Kong	Inactive	10,000 ordinary shares paid up to HK$10,000	100	100	100	100

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Percentage of interest directly held			
				As at 30 June			As at 31 December
				2015	2016	2017	2017
Premier Custodian Services Limited#	Hong Kong	Inactive	1 ordinary share paid up to HK$1	N/A	N/A	N/A	100
Smart and Safe Fleet Management Limited	Hong Kong	Provision of fleet management services in Hong Kong	1 ordinary share paid up to HK$1	100	100	100	100
Success Ocean Limited	Hong Kong	Property investment	2 ordinary shares paid up to HK$2	100	100	100	100
Waihong Environmental Services Limited	Hong Kong	Provision and management of cleaning and waste disposal services and provision of recycling and environmental disposal services	400,000 ordinary shares paid up to HK$40,000,000	100	100	100	100
Waihong Integrated Green Services Limited (formerly known Waihong Pest Control Services Limited)	Hong Kong	Provision of pest control services	400,000 ordinary shares paid up to HK$400,000	100	100	100	100
Waihong Medicare Services Limited#	Hong Kong	Inactive	1 ordinary share paid up to HK$1	N/A	N/A	100	100
廣州晉康清潔服務有限公司	PRC	Inactive	RMB1,000,000	N/A	N/A	100	100

Premier Custodian Services Limited, Waihong Medicare Services Limited and 廣州晉康清潔服務有限公司 were incorporated in 9 August 2017, 28 October 2016 and 9 February 2017 respectively.

28 OPERATING LEASES COMMITMENTS

The Reported Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 30 June			As at 31 December
	2015	2016	2017	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	3,826	3,780	4,540	6,916
Between one and five years	2,011	2,104	2,398	12,210
Over five years	—	—	—	6,528
	5,837	5,884	6,938	25,654

29 RELATED PARTY TRANSACTIONS

In addition to those disclosed in other sections of the financial statements, the Reported Group undertook the following transactions with related parties in the normal course of its business during the years/period:

(a) Sales of services

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cleaning service income from related companies *(Note v)*	22,849	19,470	39,320	11,359	30,740
Cleaning service income from fellow subsidiaries	105,011	128,309	145,563	67,866	77,537
Laundry services to fellow subsidiaries	377	412	454	228	269
Laundry services to related companies *(Note v)*	43,154	42,382	45,611	23,232	20,994

Cleaning service income was charged at terms mutually agreed between the parties.

(b) Purchase of services

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
IT secondment fee to a fellow subsidiary *(Note i)*	540	585	720	360	360
Management fee to FMC *(Note ii)*	4,500	5,200	5,800	2,900	—
Operating lease rental expense to related companies *(Note iii and v)*	1,608	1,630	1,685	843	841
Donation to a fellow subsidiary	100	150	125	—	—
Miscellaneous service fee to fellow subsidiaries *(Note iv)*	4,011	2,724	2,818	1,488	1,653
Miscellaneous service fee to related companies *(Note iv and v)*	1,403	1,514	1,751	875	768

Notes:

(i) IT secondment fee was charged based on a fixed amount mutually agreed by the parties.

(ii) Management fee was charged based on fixed amounts mutually agreed by the parties.

(iii) Operating lease was recharged based on fixed amounts mutually agreed by the parties.

(iv) Miscellaneous service fee was charged based on fixed amounts mutually agreed by the parties.

(v) These related companies are companies of which the key management personnel are close members of the family of the ultimate controlling shareholder (Mr. Doo Wai Hoi, William).

(c) Key management compensation

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Wages and salaries	1,049	1,298	1,381	812	853
Pension cost-defined contribution plans	105	130	138	81	85
	1,154	1,428	1,519	893	938

30 SUBSEQUENT EVENT

The following events took place subsequent to 31 December 2017 and up to the date of this report:

(a) Subsequent to 31 December 2017, the Reported Group underwent a reorganisation in preparation for the proposed acquisition by FSE Facility Services Group Limited, a subsidiary of FSEEH. Details of the Reorganisation are set out in Note 1 above.

(b) In February 2018, New China Steam Laundry Limited, a wholly-owned subsidiary of the Reported Group, entered into an agreement to transfer its entire issued share capital in Macro Brilliant Limited to its intermediate holding company, FMC. Details of the transaction are set out in Note 1.

(c) In January 2018 and February 2018, the Reported Group has drawn down bank borrowings amounted to HK$70,000,000 and HK$60,000,000 respectively. The Reported Group has utilised the funds, together with internal cash resources, to settle the net amount due to FMC.

III FINANCIAL STATEMENTS OF THE TARGET COMPANY

No audited financial statements have been prepared by the Target Company for the Relevant Periods because the Target Company was established on 1 February 2018.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 December 2017 and up to the date of this report. No dividend or distribution has been declared or made by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

Set out below is the management discussion and analysis of the Target Group for each of the years ended 30 June 2015, 2016 and 2017 and the six months ended 31 December 2017 (the "**Relevant Periods**") prepared based on information provided by the Seller.

The following tables sets forth, for the periods indicated, the reconciliations of operating results between the Target Group and the Reported Group.

For the six months ended 31 December 2017

	Reported Group *HK$'000* (audited)	Financial impact of excluding Non-Target Group *HK$'000* (unaudited)	Target Group *HK$'000* (unaudited)
Revenue	618,931	—	618,931
Cost of operations	(537,663)	—	(537,663)
Gross profit	81,268	—	81,268
Other income, net	533	—	533
Administrative expenses	(40,808)	(266)	(41,074)
Operating profit	40,993	(266)	40,727
Finance costs	(177)	—	(177)
Profit before income tax	40,816	(266)	40,550
Income tax expenses	(6,727)	44	(6,683)
Profit for the period	34,089	(222)	33,867
As at 31 December 2017			
Cash and bank balances	126,523	(22)	126,501
Amounts due to the Seller	179,106	(43,284)	135,822
Borrowings	10,000	—	10,000
Net current assets	22,930	43,954	66,884
Net assets	109,420	(10,189)	99,231
Net tangible assets	93,104	(10,189)	82,915

For the six months ended 31 December 2016

	Reported Group *HK$'000* (unaudited)	Financial impact of excluding Non-Target Group *HK$'000* (unaudited)	Target Group *HK$'000* (unaudited)
Revenue	552,496	—	552,496
Cost of operations	(479,422)	—	(479,422)
Gross profit	73,074	—	73,074
Other income, net	694	—	694
Administrative expenses	(41,320)	(268)	(41,588)
Operating profit	32,448	(268)	32,180
Finance costs	(173)	—	(173)
Profit before income tax	32,275	(268)	32,007
Income tax expenses	(5,287)	(37)	(5,324)
Profit for the period	26,988	(305)	26,683

For the year ended 30 June 2017

	Reported Group *HK$'000* (audited)	Financial impact of excluding Non-Target Group *HK$'000* (unaudited)	Target Group *HK$'000* (unaudited)
Revenue	1,130,443	—	1,130,443
Cost of operations	(981,784)	—	(981,784)
Gross profit	148,659	—	148,659
Other income, net	1,150	—	1,150
Administrative expenses	(88,073)	(535)	(88,608)
Operating profit	61,736	(535)	61,201
Finance costs	(373)	—	(373)
Profit before income tax	61,363	(535)	60,828
Income tax expenses	(9,763)	48	(9,715)
Profit for the year	51,600	(487)	51,113
As at 30 June 2017			
Cash and bank balances	135,730	(468)	135,262
Amounts due to the Seller	90,845	(44,984)	45,861
Borrowings	30,000	—	30,000
Net current assets	71,899	45,188	117,087
Net assets	158,210	(9,966)	148,244
Net tangible assets	141,654	(9,966)	131,688

For the year ended 30 June 2016

	Reported Group	Financial impact of excluding Non-Target Group	Target Group
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(unaudited)	(unaudited)
Revenue	1,016,543	—	1,016,543
Cost of operations	(871,999)	—	(871,999)
Gross profit	144,544	—	144,544
Other loss, net	(263)	—	(263)
Administrative expenses	(82,627)	(484)	(83,111)
Operating profit	61,654	(484)	61,170
Finance costs	(454)	—	(454)
Profit before income tax	61,200	(484)	60,716
Income tax expenses	(10,209)	60	(10,149)
Profit for the year	50,991	(424)	50,567
As at 30 June 2016			
Cash and bank balances	132,345	(524)	131,821
Amounts due to the Seller	81,358	(47,514)	33,844
Borrowings	30,000	—	30,000
Net current assets	67,509	47,698	115,207
Net assets	156,610	(9,480)	147,130
Net tangible assets	139,574	(9,480)	130,094

For the year ended 30 June 2015

	Reported Group *HK$'000* (audited)	Financial impact of excluding Non-Target Group *HK$'000* (unaudited)	Target Group *HK$'000* (unaudited)
Revenue	993,963	—	993,963
Cost of operations	(857,460)	—	(857,460)
Gross profit	136,503	—	136,503
Other income, net	2,652	—	2,652
Administrative expenses	(82,087)	(498)	(82,585)
Operating profit	57,068	(498)	56,570
Finance costs	(417)	—	(417)
Profit before income tax	56,651	(498)	56,153
Income tax expenses	(9,476)	73	(9,403)
Profit for the year	47,175	(425)	46,750
As at 30 June 2015			
Cash and bank balances	104,820	(728)	104,092
Amounts due to the Seller	90,489	(50,144)	40,345
Borrowings	30,000	—	30,000
Net current assets	57,734	50,144	107,878
Net assets	153,119	(9,056)	144,063
Net tangible assets	135,603	(9,056)	126,547

REVENUE

The revenue of Target Group consists principally of service fees derived from provision of cleaning services and laundry services.

- The Target Group's revenue increased by approximately HK$66.4 million from approximately HK$552.5 million for the six months ended 31 December 2016 to approximately HK$618.9 million for the six months ended 31 December 2017, representing an increase of approximately 12.0%. The increase was mainly attributable to increase in revenue from new cleaning service contracts.

- The Target Group's revenue increased by approximately HK$113.9 million from approximately HK$1,016.5 million for the year ended 30 June 2016 to approximately HK$1,130.4 million for the year ended 30 June 2017, representing an increase of approximately 11.2%. The increase was mainly attributable to increase in revenue from new cleaning service contracts.

- The Target Group's revenue increased by approximately HK$22.5 million from approximately HK$994.0 million for the year ended 30 June 2015 to approximately HK$1,016.5 million for the year ended 30 June 2016, representing an increase of approximately 2.3%. The increase was mainly attributable to increase in revenue from new cleaning service contracts.

COST OF OPERATIONS

The cost of operations of Target Group primarily include staff costs, subcontracting fees, raw materials, motor vehicle expenses and depreciation.

- The Target Group's cost of operations increased by approximately HK$58.3 million from approximately HK$479.4 million for the six months ended 31 December 2016 to approximately HK$537.7 million for the six months ended 31 December 2017, representing an increase of approximately 12.2%. The increase was mainly attributable to increase in revenue; staff costs due to salary increment; and fuel and utilities costs.

- The Target Group's cost of operations increased by approximately HK$109.8 million from approximately HK$872.0 million for the year ended 30 June 2016 to approximately HK$981.8 million for the year ended 30 June 2017, representing an increase of approximately 12.6%. The increase was mainly attributable to increase in revenue; staff costs due to salary increment.

- The Target Group's cost of operations increased by approximately HK$14.5 million from approximately HK$857.5 million for the year ended 30 June 2015 to approximately HK$872.0 million for the year ended 30 June 2016, representing an increase of approximately 1.7%. The increase was mainly attributable to increase in revenue; and partly offset by decrease in fuel and utilities costs.

OTHER INCOME/LOSS, NET

The other income/loss, net of Target Group mainly represent gain/loss on disposal of property, plant and equipment, bank interest income and ex-gratia payment from the government for retirement of motor vehicle.

- The Target Group's other income/loss, net decreased by approximately HK$0.2 million from approximately HK$0.7 million for the six months ended 31 December 2016 to approximately HK$0.5 million for the six months ended 31 December 2017. The decrease was mainly due to the decrease of ex-gratia payment from government for retirement of motor vehicle.

- The Target Group's other income/loss, net increased by approximately HK$1.5 million from approximately HK$0.3 million of net other loss for the year ended 30 June 2016 to approximately HK$1.2 million of net other income for the year ended 30 June 2017. The increase was mainly attributable to increase in net gain on disposal of property, plant and equipment; and increase in ex-gratia payment from government for retirement of motor vehicle.

- The Target Group's other income/loss, net decreased by approximately HK$3.0 million from approximately HK$2.7 million of net other income for the year ended 30 June 2015 to approximately HK$0.3 million of net other loss for the year ended 30 June 2016. The decrease was mainly due to decrease of ex-gratia payment from government for retirement of motor vehicle; and increase in net loss on disposal of property, plant and equipment.

ADMINISTRATIVE EXPENSES

The administrative expenses of Target Group primarily include staff costs, operating lease in respect of land and buildings, and depreciation.

- The Target Group's administrative expenses decreased by approximately HK$0.5 million from approximately HK$41.6 million for the six months ended 31 December 2016 to approximately HK$41.1 million for the six months ended 31 December 2017, representing an decrease of approximately 1.2%. The decrease was mainly attributable to no management fee charged by the Seller for the six months ended 31 December 2017 (HK$2.9 million for six months ended 31 December 2016); offset by increase in staff costs, operating lease in respect of land and buildings; and donation.

- The Target Group's administrative expenses increased by approximately HK$5.5 million from approximately HK$83.1 million for the year ended 30 June 2016 to approximately HK$88.6 million for the year ended 30 June 2017, representing an increase of approximately 6.6%. The increase was mainly attributable to increase in staff costs due to salary increment; and donation.

- The Target Group's administrative expenses increased by approximately HK$0.5 million from approximately HK$82.6 million for the year ended 30 June 2015 to approximately HK$83.1 million for the year ended 30 June 2016, representing an increase of approximately 0.6%. The increase was mainly attributable to increase in staff costs due to salary increment.

FINANCE COSTS

Finance costs represents interest expenses on bank loans. The Target Group recorded finance costs of HK$0.4 million, HK$0.4 million, HK$0.4 million and HK$0.1 million for the each of the years ended 30 June 2015, 2016 and 2017 and the six months ended 31 December 2017 respectively. The changes were mainly attributable to change in applicable bank interest rate and decrease in borrowings.

INCOME TAX EXPENSES

The income tax expenses of Target Group primarily include Hong Kong profit tax and deferred tax.

- The Target Group's income tax expenses increased by approximately HK$1.4 million from approximately HK$5.3 million for the six months ended 31 December 2016 to approximately HK$6.7 million for the six months ended 31 December 2017, representing an increase of approximately 26.4%. The increase was mainly attributable to increase in profit before taxation.

- The Target Group's income tax expenses decreased by approximately HK$0.4 million from approximately HK$10.1 million for the year ended 30 June 2016 to approximately HK$9.7 million for the year ended 30 June 2017, representing a decrease of approximately 4.0%. The decrease was mainly attributable to the reversal of overprovision of tax in previous years.

- The Target Group's income tax expenses increased by approximately HK$0.7 million from approximately HK$9.4 million for the year ended 30 June 2015 to approximately HK$10.1 million for the year ended 30 June 2016, representing an increase of approximately 7.4%. The increase was mainly due to increase in profit before taxation.

PROFIT FOR THE YEAR/PERIOD

The Target Group's profit increased by approximately HK$7.2 million from approximately HK$26.7 million for the six months ended 31 December 2016 to approximately HK$33.9 million for the six months ended 31 December 2017, representing an increase of approximately 27.0%. The increase was mainly attributable to increase in revenue from the cleaning services.

The Target Group's profit increased by approximately HK$0.5 million from approximately HK$50.6 million for the year ended 30 June 2016 to approximately HK$51.1 million for the year ended 30 June 2017, representing an increase of approximately 1.0%. The increase was mainly attributable to increase in revenue and other income; offset by increase in administrative expenses.

The Target Group's profit increased by approximately HK$3.8 million from approximately HK$46.8 million for the year ended 30 June 2015 to approximately HK$50.6 million for the year ended 30 June 2016, representing an increase of approximately 8.1%. The increase was mainly attributable to increase in revenue and decrease in fuel and utilities costs.

RESULTS OF THE CLEANING GROUP AND THE LAUNDRY GROUP

The following table shows the results of the Cleaning Group and the Laundry Group during the Relevant Periods:

	Year ended 30 June			Six months ended 31 December	
	2015	**2016**	**2017**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cleaning	37,651	37,607	40,307	20,602	25,964
Laundry	9,099	12,960	10,806	6,081	7,903
Total	46,750	50,567	51,113	26,683	33,867

Cleaning

Result increased by approximately HK$5.4 million from approximately HK$20.6 million for the six months ended 31 December 2016 to approximately HK$26.0 million for the six months ended 31 December 2017, representing an increase of approximately 26.2%. The increase was mainly attributable to increase in revenue from new cleaning contracts; and partly offset by increase in cost of operations and administrative expenses principally due to increase in staff costs as a result of salary increment and increase in operating lease in respect of land and buildings.

Result increased by approximately HK$2.7 million from approximately HK$37.6 million for the year ended 30 June 2016 to approximately HK$40.3 million for the year ended 30 June 2017, representing an increase of approximately 7.2%. The increase was mainly attributable to increase in revenue from new cleaning contracts; and partly offset by increase in cost of operations and administrative expenses principally due to increase in staff costs as a result of salary increment.

Result decreased by approximately HK$0.1 million from approximately HK$37.7 million for the year ended 30 June 2015 to approximately HK$37.6 million for the year ended 30 June 2016, representing a decrease of approximately 0.3%. The decrease was mainly attributable to increase in cost of operations and administrative expenses principally due to increase in staff costs because of salary increment; partly offset by increase in revenue from new cleaning contracts.

Laundry

Result increased by approximately HK$1.8 million from approximately HK$6.1 million for the six months ended 31 December 2016 to approximately HK$7.9 million for the six months ended 31 December 2017, representing an increase of approximately 29.5%. The increase was mainly attributable to increase in revenue from new laundry contracts; decrease in repair and maintenance costs and no management fee provided to the Seller (HK$650,000 provided for the six months ended 31 December 2016).

Result decreased by approximately HK$2.2 million from approximately HK$13.0 million for the year ended 30 June 2016 to approximately HK$10.8 million for the year ended 30 June 2017, representing a decrease of approximately 16.9%. The decrease was mainly due to increase in staff costs and transportation costs, because of salary increment.

Result increased by approximately HK$3.9 million from approximately HK$9.1 million for the year ended 30 June 2015 to approximately HK$13.0 million for the year ended 30 June 2016, representing an increase of approximately 42.9%. The increase was mainly attributable to decrease in fuel and utilities costs.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Target Group financed its operations and capital expenditures primarily by the internal generated funds from operations, advances from the Seller and short-term bank borrowings.

As at 30 June 2015, 2016 and 2017 and 31 December 2017, the Target Group had net current assets of approximately HK$107.9 million, HK$115.2 million, HK$117.1 million and HK$66.9 million, respectively. The net current assets primarily include trade receivables, cash and bank balances, trade and other payables, amount due to the Seller and borrowings. The decrease in net current assets as at 31 December 2017 against 30 June 2017 was mainly attributable to increase in amounts due to the Seller.

The Target Group has adopted a prudent treasury policy and maintained healthy liquidity position throughout the Relevant Periods. All assets and liabilities are principally denominated in Hong Kong dollars.

Cash and bank balances

As at 30 June 2015, 2016 and 2017 and 31 December 2017, the Target Group had cash and bank balances of approximately HK$104.1 million, HK$131.8 million, HK$135.3 million and HK$126.5 million respectively. Cash and bank balances are denominated in Hong Kong dollars.

Borrowings

Borrowings represent short-term bank loans with maturity less than 1 year. The Target Group utilized bank loans principally to finance its daily operations and general working capital requirements. As at 30 June 2015, 2016 and 2017 and 31 December 2017, the Target Group had borrowings of approximately HK$30.0 million, HK$30.0 million, HK$30.0 million and HK$10.0 million respectively. The bank loans are denominated in Hong Kong dollars with applicable interest rate ranged between HIBOR plus 1.25% and HIBOR plus 0.85%. The effective interest rate is 1.4%, 1.5%, 1.2% and 1.5% per annum for the years ended 30 June 2015, 2016, 2017, and for the six months ended 31 December 2017 respectively.

As at the Latest Practicable Date, the Target Group increased its borrowings to approximately HK$140.0 million to repay the amount due to the Seller.

Advances from the Seller

Advances from the Seller represents amounts due to FSE Management Company Limited. The balances are unsecured, interest free and have no fixed terms of repayment.

Gearing Ratio

The Target Group's net gearing ratio* was 19.5% as at 31 December 2017; and maintained at zero as at 30 June 2015, 2016 and 2017, principally due to net cash (negative net debt) of approximately HK$33.7 million, HK$68.0 million and HK$59.4 million recorded as at 30 June 2015, 2016 and 2017 respectively.

The Target Group had no capital instruments and financial instruments for hedging purposes throughout the Relevant Periods.

CAPITAL EXPENDITURES

The capital expenditures of Target Group are used principally in connection with additions of property, plant and equipment. The Target Group recorded capital expenditures of HK$26.4 million, HK$19.1 million, HK$18.9 million and HK$9.0 million for the each of the years ended 30 June 2015, 2016 and 2017 and the six months ended 31 December 2017 respectively.

* *net gearing ratio is calculated as the net debt divided by the total equity. Net debt is calculated as the total borrowings plus amounts due to Seller and minus cash and bank balances*

CHARGE ON ASSETS

As at 30 June 2015, 2016 and 2017 and 31 December 2017, the Target Group did not have any charge on its assets.

EMPLOYEES

As at 30 June 2015, 2016 and 2017 and 31 December 2017, the Target Group had 5,766, 5,949, 6,141 and 6,073 employees, respectively. The total staff costs for the Target Group for the each of the years ended 30 June 2015, 2016 and 2017 and the six months ended 31 December 2017 were approximately HK$704.3 million, HK$721.8 million, HK$791.3 million and HK$419.8 million respectively.

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except for the additions of property, plant and equipment for operations, the Target Group had no plan for material investments or capital assets or the each of the years ended 30 June 2015, 2016 and 2017 and the six months ended 31 December 2017.

OPERATING LEASE COMMITMENT

As at 30 June 2015, 2016 and 2017 and 31 December 2017, the Target Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings of approximately HK$5.8 million, HK$5.9 million, HK$6.9 million and HK$25.7 million respectively.

CAPITAL COMMITMENT

As at 30 June 2015, 2016 and 2017 and 31 December 2017, the Target Group had capital commitment of approximately HK$0.3 million, HK$0.8 million, HK$3.0 million and HK$7.6 million respectively in relation to the purchase of property, plant and equipment.

CONTINGENT LIABILITIES

As at 30 June 2015, 2016 and 2017 and 31 December 2017, the Target Group had no material contingent liabilities.

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**"), which has been prepared on the basis of the notes set out below and in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effects of the Proposed Acquisition on the Group, as if it had taken place on 31 December 2017 for the pro forma consolidated statement of assets and liabilities.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with that of the Group, as set out in the published annual report of the Company for the year ended 30 June 2017 and the new/revised accounting standards adopted in the published interim results announcement of the Company for the six months ended 31 December 2017.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group contained in the published interim results announcement of the Company for the six months ended 31 December 2017 and the accountant's report of the Reported Group as set out in Appendix II to this Circular.

The Unaudited Pro Forma Financial Information has been prepared by the Directors solely for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not reflect the true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed as at 31 December 2017, where applicable, or at any future date.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	The Group as at 31 December 2017	The Reported Group as at 31 December 2017	Pro forma adjustments				Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Non-current Assets							
Property, plant and equipment	372,830	111,185	(58,372)				425,643
Land use rights	21,590	—					21,590
Intangible assets	35,681	16,316					51,997
Deposits	—	3,167					3,167
Deferred income tax assets	12,074	27					12,101
Available-for-sale financial assets	94,672	—					94,672
	536,847	130,695					609,170
Current Assets							
Inventories	31,747	2,620					34,367
Amounts due from customers for contract works	281,126	—					281,126
Trade and other receivables, net	894,706	248,756	633			(342)	1,143,753
Amount due from FSE Management Company Limited	—	1,500					1,500
Financial assets at fair value through profit or loss	93,768	—					93,768
Cash and bank balances	765,911	126,523	(22)	(502,000)			390,412
	2,067,258	379,399					1,944,926
Current Liabilities							
Amounts due to customers for contract works	311,124	—					311,124
Trade and other payables	1,265,479	161,155	(29)		7,000	(342)	1,433,263
Amount due to FSE Management Company Limited	—	179,106	(43,284)				135,822
Taxation payable	37,571	6,208	(30)				43,749
Borrowings	—	10,000					10,000
	1,614,174	356,469					1,933,958
Net Current Assets	453,084	22,930					10,968
Total Assets Less Current Liabilities	989,931	153,625					620,138
Non-current Liabilities							
Deferred income tax liabilities	18,993	11,504	(4,229)				26,268
Long service payment liabilities	—	32,701					32,701
	18,993	44,205					58,969
Net assets	970,938	109,420					561,169

(2) Notes to Unaudited Pro Forma Financial Information of the Enlarged Group

1. The balances were extracted from the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2017 as set out in the published interim results announcement of the Company for the six months ended 31 December 2017.

2. The balances were extracted from the audited combined statement of financial position of the Reported Group as at 31 December 2017 included in the accountant's report of the Reported Group as set out in Appendix II to this Circular.

3. Pursuant to the reorganisation, certain assets and liabilities included in the audited combined statement of financial position of the Reported Group as at 31 December 2017 are not retained by the Group and will be transferred to the seller before the Proposed Acquisition. The transfer of these assets and liabilities will be treated as a disposal upon completion of the reorganisation on 14 March 2018. Accordingly, the unaudited pro forma financial statement line items have been reduced accordingly based on their carrying values as at 31 December 2017, after taking into account this disposal.

4. Pursuant to the Sale and Purchase Agreement dated 27 February 2018, the Group will acquire the entire issued share capital of the Target Company at a total consideration of HK$502 million, which will be settled by cash.

   The Proposed Acquisition is considered as a business combination under common control as the Group and the Target Group are under the common control of FSE Holdings Limited before and after the Proposed Acquisition. Accordingly, the Proposed Acquisition is accounted for using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

5. The adjustment represents the estimated amounts for legal and professional fees and other transaction costs payable by the Company which is directly attributable to the Proposed Acquisition.

6. The adjustment represents the elimination of the trade receivables of the Group owing from the Target Group as at 31 December 2017.

7. No other adjustments have been made to reflect any trading results or other transactions of the Group and of the Target Group entered into subsequent to 31 December 2017.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of FSE Engineering Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of FSE Engineering Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") and Crystal Brilliant Limited and its subsidiaries, upon completion of a group reorganisation (the "**Target Group**") (collectively the "**Enlarged Group**") by the Directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2017 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages IV-1 to IV-3 of the Company's circular dated 20 March 2018, in connection with the proposed acquisition of the Target Company (the "**Proposed Acquisition**") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 31 December 2017 as if the Proposed Acquisition had taken place at 31 December 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's published interim results announcement for the six months ended 31 December 2017.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 20 March 2018

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DUFF & PHELPS

15 March 2018

The Directors
16/F Chevailer Commercial Centre,
8 Wang Hoi Road,
Kowloon Bay,
Hong Kong

Our Ref.: 85330

Dear Sirs,

VALUATION REPORT ON MARKET VALUE OF 100% EQUITY INTEREST IN WAIHONG CLEANING AND NEW CHINA LAUNDRY BUSINESS UNITS ON A COMBINED BASIS

Pursuant to the terms, conditions and purpose of an engagement agreement dated 21 February 2018 ("Engagement Agreement") between FSE Engineering Group Limited, a wholly owned subsidiary of FSE Engineering Holdings Limited (collectively refer to as "FSE", the "Client" or "Company") and D&P China (HK) Limited ("Duff & Phelps China"), we have performed an analysis of market value of 100% equity interest of two business units, namely (i) Waihong Cleaning Limited Group and (ii) New China Steam Laundry Limited Group ("Target Group") on combined basis ("Valuation") as of 31 December 2017 ("Valuation Date").

We understand that the Company contemplates the acquisition of the above mentioned interest and the Valuation is prepared based on the underlying assumptions and information provided by the management of the Company, and the Target Group (together "Management").

We understand that this letter will be adopted by the Company for public disclosure purpose in compliance with the Rules Governing the Listing of Securities on Stock Exchange ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). No third party shall have the right of reliance on this letter and neither receipt nor possession of this letter by any third party shall create any express or implied third-party beneficiary rights.

This letter identifies the asset appraised, describes the scope of work, states the basis of value, specifies key inputs and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. In preparing this letter, we aim to largely comply with the reporting standards recommended by the International Valuation Standards ("IVS"). The depth of discussion contained in this letter is specific to the needs of the Client and for the intended use as stated below. Supporting documentation concerning these matters has been retained in our work papers.

PURPOSE OF VALUATION

The Client intends to acquire 100% equity interest in the Target Group. With the Client's approval and as stipulated by the Engagement Agreement in formulating our opinion on the market value of equity interest in the Target Group, we relied upon the completeness and accuracy of operational, and financial information provided by the Management. To the extent that any of these assumptions or facts changed, the result of our market value conclusion should be different.

The intended use of the Valuation is to serve as the basis for compliance with the Listing Rules. The ultimate transaction, if happens, and the corresponding acquisition prices would be the results of negotiations between the transacting parties. The responsibility for determining the agreed acquisition price of the Target Group rests solely with the Company. The results of our analysis should not be construed to be a fairness opinion, a solvency opinion, or an investment recommendation. It is inappropriate to use our valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the financial projections and underlying assumptions.

STANDARD AND BASIS OF VALUE

The Valuation was prepared on the basis of market value. Market value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Business enterprise value is defined for this appraisal as the total invested capital, that is, equivalent to the combination of all interest-bearing debts, shareholders' loans and shareholders' equity. Alternatively, the business enterprise value is equivalent to the combination of all tangible assets (buildings, machinery and equipment), long-term investment, net operating working capital and intangible assets of a continuing business. Equity interest is equivalent to business enterprise value less interest-bearing debts.

DESCRIPTION OF THE TARGET GROUP

The Target Group is principally engaged in the provision of facility services including cleaning and laundry services.

Waihong Cleaning Limited Group

The Target Group's cleaning services are operated through Waihong Cleaning Limited, which offer a wide range of office support, residential and public sector associated services and related services in Hong Kong and the PRC, such as general cleaning, waste management and disposal, external wall and window cleaning, pest control and clinical waste management. Such services are rendered at commercial buildings, including office buildings and shopping arcades, hotels and serviced apartments, residential complexes, public transportations and other venues such as governmental institutions, theme parks, airport facilities, academic institutions, financial institutions and medical institutions.

New China Steam Laundry Limited Group

The Target Group's laundry services are operated through New China Steam Laundry Limited, which offer laundry, dry cleaning and linen management services to corporate customers, including major high-end hotels, restaurant chains, theme parks, airlines and clubs; and also operate three dry cleaning and laundry retail valet outlets under its "Kleaners" brand in Hong Kong.

In February 2018, Macro Brilliant Limited ("Macro Brilliant" or the "Non-Target Group"), a wholly owned subsidiary of the Target Group, was disposed of to FSE Management Company Limited. Macro Brilliant is the property holding vehicle of a linen laundry and dry-cleaning center with 101,463 square feet in Fanling ("Fanling Plant").

REVIEW OF COMBINED FINANCIAL STATEMENT OF THE TARGET GROUP

We have reviewed the audited combined financial statements of the Target Group, including Macro Brilliant ("Reporting Group") for the financial years ended 30 June 2015, 30 June 2016, 30 June 2017, and unaudited financial summary for six-month ended 31 December 2017 provided by the Management without further verification.

Revenue of the Reporting Group increased from HK$994 million in FY2015 to HK$1,130 million in FY2017, at compound annual growth rate ("CAGR") of 6.6%. By segment, approximately 85% of revenue came from cleaning services in FY2017. Over the past few years, stable profit margins were maintained by the Reporting Group. Earnings before interest, tax, depreciation and amortization ("EBITDA") were HK$74.1 million, HK$79.8 million and HK$83.5 million in FY2015, FY2016 and FY2017 respectively, representing EBITDA margin of 7.4% to 7.9%. Among the operating expenses, labor costs are the key items to the Reporting Group. After taxation, the Reporting Group recorded net profit margin of 4.6% to 5% from FY2015 to FY2017.

Fixed assets with net book value of HK$111.2 million was observed as of 31 December 2017, which included the book value of Fanling Plant. Net working capital mainly included account receivable and payable. As percentage of revenue, it was maintained at 4.6% to 7.4% over the past financial years. The Reporting Group had cash balance of approximately HK$126.5 million and bank borrowing of HK$10 million as of 31 December 2017. After years of operation, its net asset value was HK$109.4 million as of the Valuation Date.

Discussion with the Management indicated that, there were some non-recurring items in financial statements of the Target Group, such as donation and management fees for corporate functions provided by its current intermediate holding company. In addition, because the rental expenses of the Fanling Plant were eliminated on consolidated level, we have adjusted the operating profits of the Reporting Group by those non-recurring items, the rental expenses at estimated market rate and overheads of Non-Target Group so to present the key following financial results of Target Group adopted in the Valuation of the Target Group.

HK$'000	**FY2015**		**FY2016**		**FY2017**		**3-year average**	
Reporting Group								
Revenue	993,963		1,016,543		1,130,443		1,046,983	
EBIT	57,068	5.7%	61,654	6.1%	61,736	5.5%	60,153	5.7%
EBITDA	74,131	7.5%	79,840	7.9%	83,490	7.4%	79,154	7.6%
Net Income	47,175	4.7%	50,991	5.0%	51,600	4.6%	49,922	4.8%
Target Group								
Adjusted EBIT	**53,258**	**5.4%**	**57,887**	**5.7%**	**60,663**	**5.4%**	**57,269**	**5.5%**
Adjusted EBITDA	**68,344**	**6.9%**	**74,096**	**7.3%**	**80,440**	**7.1%**	**74,293**	**7.1%**
Adjusted Net Income	**43,994**	**4.4%**	**47,846**	**4.7%**	**50,633**	**4.5%**	**47,491**	**4.5%**

Overall, the 3-year average adjusted EBITDA and EBIT margins of the Target Group were 7.1% and 5.5%, slightly higher than the median results of comparable companies identified herein this letter which were approximately 5.7% and 4.5% respectively over the past 5 years.

ECONOMIC OUTLOOK

A sound appraisal of a business or business interest must consider current and prospective economic conditions of the national economy. The major variables reviewed in order to evaluate the overall state of the national economy include the current level of and changes in the gross domestic product (GDP), exchange rate, and the inflation rate. An overview of the national economies of Hong Kong was essential to develop this outlook. The following economic discussion was extracted from Economist Intelligence Unit ("EIU") issued in December 2017.

EIU estimates that economic growth will reach a multi-year high of 3.7% in 2017. This largely reflects firming household spending, as low unemployment and steady growth in wages have helped to improve consumer sentiment. It is also a result of a rebound in exports of goods and services, which has been driven by stronger Chinese demand growth and a modest recovery in the EU and the US.

A weakening of China's renminbi against the Hong Kong dollar in 2018–19 will serve to reduce the price of imported goods, dampening inflationary pressure. Around half the territory's imports come from the mainland. A drop in house prices in 2018 will further cool inflation through its impact on rents (which have the largest weighting of any component in the consumer price index). The rate of inflation will quicken later in the forecast period amid a recovery in domestic demand growth and the renminbi's appreciation against the Hong Kong dollar. Overall, EIU forecasts that consumer price inflation will average 2.4% a year in 2018–22.

The Hong Kong dollar will remain pegged to the US dollar throughout 2018–22. Downward pressure on the local currency will remain predominant in 2018–19, as it has for much of 2017, as local banks raise their own interest rates only gradually as Hong Kong and US policy rates move higher. However, EIU expects the Hong Kong Monetary Authority (which performs many of the functions of a central bank) to drain Hong Kong dollar liquidity in the market, as it did in August and September 2017, to shore up the exchange rate. This will keep the Hong Kong dollar within the HK$7.8:US$1–HK$7.85:US$1 range in 2018–19. The currency will move back to the stronger side of its permitted trading band in 2020–22.

INDUSTRY OVERVIEW

The discussion below was extracted from prospectus of Winson Holdings Hong Kong Limited issued in February 2017.

Environmental hygiene services in Hong Kong include the following significant service categories:

Key service categories	Service areas include
General cleaning service	Floor surfaces and carpets, glass surfaces, kitchens, offices, pest management, stone maintenance and exterior wall cleaning service
Waste management service	Collection of recyclable items, collection and disposal of liquid waste, industrial and solid waste, composite waste management and water tanks rinsing service
Other services	One-off post-construction cleaning, car park cleaning, cleaning equipment supply and room service

In spite of the influence of economic fluctuation, the market size of environmental hygiene services in Hong Kong experienced a growth rate of approximately 9.1% from approximately HK$7,740.9 million in 2011 to HK$10,986.2 million in 2015. Driven by the increasing public awareness in environmental hygiene of Hong Kong people due to the outbreaks of diseases in the past and the rising number of both commercial and residential buildings, the market size of environmental hygiene services is expected to further expand to approximately HK$15,606.3 million in 2020, representing a CAGR of approximately 7.1% from 2016 to 2020.

(i) Market trends

Increasing service outsourcing

Due to the rising number of residential and commercial buildings and also office buildings in Hong Kong, the demand for environmental hygiene services also followed the trend.

(ii) Higher customer requirement

Since the development stage of Hong Kong environmental hygiene service industry, customer requirements and expectations for cleaning services have surged. Cleaning services no longer involve only low-skilled general cleaning, the scope of services has evolved into a wider context, including pest management, waste management and exterior wall cleaning as well as marble maintenance.

(iii) Rising labor costs

Based on the past trends of statutory minimum wage, it is expected that the Hong Kong Government will be very likely to continue to raise the statutory minimum wage once in every few years to meet the rising inflation rate. However, a small increase in wages would imply additional hidden costs and chained reactions on companies' operations. As a result, environmental hygiene service providers will be likely to increase their service charges in order to remain or improve their service quality to stay in the competition.

(iv) Industry consolidation

In Hong Kong, the Hong Kong Government and property management companies select their environmental hygiene service providers through tendering. These service providers need to fulfil a set of requirements in order to win contracts. As the revenue sources of the industry mainly come from government projects and those from property management companies, the local industry would gradually be dominated by large-scale service providers who have established a sustainable long-term relationship with these high valued clients. In other words, market concentration is expected to increase in the future and small companies will be forced to exit the market.

SCOPE OF WORK AND KEY ASSUMPTIONS

Our investigation included discussions with the Management with regard to the history, operations and prospects of the Subject Companies, overview of certain financial data, an analysis of the industry and competitive environment, an analysis of comparable companies, and a review of transactions, operating statistics and other relevant documents. For this appraisal, we made reference to or reviewed the following major documents and data:

- Articles of association and business registrations of companies in the Target Group.
- Group chart of the Target Group
- Audit reports of the Reporting Group for the fiscal years from 2015 to 2017 and 6-months result for the period ended 31 December 2017
- Breakdown of historical revenue, cost of revenue and operating expenses
- Non-recurring expenses of the Target Group for the fiscal years from 2015 to 2017
- Summary of outstanding debts and corresponding interest rate

- Market rent of the Fanling Plant
- Industry research reports cited in the section of the report where referenced
- Other relevant documents

We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the Management, are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

- the stage of development of the Target Group
- the historical costs of the Target Group
- the economic outlook for major countries affecting the industry
- the legal and regulatory issues of the healthcare industry in general and other specific legal opinions relevant to the Target Group
- the risks associated with the Target Group
- the history and experience of the Target Group.

Due to the changing environments in which the Target Group are operating, a number of assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation are:

- no major changes are expected in political, legal and economic conditions in Hong Kong;
- regulatory environment and market conditions for healthcare industry will be developing according to prevailing market expectations;
- there will be no major changes in the current taxation law applicable to the Target Group;
- the Target Group will not be constrained by the availability of finance;
- the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations; and
- the Target Group will retain competent management, key personnel and technical staff to support their ongoing operations.

VALUATION METHODOLOGY OVERVIEW

In the appraisal of the equity, or the net assets, of a business, regardless of their diversity, location, or technological complexity, there are three basic approaches to perform a valuation. The descriptive titles typically attached to these approaches are cost, income, and market. In normal circumstances, the appraiser is obliged to consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

Cost approach established value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. While useful for certain purposes, the cost approach is generally not considered applicable to the valuation of a going concern, as it does not capture future earning potential of the business. Thus, it is not utilized in the valuation. In forming our opinion, we rely upon the income and the market approaches to prepare a business enterprise value analysis of the Target Group.

Market Approach

One methodology employed in the market approach is the Guideline Company Method (GCM), where financial ratios of comparable companies were analyzed to determine a value for the subject company. This method employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject company and is appropriate valuation method for established business. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over-the-counter.

Our selection criteria of comparable companies include:

- Engages in similar businesses: cleaning or laundry services
- Located in Hong Kong or Asia
- Profit making

We have identified and described below 9 comparable companies whose business natures are similar to that of the Target Group:

1. Baguio Green Group Ltd (1397 HK) is an industrial cleaning corporation. The company provides integrated environmental services, including cleaning services, pest control, landscape services and waste management to buildings, residential premises, and shopping malls.

2. Man Shing Global Holdings Limited (8309 HK) operates as a holding company. The company, through its subsidiaries, offers street, building, bus cleaning, and other services. Man Shing Global Holdings serves customers in Hong Kong.

3. Winson Holdings Hong Kong Ltd. (8421 HK) is a service providing company. The company provides environmental hygiene and pest management services. Winson Holdings also provides airline catering support services.

4. Lapco Holdings Limited (8472 HK) provides environmental sanitation services. The company offers waste management and cleaning services for private institutions, property management companies, government departments, and educational institutions. Lapco Holdings serves customers in Hong Kong.

5. Colex Holdings Limited (COLEX SP) provides waste management services such as waste disposal and contract cleaning services to commercial, industrial, and residential properties.

6. Spotless Group Holdings Ltd (SPO AU) offers cleaning services. The company offers catering, maintenance, security, laundry and linen, waste management, environmental services, and cleaning.

7. Millennium Services Group Limited (MIL AU) provides cleaning and security services. The company offers guard and protection, planned preventative maintenance, contractor management, facilities, and maintenance services. Millennium Services Group serves customers in Australia and New Zealand.

8. Hakuyosha Company, Ltd. (9731 JP) provides overall laundry services. The company has outlets throughout Japan, and provides dry cleaning and laundry services. Hakuyosha also supplies linens to hotels.

9. Kyokuto Co., Ltd. (2300 JP) provides apparel laundry and dry cleaning services. The company operates outlets throughout Japan and diversifies by offering general stores, drive-thru stores, and coin-operated laundry facilities.

We calculated enterprise value ("EV") to EBIT and price to earnings ("P/E") multiples of the above nine comparable companies. The time period for those earnings denominator of price multiples is the latest financial year ("LFY") annual results in 2017.

				Revenue in LFY	**P/E**			**EV/EBIT**
			Note	*(USD'000)*	**Market Capitalization**	**Market Capitalization less cash**	**Market Capitalization less negative net debt**	
1	Baguio Green Group Ltd	1397 HK	*1*	140,106	11.95	9.68	11.95	10.18
2	Man Shing Global Holdings Ltd	8309 HK		59,354	18.82	17.18	18.82	12.43
3	Winson Holdings Hong Kong Ltd	8421 HK		59,830	24.20	18.12	20.92	11.59
4	Lapco Holdings Ltd	8472 HK		51,718	17.63	17.14	17.63	16.65
5	Colex Holdings Ltd	COLEX SP		52,303	8.48	6.03	6.03	5.29
6	Spotless Group Holdings Ltd	SPO AU		2,347,571	17.88	16.96	17.88	14.01
7	Millennium Services Group Ltd	MIL AU	*1*	177,504	10.82	9.30	10.82	8.78
8	Hakuyosha Co Ltd	9731 JP		434,617	17.07	15.42	17.07	20.63
9	Kyokuto Co Ltd	2300 JP		60,373	16.07	10.65	12.56	8.58
	Target Group			124,317				
	Selected		*1*				**11.50**	**9.50**

Note 1: Selected the average of 1397 HK and MIL AU as the revenue sizes of them are close to the Target Group.

Note 2: The result of EBIT and earnings of guideline companies are sourced from Bloomberg, referring adjusted results by excluding non-recurring or abnormal items.

Then, we multiplied the selected price multiples by FY2017 adjusted net profit and EBIT of the Target Group to arrive at equity value or business enterprise value of the Target Group on a marketable and non-control basis.

Income Approach

The Capitalization of Stabilized Earnings Method under the income approach was adopted on the valuation of the Target Group. Instead of discounting future cash flows over long-term period, this method explicitly recognizes that stabilized earnings for a representative single period are converted to value through division by a capitalization rate and is commonly used for the valuation of income generating properties and stable businesses.

The net cash flow for companies can be normalized by the following formula:

Net earnings (after tax income)
+ Actual depreciation, amortization, impairment and all other non-cash charges
– Anticipated capital expenditures
+/– The current normalized working capital balance x the expected growth rate
= Normalized net cash flow (debt free)

Net cash flow in the stabilized year was derived based on the above formula. To estimate the net cash flow in the stabilized year, we took reference of the past 3-year average adjusted results of the Target Group from FY2015 to FY2017, and applied the following assumptions:

1. Stabilized earnings: 3-year average of adjusted EBITDA from FY2015 to FY2017 was selected.

2. Standard tax rate of 16.5% was applied.

3. For capital expenditure, 1.75% of revenue was assumed by referencing the historical average results of the Target Group and guideline companies.

4. Working capital as % of revenue of 5.5% was applied, after considered historical results of the Target Group and guideline companies.

The capitalization rate is obtained by subtracting the long term growth rate based on the expected inflation from the discount rate derived in the section below to arrive at the required rate of return in real term.

Discount Rate

The rate at which the annual net cash flows discounted to present value is based on the estimated weighted average cost of capital (“WACC”), which incorporates the cost of equity and debt, weighted by the proportionate amount of each source of capital in the capital structure.

WACC Computation:

WACC	= Ke x (Eq/IC)	+ Kd x (D/IC)
9% (rounded)	= 9.42% x 90%	+ 1.56% x 10%

Where:

Ke	=	Cost of equity
Eq	=	Equity
IC	=	Invested capital (equity plus all interest bearing debt)
Kd	=	After-tax cost of debt
D	=	Debt

The cost of equity for the valuation was developed through the application of the Capital Asset Pricing Model ("CAPM"), which is the most commonly adopted method of estimating the required rate of return for equity. CAPM states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk ("Beta") times equity market premium in general. The guideline companies identified in previous section were used in estimating the beta for the Company and, in turn, the cost of equity.

Based on the study of Duff and Phelps, the actual return of a company normally exceeds the return as estimated by CAPM. In general, the smaller the size of a company, the higher the actual return would be. Small size risk premium of 3.67% was added to cost of equity based on the empirical study of similar size of the Target Group. In addition, CAPM only capture systematic risks, which cannot be diversified through holding a portfolio of investments. In valuing a particular business, company-specific risk premium should be considered. Taking into consideration of the Target Group's historical development with intensive labor cost structure, a risk premium of 0.5% was added. Following is the derivation of cost of equity:

Ke	=	Rf	+ MRP	x Beta	+ SSR	+ CSR
9.42%	=	1.85%	+ 8.94%	x 0.38	+ 3.67%	+ 0.5%

Where:

Ke	=	cost of equity
Rf	=	risk-free rate
MRP	=	market risk premium, which is the return the market portfolio is expected to generate in excess of the risk-free rate.
Beta	=	the "beta coefficient" that measures the relative risk of the asset being valued as compared to the risk of the market portfolio. It is computed by regressing returns on a comparable security on returns for the market index. It is a measure of the systematic risk of the asset.
SSR	=	small company risk premium taken from empirical study
CSR	=	company-specific risk premium

Another component of WACC is after-tax cost of debt, which is based on the latest borrowing cost of the Target Group at 1.87% and the standard tax rate of 16.5%. The WACC was then computed by summing the weighted cost of equity and after-tax cost of debt based on the Target Group's debt-to-equity ratio. As such, our analysis concludes that a discount rate of 9% is considered appropriate for valuing the Target Group.

ADDITIONAL VALUATION CONSIDERATION

Premium for Control

Premium for control is the additional value inherent in the controlling interest, as contrasted to a minority interest that reflects the power of control. The thousands of daily transactions on stock exchanges are, of course, minority interest transactions. Each year, a controlling interest in a few hundred of these public companies is purchased at a price that is substantially higher than the published market price of the securities. The public markets provide information on control premiums through acquisition transactions. When a controlling interest in a publicly traded firm is acquired and taken private, the purchaser normally pays a premium above the freely traded, minority interest share price. The difference between the published price of the shares before their acquisition and the purchase price of the controlling interest is referred to as the control premium.

When valuing the Target Group based on guideline companies' multiples, the level of value is presented on freely traded and non-controlling basis. A premium for control reflects the degree of control associated with a 100% interest in the shares of the Target Group. To estimate the control premium applicable to the Target Group, we relied on indications of control premiums from data on acquisition transactions in the industry of Non-hazardous Waste Disposal, Soap & Cleaning sourced from Bloomberg. As indicated by market data, a 20% control premium was considered to be appropriate.

Discount for Lack of Marketability ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. However, the DLOM is applicable at business enterprise or equity level but not on individual assets level.

In this appraisal, the discount for lack of marketability was considered to be 15% based on option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. This option-pricing method is one of the methods commonly used in estimating DLOM as it can take into consideration factors like timing of liquidity event and estimated volatility of the shares of the Target Group. The farther the valuation date is from an expected liquidity event, the higher the put option value and thus the higher the implied DLOM.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above, it is our opinion that the market value of 100% equity interest of the Target Group on combined basis as of 31 December 2017 is reasonably represented in the range of approximately HONG KONG DOLLARS FIVE HUNDRED AND SEVENTY-EIGHT MILLION (HK$578,000,000) AND SIX HUNDRED AND FORTY-FOUR MILLION (HK$644,000,000).

	Market Approach Guideline Company Method		**Income Approach Capitalization of Debt Free Net Cash Flow**
Financial Year	Latest Fin Yr	Latest Fin Yr	3-yrs Average
Economic Measures	Net income	EBIT	Normalized Cash Flows
	HK$'000	*HK$'000*	*HK$'000*
Financial Results — Adjusted	50,633	60,663	44,809
Applicable Ratio/Capitalized Rate	11.50	9.50	(9%–3%)
			(Note 1)
Indicated Value	582,280	576,299	769,221
Control Premium	20%	20%	N/A
	698,736	691,559	769,221
Discount for lack of marketability	15%	15%	15%
	593,926	587,825	653,838
Debt		(10,000)	(10,000)
Indicated Value (rounded to million)	594,000	578,000	644,000

Note 1: It is the result of the formula: HKD44,809 thousand x (1+3%) / (9%–3%)

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Respectfully submitted,
For and on behalf of
D&P China (HK) Limited

Patrick Wu	**Ricky Lee**
Regional Managing Director	*Managing Director*

Note: This valuation was prepared under the direct supervision of Mr. Ricky Lee as project-leader-in-charge with substantial professional assistance from Ms. Joan Wong and concurring technical review by Mr. Kevin Leung, another Managing Director based in Beijing. The final conclusion was approved by Mr. Patrick Wu as Regional Managing Director and practice leader of the firm's Greater China valuation advisory services.

Mr. Ricky Lee has been involved in business valuation for the purpose of joint venture, merger and acquisition and public listing for over 15 years. Mr. Lee has prior experience in conducting equity interest valuation to Hong Kong listed China based hospital companies. He is a charter holder of the Chartered Financial Analyst and is a current member of the Financial Reporting Valuation Panel which acts in an advisory capacity to the Financial Reporting Standards Committee (''FRSC'') of the Hong Kong Institute of Certified Public Accountants (''HKICPA'') on financial reporting related valuation and present Secretary (and former President) of the American Society of Appraisers Hong Kong Chapter.

Mr. Patrick Wu is responsible for the management and strategic development of the firm's Greater China operation which has offices in Hong Kong, Beijing, Shanghai, Guangzhou, and Shenzhen and Taipei. Mr. Wu was qualified as a lawyer and has served as an independence Non-Executive Director on the board of directors of a Hong Kong listed company. He is extensively involved in providing professional consulting services for a wide range of public organizations and business sectors, such as banking, business acquisitions, public listings, real estate and investment in Hong Kong and the PRC, professional development, quality assurance and business development.

1 RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2 INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of listed issuers to be notified to the Company and the Stock Exchange:

Name of Director	Our Company/ associated corporation	Capacity/Nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding *(Note 2)*
Dr. Cheng	FSE Holdings *(Note 3)*	Beneficial owner *(Note 4)*	90,000,000 shares of HK$0.10 each (L)	18%
Mr. Lam Wai Hon, Patrick	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 5)*	10,000,000 shares of HK$0.10 each (L)	2%
Mr. Doo William Junior Guilherme	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 6)*	25,000,000 shares of HK$0.10 each (L)	5%
	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 7)*	20,000,000 shares of HK$0.10 each (L)	4%
Mr. Wong Kwok Kin, Andrew	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 8)*	35,000,000 shares of HK$0.10 each (L)	7%
Mr. Lee Kwok Bong	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 9)*	5,000,000 shares of HK$0.10 each (L)	1%

Notes:

(1) The letter "L" denotes the long position of the Director in the shares of the Company or the relevant associated corporation of the Company.

(2) The percentage of shareholding is calculated on the basis of 500,000,000 shares in issue of FSE Holdings as at the Latest Practicable Date.

(3) FSE Holdings is the holding company of the Company and falls under the definition of "associated corporation" within the meaning under Part XV of the SFO. Each of Mr. Lam Wai Hon, Patrick, Mr. Doo William Junior Guilherme and Mr. Wong Kwok Kin, Andrew is a director of FSE Holdings.

(4) The shares are held by Chow Tai Fook Nominee Limited for Dr. Cheng.

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

(6) The shares are held by Master Empire Group Limited, the entire issued share capital of which is solely and beneficially owned by Mr. Doo William Junior Guilherme.

(7) The shares are held by Supreme Win Enterprises Limited, the entire issued share capital of which is solely and beneficially owned by Mr. Doo William Junior Guilherme.

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

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

3 DISCLOSURE OF OTHER INTERESTS

(a) Interests in contract or arrangement

As at the date of this Circular, the following Directors had a material interest in the following contracts which were significant in relation to the business of the Enlarged Group:

(1) Dr. Cheng, a non-executive Director, is interested in the following agreements and the transactions contemplated thereunder respectively:

(i) the master services agreement dated 10 April 2017 made between Mr. Doo and NWD in relation to the provision of services as contemplated thereunder by Mr. Doo, his 30%-controlled companies and their subsidiaries to the NWD Group and vice versa;

(ii) the master services agreement dated 10 April 2017 made between Mr. Doo and NWDS in relation to the provision of services as contemplated thereunder by Mr. Doo, his 30%-controlled companies and their subsidiaries to the NWDS Group and vice versa;

(iii) the master services agreement dated 10 April 2017 made between Mr. Doo and NWS in relation to the provision of services as contemplated thereunder by Mr. Doo, his 30%-controlled companies and their subsidiaries to the NWS Group and vice versa;

(iv) the master services agreement dated 10 April 2017 entered into between the Company and CTFJ in relation to the provision of the E&M engineering and environmental services by the Group to the CTFJ Group;

(v) the master services agreement dated 10 April 2017 ("**2017 Doo's Associates Group Master Services Agreement**") entered into between the Company and the Seller in relation to (a) the provision of the E&M engineering and environmental services by the Group to the Doo's Associates Group; and (b) the provision of rental services and sundry services by the Doo's Associates Group to the Group; and

(vi) the 2018 Master Facility Services Agreements to be entered into.

(2) Dr. Cheng, Mr. Doo William Junior Guilherme, Mr. Lam Wai Hon, Patrick, Mr. Wong Kwok Kin, Andrew and Mr. Lee Kwok Bong are interested in the following agreements and the transactions contemplated thereunder respectively:

(i) the 2017 Doo's Associates Group Master Services Agreement; and

(ii) 2018 FSE Master Facility Services Agreement to be entered into.

Save as disclosed above, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted which was significant in relation to the business of the Enlarged Group as at the date of this Circular.

(b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which, since 30 June 2017, being the date to which the latest published audited consolidated accounts of the company were made up, had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

(c) Interests in competing business

As at Latest Practicable Date, none of the Directors nor any of his close associates had any interest in any business apart from the Group's business which competed or would likely to compete, either directly or indirectly, with the business of the Group.

4 DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with any member of the Enlarged Group which was not determinable by the relevant member of the Enlarged Group within one year without payment of compensation other than statutory compensation.

5 MATERIAL CONTRACTS

Save for the following, there are no contracts (not being contracts entered into in the ordinary course of business) which were entered into by members of the Enlarged Group within the two years immediately preceding the date of this Circular:

(1) the conditional agreement for sale and purchase of the entire issued share capital and related shareholder loan of Optimum Result Holdings Limited for an initial consideration of HK$285 million (subject to post-completion adjustment) by Catchy Investments Limited (a wholly-owned subsidiary of NWD) as vendor and Fortunate House Limited (a wholly-owned subsidiary of the Company) as purchaser on 5 October 2016, details of which were disclosed in the Company's circular dated 25 October 2016; and

(2) the Sale and Purchase Agreement.

6 LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge information and belief, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group that would have a material adverse effect on the results of operations or financial conditions of the Enlarged Group.

7 QUALIFICATIONS AND CONSENT OF EXPERTS

The following are the qualifications of the experts whose opinions or advice are contained in this Circular:

Name	**Qualifications**
PricewaterhouseCoopers	Certified Public Accountants
Ballas Capital Limited	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Frost & Sullivan	Independent Industry Expert
Duff & Phelps	Independent Valuer

As at the Latest Practicable Date, each of the above experts:

(1) had no direct or indirect shareholdings in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group;

(2) had no interests, direct or indirect, in any assets which had been, since 30 June 2017 being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any of member of the Group, or are proposed to be acquired or disposed of by or leased to any of member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this Circular with the inclusion therein of its letter, report or opinion and reference to its name in the form and context in which they respectively appear.

8 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Units 801–810, 8th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday (except public holidays) for a period of 14 days from the date of this Circular:

(1) the memorandum and articles of association of the Company;

(2) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 52 to 54 of this Circular;

(3) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 55 to 105 of this Circular;

(4) the accountant's report on the Target Group set out in Appendix II to this Circular;

(5) PricewaterhouseCoopers' assurance report on the compilation of the unaudited pro forma financial information on the Enlarged Group set out in Appendix III to this Circular;

(6) the business valuation report set out in Appendix V to this Circular;

(7) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(8) the written consents referred to in the section headed "Qualifications and consent of Experts" in this appendix;

(9) the annual reports of the Company containing the audited consolidated financial statements of the Group for the year ended 30 June 2016 and 30 June 2017 respectively; and

(10) this Circular.

9 GENERAL

(1) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and it principal place of business in Hong Kong is at Units 801–810, 8th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong.

(2) The Company's principal share registrar and transfer office in the Cayman Islands is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(3) The Company's Hong Kong branch share registrar and transfer office is Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(4) The joint company secretaries of the Company are Mr. Lee Kwok Bong and Mr. Chan Ju Wai. Mr. Lee Kwok Bong is an associate member of the Hong Kong Institute of Certified Public Accountants, a member and a Chartered Global Management Accountant of the American Institute of Certified Public Accountants. Mr. Chan Ju Wai is an associate member of the Institute of Public Accountants in Australia, and a member of both the Institute of Certified Management Accountants in Australia and the IT Accountants Association in Hong Kong.

(5) The English text of this Circular shall prevail over the Chinese text.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of **FSE ENGINEERING HOLDINGS LIMITED** (the "**Company**") will be held at 17/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Tuesday, 10 April 2018 at 11:30 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions:

ORDINARY RESOLUTIONS

(1) "**THAT**

subject to and conditional upon the passing of each of the ordinary resolutions in this notice approving the 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same:

(a) the Proposed Acquisition (as defined in the circular (the "**Circular**") of the Company dated 20 March 2018) by FSE Facility Services Group Limited (a wholly-owned subsidiary of the Company) as buyer from FSE Management Company Limited as seller on terms and conditions of the conditional agreement for sale and purchase dated 27 February 2018 (the "**Sale and Purchase Agreement**", a copy of which has been produced to the Meeting and marked "A" and initialled by the chairman of the Meeting for identification purposes) and the performance of the transactions contemplated under the Sale and Purchase Agreement, be and they are hereby approved;

(b) the directors (the "**Directors**") of the Company be and they are hereby authorised, for and on behalf of the Company, to do such acts and things, to take such steps and to sign or otherwise execute such agreements, documents, deeds or instruments as are in their opinion necessary, desirable or expedient to implement and to give effect to the Proposed Acquisition and all matters incidental thereto or in connection therewith; and

(c) the Directors be and they are hereby authorised to agree to such variation, amendment, modification and/or waiver of any matters relating to or in connection with the Proposed Acquisition as are, in their opinion in the interests of the Company and its shareholders as a whole in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and other applicable law, rules and regulations."

(2) "**THAT**

subject to and conditional upon (i) the passing of each of the ordinary resolutions in this notice approving the other 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same; and (ii) completion of the Proposed Acquisition in accordance with the terms of the Sale and Purchase Agreement:

(a) the 2018 FSE Master Facility Services Agreement to be entered into between the Seller and the Company (a copy of which has been produced to the meeting marked "B" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2018 FSE Master Facility Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2020 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) the Directors acting together or by committee, or any Director acting individually, be and is/are hereby authorised to take all steps necessary on behalf of the Company whatever he or they may, in his/their absolute discretion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementing and/or giving effect to the above matter."

(3) "**THAT**

subject to and conditional upon (i) the passing of each of the ordinary resolutions in this notice approving the other 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same; and (ii) completion of the Proposed Acquisition in accordance with the terms of the Sale and Purchase Agreement:

(a) the 2018 NWD Master Facility Services Agreement to be entered into between NWD and the Company (a copy of which has been produced to the meeting marked "C" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2018 NWD Master Facility Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2020 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) the Directors acting together or by committee, or any Director acting individually, be and is/are hereby authorised to take all steps necessary on behalf of the Company whatever he or they may, in his/their absolute discretion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementing and/or giving effect to the above matter."

(4) "**THAT**

subject to and conditional upon (i) the passing of each of the ordinary resolutions in this notice approving the other 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same, and (ii) completion of the Proposed Acquisition in accordance with the terms of the Sale and Purchase Agreement:

(a) the 2018 NWS Master Facility Services Agreement to be entered into between NWS and the Company (a copy of which has been produced to the meeting marked "D" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2018 NWS Master Facility Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2020 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) the Directors acting together or by committee, or any Director acting individually, be and is/are hereby authorised to take all steps necessary on behalf of the Company whatever he or they may, in his/their absolute discretion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementing and/or giving effect to the above matter."

(5) "**THAT**

subject to and conditional upon (i) the passing of each of the ordinary resolutions in this notice approving the other 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same, and (ii) completion of the Proposed Acquisition in accordance with the terms of the Sale and Purchase Agreement:

(a) the 2018 NWDS Master Facility Services Agreement to be entered into between NWDS and the Company (a copy of which has been produced to the meeting marked "E" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2018 NWDS Master Facility Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2020 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) the Directors acting together or by committee, or any Director acting individually, be and is/are hereby authorised to take all steps necessary on behalf of the Company whatever he or they may, in his/their absolute discretion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementing and/or giving effect to the above matter."

(6) "**THAT**

subject to and conditional upon (i) the passing of each of the ordinary resolutions in this notice approving the other 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same, and (ii) completion of the Proposed Acquisition in accordance with the terms of the Sale and Purchase Agreement:

(a) the 2018 CTFE Master Facility Services Agreement to be entered into between CTFE and the Company (a copy of which has been produced to the meeting marked "F" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2018 CTFE Master Facility Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2020 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) the Directors acting together or by committee, or any Director acting individually, be and is/are hereby authorised to take all steps necessary on behalf of the Company whatever he or they may, in his/their absolute discretion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementing and/or giving effect to the above matter."

(7) “**THAT**

subject to and conditional upon (i) the passing of each of the ordinary resolutions in this notice approving the other 2018 Master Facility Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same, and (ii) completion of the Proposed Acquisition in accordance with the terms of the Sale and Purchase Agreement:

(a) the 2018 CTFJ Master Facility Services Agreement to be entered into between CTFJ and the Company (a copy of which has been produced to the meeting marked “G” and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the “Letter from the Board” in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2018 CTFJ Master Facility Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2020 as more particularly set out in the “Letter from the Board” in the Circular be and are hereby approved; and

(c) the Directors acting together or by committee, or any Director acting individually, be and is/are hereby authorised to take all steps necessary on behalf of the Company whatever he or they may, in his/their absolute discretion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementing and/or giving effect to the above matter.”

SPECIAL RESOLUTION

"**THAT** subject to and conditional upon (1) the passing of each of the ordinary resolutions numbered (1) to (7) in this notice; (2) completion of the Proposed Acquisition in accordance with the terms of the Sale and Purchase Agreement; and (3) the necessary approval of the Registrar of Companies in the Cayman Islands being obtained, the English name of the Company be changed from "FSE Engineering Holdings Limited" to "FSE Services Group Limited" and to adopt the Chinese name "豐盛服務集團有限公司" as the dual foreign name of the Company in place of the existing Chinese name "豐盛機電控股有限公司" with effect from the date of entry of the new English name and dual foreign name on the register maintained by the Registrar of Companies in the Cayman Islands, and that any one director of the Company be and is hereby authorised to do all things and acts and sign all documents as they may consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the aforesaid change of Company name."

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

Hong Kong, 20 March 2018

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Units 801–810, 8th Floor
Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay, Kowloon
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares (the "Shares") of HK$0.10 each in the Company may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy needs not be a member of the Company.

2. In the case of joint registered holders of any Share, any one of such joint holders may vote at the Meeting (or any adjournment thereof), either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders are present at the Meeting (or any adjournment thereof) personally or by proxy, that one of the said joint holders so present whose name stands first on the Company's register of members in respect of such Share shall alone be entitled to vote in respect thereof.

3. A form of proxy for use at the Meeting is enclosed. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the Meeting (or any adjournment thereof) if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

4. To be valid, the instrument appointing a proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (or any adjournment thereof).

5. In order to determine entitlement of a member of the Company to attend and vote at the Meeting (or any adjournment thereof), the Company's register of members will be closed from Wednesday, 4 April 2018 to Tuesday, 10 April 2018 (both days inclusive) during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 3 April 2018.

6. Voting on the above resolution will be taken by poll.

As at the date of this notice, the board of Directors 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, Mr. Soon Kweong Wah and Mr. Wong Shu Hung 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.