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 licensed securities dealer or registered institution in securities, 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 to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

FSE ENGINEERING HOLDINGS LIMITED
豐盛機電控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 331)

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

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

上銀國際有限公司
BOSC International Company Limited

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 5 to 14 of this Circular. A letter from the Independent Board Committee is set out on pages 15 to 16 of this Circular. A letter from BOSC International containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 27 of this Circular.

A notice convening the EGM to be held at Strategic Room, 2401–02, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Wednesday, 30 November 2016 at 11:00 a.m. or immediately after conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, is set out on pages EGM-1 to EGM-3 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.

25 October 2016

CONTENTS

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

"Agreement"	the conditional agreement for sale and purchase of the Sale Share and the Sale Loan entered into between the Vendor as vendor and the Purchaser as purchaser on 5 October 2016
"Announcement"	the announcement of the Company dated 5 October 2016 in relation to the Proposed Acquisition
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"BOSC International"	BOSC International Company Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders on, among other matters, the fairness and reasonableness of the Proposal Acquisition
"Business Day"	a day (other than Saturday and other general public holidays in Hong Kong and any day on which a tropical cyclone warning no.8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted or in effect between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business
"BVI"	the British Virgin Islands
"Circular"	this Circular, including the appendices hereto
"Company"	FSE Engineering Holdings Limited (豐盛機電控股有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 331)
"Completion"	the completion of the Proposed Acquisition in accordance with the Agreement
"Completion Date"	the 7th business day following fulfilment (or as the case may be, waiver) of the last in time to be fulfilled of the Conditions Precedent (or such other date as the Vendor and the Purchaser may agree in writing) on which Completion shall take place

"Conditions Precedent"	the conditions for Completion set forth in the paragraph headed "Conditions Precedent to Completion" of this Circular
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration"	HK$285,000,000.00, being the aggregate consideration for the Sale Share and the Sale Loan payable by the Purchaser to the Vendor under the Agreement, subject to NTAV adjustment (if any)
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director"	the director of the Company
"Dr. Henry Cheng"	Dr. Cheng Kar Shun, Henry, the chairman and non-executive Director of the Company
"EGM"	an extraordinary general meeting of the Company to be convened and held at Strategic Room, 2401–02, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Wednesday, 30 November 2016 at 11:00 a.m. or immediately after conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, to consider and approve the Proposed Acquisition and related matters
"Enlarged Group"	the Company and its subsidiaries, including the Target Group, immediately after Completion
"FSE Holdings"	FSE Holdings Limited, a company incorporated in the Cayman Islands and a controlling shareholder of the Company holding 337,500,000 Shares as at the Latest Practicable Date, representing 75% of the issued Shares carrying the right to vote at general meetings of the Company as at the Latest Practicable Date
"Group"	the Company and its subsidiaries from time to time
"Hong Kong"	the Hong Kong Special Administrative Region of The People's Republic of China
"Independent Board Committee"	an independent committee of the Board, which comprises all the independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung and Dr. Tong Yuk Lun, Paul, established to advise the Independent Shareholders on, among other matters, the fairness and reasonableness of the Proposed Acquisition

"Independent Shareholders"	Shareholders, other than FSE Holdings and its associates, who have no material interest in the Proposed Acquisition
"Independent Valuer"	DTZ Cushman & Wakefield Limited, an independent valuer to the Company
"Latest Practicable Date"	19 October 2016, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained in this Circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	5:00 p.m. on 31 January 2017 (or such later time and date as the Vendor and the Purchaser may agree in writing), being the last time for fulfilment or, as the case may be, waiver of the Conditions Precedent
"Mr. Doo"	Mr. Doo Wai Hoi, William, one of the controlling shareholders of the Company
"NTAV"	the unaudited or as the case may be, audited consolidated net tangible assets value of the Target Group, excluding the value of the Properties and the amount of the Sale Loan
"NWD"	New World Development Company Limited (新世界發展有限公司), a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 17) and the ultimate holding company of the Vendor and the Target Group
"NWD Group"	NWD and its subsidiaries (including the Target Group before Completion) from time to time
"Percentage Ratios"	the applicable percentage ratios under Rule 14.07 of the Listing Rules
"Properties"	the whole of the seventeenth floor of CHEVALIER COMMERCIAL CENTRE (其士商業中心), No. 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong
"Proposed Acquisition"	the proposed acquisition of the Sale Share and the Sale Loan by the Purchaser from the Vendor on and subject to the terms and conditions of the Agreement and the performance of the transactions contemplated thereunder

"Purchaser"	Fortunate House Limited, a company incorporated in BVI with limited liability and a wholly-owned subsidiary of the Company
"Sale Loan"	the shareholder's loan owing from the Target to the Vendor, which is unsecured and non-interest bearing, the amount of which as at 31 August 2016 was approximately HK$153 million
"Sale Share"	the one share of par value of US$1.00 in the share capital of the Target legally and beneficially owned by the Vendor, representing the entire issued share capital of the Target
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share"	ordinary share of par value HK$0.10 in the share capital of the Company
"Shareholder"	the holder of any Share
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary"	Ocean Front Investments Limited, a company incorporated in Hong Kong with limited liability, which is a direct wholly-owned subsidiary of the Target and the owner of the Properties
"Substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Target" or "Target Company"	Optimum Result Holdings Limited, a company incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Vendor
"Target Group"	the Target and the Subsidiary
"Vendor"	Catchy Investments Limited, a company incorporated in BVI with limited liability and a wholly-owned subsidiary of NWD
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"sq. m."	square meter
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

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 Director:
Dr. Cheng Kar Shun, Henry *(Chairman)*

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

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

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

25 October 2016

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the Announcement.

On 5 October 2016, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor, whereby the Purchaser conditionally agreed, subject to fulfilment of the Conditions Precedent, to acquire from the Vendor the Sale Share and the Sale

Loan for an aggregate consideration of HK$285,000,000.00, subject to adjustment, if any, as stated in this Circular. After Completion, each of the Target and the Subsidiary will become a wholly-owned subsidiary of the Company.

The purpose of this Circular is to provide you with, among other matters, (i) further details of the Proposed Acquisition and the transactions contemplated thereunder; (ii) the advice of the Independent Board Committee to the Independent Shareholders; (iii) the advice from BOSC International to the Independent Board Committee and the Independent Shareholders; and (iv) other information as required under the Listing Rules.

THE PROPOSED ACQUISITION

The Agreement

Date: 5 October 2016

Parties:

Vendor: Catchy Investments Limited, a wholly-owned subsidiary of NWD

Purchaser: Fortunate House Limited, a wholly-owned subsidiary of the Company

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

Assets to be acquired by the Group under the Agreement

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

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

The Consideration, its payment term and adjustment

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

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

(2) the consideration for the Sale Share shall be the Consideration less the consideration for the Sale Loan.

The payment term of the Consideration is as follows:

(1) HK$28,500,000.00, representing 10% of the Consideration, has been paid as deposit by the Purchaser to the Vendor in cash upon signing of the Agreement; and

(2) HK$256,500,000.00, being the balance of 90% of the Consideration, subject to adjustment, if any, by the amount of the NTAV of the Target Group as at the date of the Agreement, shall be paid by the Purchaser to the Vendor (or as the Vendor may direct in writing) in cash on the Completion Date.

As at the date of the Agreement, based on the unaudited consolidated management accounts of the Target Group as at that date, the NTAV of the Target Group was a net liability of approximately HK$7.2 million and the balance of the Consideration after deducting that amount will be payable upon Completion.

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

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

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

If based on the Completion Accounts:

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

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

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

Conditions Precedent to Completion

The Agreement and Completion are conditional upon:

(1) the obtaining of the approval of the Independent Shareholders to the Proposed Acquisition on terms of the Agreement in compliance with the Listing Rules;

(2) as at the date of fulfilment (or, as the case may be, waiver) of the last in time to be fulfilled of the Conditions Precedent, satisfaction by the Purchaser of all the warranties given by the Vendor being true and correct in all material respects by reference to the facts and circumstances subsisting as at that date;

(3) (if necessary) the obtaining by the Company of all necessary approvals, consents or waivers (as appropriate) as are required under the Listing Rules or other applicable regulations from the Stock Exchange or any other regulators in respect of the entering into and performance of the Agreement; and

(4) (if necessary) the obtaining by NWD of all necessary approvals, consents or waivers (as appropriate) as are required under the Listing Rules or other applicable regulations from the Stock Exchange or any other regulators in respect of the entering into and performance of the Agreement.

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

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

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

Completion

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

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

Undertaking by the Vendor

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

(1) to terminate the existing tenancy of the Properties no later than the Completion Date; and

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

INFORMATION ON THE TARGET GROUP

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

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

Financial information of the Target Group

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

	For the year ended	
	30 June 2015	**30 June 2016**
	(HK$'000)	*(HK$'000)*
	(audited)	(audited)
Net profit before tax and extraordinary items	25,259	11,653
Net profit after tax and extraordinary items	24,225	10,575

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

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

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

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

INFORMATION ON THE VENDOR

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

INFORMATION ON THE GROUP

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

REASONS FOR AND THE BENEFITS OF THE PROPOSED ACQUISITION

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

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

The Directors (including the independent non-executive Directors) consider the terms of the Proposed Acquisition on terms of the Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

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

Earnings

The Property will be held for own use of the Enlarged Group after the Proposed Acquisition. This will lead to an increase in depreciation arising from the Properties.

Assets and Liabilities

According to the audited consolidated financial statements of the Company as at 30 June 2016, the Group had total assets, total liabilities and total equity of approximately HK$2,753.4 million, HK$1,852.2 million and HK$901.2 million, respectively. Assuming that Completion had taken place on 30 June 2016, the unaudited consolidated pro forma assets, liabilities and equity of the Enlarged Group would be approximately HK$2,758.4 million, HK$1,857.2 million and HK$901.2 million, respectively.

The unaudited consolidated pro forma financial information of the Enlarged Group illustrating the financial impact of the Proposed Acquisition on the assets and liabilities of the Group is set out in Appendix III to this Circular.

Property value reconciliation

The table below sets forth the reconciliation of the net book value of the Target Group's property, i.e. the Properties, as at 30 June 2016 with the valuation of such property as at 5 October 2016 as stated in Appendix V to this Circular.

	(HK$'000)
Net book value as at 30 June 2016	283,000
Add: Fair value change	5,000
Valuation as at 5 October 2016	288,000

LISTING RULES IMPLICATIONS

Dr. Henry Cheng, the Chairman and non-executive Director of the Company, is a connected person of the Company. Dr. Henry Cheng is also the brother-in-law of Mr. Doo (one of the controlling shareholders of the Company), the uncle of Mr. Doo William Junior Guilherme (an executive Director) and is also the cousin of the spouse of Mr. Poon Lock Kee, Rocky (an executive Director and Chief Executive Officer). The NWD Group is the family business of Dr. Henry Cheng. NWD is therefore treated as a connected person of the Company.

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

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

At the EGM, any Shareholders with a material interest in the Proposed Acquisition are required to abstain from voting on the resolution approving the Proposed Acquisition. FSE Holdings, a controlling shareholder of the Company holding 337,500,000 Shares as at the Latest Practicable Date, representing 75% of the issued Shares carrying the right to vote at general meetings of the Company as at the Latest Practicable Date, and its associates will abstain from voting on the resolution approving the Proposed Acquisition at the EGM. To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, apart from FSE Holdings and its associates, who were holding 337,500,000 Shares, representing 75% of the issued Shares as at the Latest Practicable Date, no other Shareholder are materially interested in the Proposed Acquisition who are required to abstain from voting on the resolution approving the Proposed Acquisition at the EGM.

Dr. Henry Cheng, who is the chairman and non-executive Director of the Company and the chairman and executive director of NWD, is considered to be materially interested in the Proposed Acquisition and is required to abstain from voting at the meeting of the Board approving the Proposed Acquisition. Dr. Henry Cheng was not present at the meeting of the Board approving the Proposed Acquisition. Mr. Doo William Junior Guilherme, who is the nephew of Dr. Henry Cheng, and Mr. Poon Lock Kee, Rocky, whose spouse is the cousin of Dr. Cheng, had voluntarily abstained from voting at that meeting of the Board in view of their family relationship with Dr. Henry Cheng.

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

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

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 Monday, 28 November 2016 to Wednesday, 30 November 2016 (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 Friday, 25 November 2016.

EGM

The EGM will be held at Strategic Room, 2401–02, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Wednesday, 30 November 2016 at 11:00 a.m. or immediately after conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, to consider and, if thought fit, to approve the Proposed Acquisition on terms of the Agreement and related matters.

A notice convening the EGM is set out on page EGM-1 to EGM-3 of this Circular.

FSE Holdings and its associates, who were holding 337,500,000 Shares, representing 75% of the issued Shares as at the Latest Practicable Date, will abstain from voting on the resolution approving the Proposed Acquisition on terms of the Agreement and related matters.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed 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.

In compliance with the Listing Rules, voting on the resolution to be proposed at the EGM will be conducted by way of poll.

RECOMMENDATIONS

The Independent Board Committee comprising all the independent non-executive Directors, namely 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 as to the fairness and reasonableness of the Proposed Acquisition on terms of the Agreement. Your attention is drawn to the advice of the Independent Board Committee set out in its letter set out on pages 15 to 16 of this Circular. Your attention is also drawn to the letter of advice from BOSC International to the Independent Board Committee and the Independent Shareholders of the Company in respect of the Proposed Acquisition on terms of the Agreement set out on pages 17 to 27 of this Circular.

The Independent Board Committee, having taken into account the advice of BOSC International, considers that the Proposed Acquisition on terms of the Agreement is on normal commercial terms and in the interest of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the Proposed Acquisition on terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Proposed Acquisition on terms of the Agreement.

ADDITIONAL INFORMATION

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

The English text of this Circular shall prevail over the Chinese text in the event of inconsistency.

Yours faithfully,
By order of the Board
FSE Engineering Holdings Limited
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)

25 October 2016

To the Independent Shareholders

Dear Sir or Madam

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

We refer to 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.

Since the Proposed Acquisition constitutes a major transaction and a connected transaction for the Company under the Listing Rules, the Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in our opinion, the terms of the Proposed Acquisition on terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. BOSC International has been appointed as the independent financial adviser to the Independent Board Committee in respect of the Proposed Acquisition.

We wish to draw your attention to (i) the Letter from the Board as set out on pages 5 to 14 of the Circular; (ii) the Letter from BOSC International as set on pages 17 to 27 of the Circular; and (iii) the additional information as set out in the appendices to the Circular.

We consider that the Proposed Acquisition is not in the ordinary and usual course of business of the Group. Having taken into account the terms and conditions of the Agreement and the advice from BOSC International, we consider that the terms and conditions of the Proposed Acquisition on terms of the Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in respect of the Proposed Acquisition to be proposed at the EGM.

Yours faithfully,
Independent Board Committee
Mr. Kwong Che Keung, Gordon
Mr. Hui Chiu Chung, Stephen
Mr. Lee Kwan Hung
Dr. Tong Yuk Lun, Paul

上銀國際有限公司
BOSC International Company Limited

34/F Champion Tower
3 Garden Road
Hong Kong

25 October 2016

To the Independent Board Committee and
the Independent Shareholders

Dear Sir or Madam,

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

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, 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 25 October 2016, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 5 October 2016, the Board announced that the Group, through the Purchaser, conditionally agreed to acquire from the Vendor the Sale Share and the Sale Loan, by entering into the Agreement in respect of the Proposed Acquisition, at a consideration of HK$285 million.

As one of the applicable Percentage Ratios in respect of the Proposed Acquisition exceeds 25% but is below 100%, the Proposed Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

Further, as the NWD Group is the family business of Dr. Henry Cheng, the Chairman and non-executive Director of the Company, NWD is treated as a connected person of the Company. Given that the Vendor is a wholly-owned subsidiary of NWD, the Proposed Acquisition constitutes a connected transaction of the Company. As one of the applicable Percentage Ratios for the Proposed Acquisition exceeds 25% and the Consideration exceeds HK$10,000,000, the Proposed Acquisition is subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. At the EGM, any Shareholders with a material interest in the Proposed Acquisition are required to abstain from voting on the resolution approving the Proposed Acquisition. FSE Holdings and its associates, who were holding 337,500,000 Shares, representing 75% of the issued Shares as at the Latest Practicable Date, will abstain from voting on the resolution(s) in relation to the Agreement and the transactions contemplated thereunder.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung and Dr. Tong Yuk Lun, Paul, has been formed to advise the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder.

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 a responsibility statement set out in Appendix VI to 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 Purchaser, the Vendor, the Target Group or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice in relation to the Proposed Acquisition, we have considered the following principal factors and reasons:

A. Background and reasons for entering into the Agreement

(i) Information on the Group

The Group is principally engaged in the provision of a comprehensive range of electrical and mechanical engineering in Hong Kong, the PRC and Macau and environmental engineering services in Hong Kong and Macau. The shares of the Company have commenced trading on the Main Board of the Stock Exchange since 10 December 2015.

Set out below is a summary of the audited consolidated financial information of the Group as extracted from the annual report of the Group for the year ended 30 June 2016 (the "**2016 Annual Report**") and the audited consolidated financial information of the

Group for the two years ended 30 June 2014 and 2015 as extracted from the prospectus of the Company dated 26 November 2015 (the "**Prospectus**").

	For the year ended 30 June		
	2016	**2015**	**2014**
	("FY2016")	**("FY2015")**	**("FY2014")**
	(audited)	**(audited)**	**(audited)**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Revenue	3,471,907	2,825,107	2,555,017
Cost of sales	(3,099,991)	(2,491,974)	(2,222,136)
Gross profit	371,916	333,133	332,881
Other income/gains	494	5,603	7,909
General and administrative expenses	(204,124)	(185,848)	(200,446)
Operating profit	168,286	152,888	140,344
Finance income	10,841	16,435	8,774
Finance costs	—	(226)	—
Share of losses of joint ventures	—	—	(848)
Profit before income tax	179,127	169,097	148,270
Income tax expenses	(18,056)	(19,946)	(17,070)
Profit for the year	161,071	149,151	131,200

FY2016 vs FY2015

Revenue of the Group for FY2016 amounted to approximately HK$3,471.9 million, representing an increase of approximately 22.9%, as compared with approximately HK$2,825.1 million for FY2015. The increase was mainly attributable to the increase in revenue derived from the Group's electrical and mechanical engineering segment of approximately HK$637.8 million.

The Group recorded profit for the year of approximately HK$161.1 million, representing an increase of approximately 8.0%, as compared to that of FY2015. The Group's net profit margin decreased from 5.3% in FY2015 to 4.6% in FY2016. The decrease was mainly attributable to the one-off non recurring listing expenses incurred in FY2016. Excluding the one-off non-recurring listing expenses of approximately HK$16.8 million and HK$5.2 million in FY2016 and FY2015, respectively, the Group would have achieved a profit of HK$177.9 million in FY2016, representing an increase of approximately 15.2% as compared to HK$154.4 million in FY2015.

FY2015 vs FY2014

Revenue of the Group for FY2015 amounted to approximately HK$2,825.1 million, representing an increase of approximately 10.6%, as compared with approximately HK$2,555.0 million for FY2014. The increase was mainly attributable to the increase in revenue derived from the Group's electrical and mechanical engineering segment of approximately HK$277.5 million.

The Group recorded profit for the year of approximately HK$149.2 million, representing an increase of approximately 13.7%, as compared to that of FY2014. The Group's net profit margin remained relatively stable at approximately 5.3% for FY2015 as compared to that of approximately 5.1% for FY2014.

(ii) Information on the Target Group and the Properties

The Target is an investment holding company with its investment in the Subsidiary as its sole investment. The Subsidiary is principally engaged in property holding, with the Properties as its principal assets.

The Properties comprise the whole of the seventeenth floor of Chevalier Commercial Centre located at No. 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong with a gross floor area of approximately 2,917.13 sq. m. for office use. The Properties are currently subject to existing tenancy which is to be terminated on or prior to Completion.

Historical financial performance of the Target Group

Set out below is the selected audited consolidated financial information of the Target Group (prepared in accordance with the HKFRSs) for FY2014, FY2015 and FY2016, respectively, as extracted from Appendix II to the Circular:

	FY2016 (audited) *(HK$'000)*	**FY2015 (audited)** *(HK$'000)*	**FY2014 (audited)** *(HK$'000)*
Revenue	8,487.7	7,529.8	7,506.9
Direct outgoings	(1,790.3)	(1,164.6)	(1,087.5)
	6,697.4	6,365.2	6,419.4
Changes in fair value of investment properties	5,000	19,000	13,000
Administrative expenses	(44.0)	(106.6)	(16.9)
Profit before taxation	11,653.4	25,258.6	19,402.5
Taxation	(1,078.6)	(1,033.5)	(1,057.2)
Profit for the year	10,574.8	24,225.1	18,345.3

	As at 30 June 2016 (audited) (HK$'000)
Current assets	512
Non-current assets	283,000
Total assets	**283,512**
Current liabilities	(157,796)
Non-current liabilities	(3,491)
Total liabilities	**(161,287)**
Net assets	**122,225**

FY2016 vs FY2015

The Target Group's revenue represented the rental income and management fee income generated from leasing of the Properties. The Target Group's revenue for FY2016 was approximately HK$8.5 million, representing an increase of approximately 13.3%, as compared with approximately HK$7.5 million in FY2015. The increase in revenue was mainly attributable to the increment in monthly rental income upon the renewal of tenancy of the Properties during FY2016. The Target Group's profit before tax excluding fair value gain on investment properties remained stable at HK$6.7 million in FY2016 as compared with HK$6.3 million in FY2015.

The Target Group's fair value gain on investment properties (being the Properties) amounted to approximately HK$5.0 million in FY2016.

FY2015 vs FY2014

The Target Group's revenue remained stable at approximately HK$7.5 million for both FY2015 and FY2014 as the same monthly rental income was recorded for both years pursuant to a three-year lease agreement entered into between the Target Group and the then tenant of the Properties. The Target Group's profit before tax excluding fair value gain on investment properties also remained stable at HK$6.3 million in FY2015 as compared with HK$6.4 million in FY2014.

The Target Group's fair value gain on investment properties (being the Properties) amounted to approximately HK$19.0 million in FY2015.

Financial position of the Target Group

As at 30 June 2016, the Target Group's consolidated net asset value amounted to approximately HK$122.2 million. Its principal assets were the Properties (classified as non-current assets) with a book value of approximately HK$283.0 million and its principal liability was the amount due to the immediate holding company (i.e. the Sale Loan) with an amount of approximately HK$154.3 million. Other than the Properties and the Sale Loan, the Target Group has insignificant other assets amounting to approximately HK$0.5 million (mainly comprising cash and management fee deposits) and other liabilities amounting to approximately HK$7.0 million (mainly comprising rental deposits and deferred income tax liabilities).

(iii) Reasons for the Proposed Acquisition

As stated in the Letter from the Board, it is the Group's plan to identify and acquire at opportune times additional premises to cope with the Group's operational needs and cater for the Group's future growth and development. The Directors believe that the Proposed Acquisition enables the Group to acquire additional premises for office use by members of the Group as well as reducing the Group's costs in leasing of office premises in the long run. In addition, the Directors believe that the additional office premises from the Properties enable the Group to (i) facilitate centralisation of its management and operation, enhance the flexibility in its future development as well as its overall competitiveness through improvement in operational efficiency, cohesion and communication among the staff given the Properties are located in the same building as the principal place of business of the Company in Hong Kong; (ii) cope with and facilitate its expansion plan on business, recruitment of staff and future growth in the long run; and (iii) broaden its fixed asset base with potential capital appreciation.

(iv) Our view on the Proposed Acquisition

We note that the Group's offices are primarily located in (i) a building in Kowloon Bay, Kowloon, Hong Kong with an area of approximately 15,646 sq. ft.; and (ii) a building in Quarry Bay, Hong Kong with an area of approximately 29,000 sq. ft (the "**Quarry Bay Premises**"). The Quarry Bay Premises is leased with an annual rental of approximately HK$4.6 million and the relevant lease agreements will expire in April and June 2018.

We understand from the management of the Company that, it is the current intention of the Group to replace the leased area of the Quarry Bay Premises with the Properties upon Completion and after necessary renovation and relocation preparation.

We note from the 2016 Annual Report that to capitalize on the various infrastructure investments that are set to take place in Hong Kong, the Group will increase human resources, specifically for enhancing work quality and engineering design capability. We understand that additional office area will be required to cater for the increase in human resources.

Having taken into consideration of the above, in particular, (i) the Proposed Acquisition is in line with the strategy of the Group, (ii) the Properties can eventually replace the Quarry Bay Premises and thus facilitating the centralization of the Group's management and operation; (iii) the Properties provide additional office space to cater for the Group's planned recruitment of additional staff; and (iv) our analysis on the major terms of the Agreement (with details set out in the sub-section headed "B. Major terms of the Agreement" in our letter below), we consider that the Proposed Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

B. Major terms of the Agreement

The following is our analysis and views on the major terms of the Agreement:

(i) Consideration

Pursuant to the Agreement, the Consideration for the Proposed Acquisition is HK$285 million (subject to adjustment as set out below), of which the consideration for the Sale Loan shall be the amount of the Sale Loan that is outstanding as at the Completion Date and the consideration for the Sale Share shall be the Consideration less the consideration for the Sale Loan.

The Consideration is subject to two stages of adjustments to reflect the NTAV of the Target Group as at the Completion Date (the "**Adjustments**"). For the purpose of the Agreement, NTAV represents the difference between (i) the aggregate of the tangible assets of the Target Group which is readily convertible into cash or cash equivalent, including current assets, other fixed assets and deferred tax assets, but excluding the Properties; and (ii) the aggregate of all liabilities and provisions of the Target Group, but excluding the Sale Loan, as at the Completion Date as shown in the pro forma accounts and the Completion Accounts (as the case may be).

The Consideration will first be adjusted by the amount of the NTAV of the Target Group as at the date of the Agreement. As at the date of the Agreement, based on the unaudited consolidated management accounts of the Target Group as at that date, the NTAV of the Target Group was a net liability of approximately HK$7.2 million and the balance of the Consideration after deducting that amount will be payable upon Completion. Following the Completion, the Consideration will be further adjusted based on the difference between the NTAV of the Target Group as at the date of the Agreement and the NTAV of the Target Group as at the Completion Date as shown in the Completion Accounts. If 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 Agreement, the Consideration will be increased by the amount of such difference, and vice versa.

We understand that the Consideration of HK$285 million is determined with reference to the valuation of the Properties as at 5 October 2016 (the "**Valuation**") of HK$288 million as set out in the valuation report (the "**Valuation Report**") prepared by DTZ Cushman & Wakefield Limited (the "**Valuer**"), and represents a slight discount of approximately 1.0% (or HK$3 million) to the Valuation.

(ii) Valuation Report

We have interviewed the Valuer and reviewed the Valuer's engagement letter and other information provided by the Valuer. Based on the review and the interview, we are satisfied with the terms of the engagement of the Valuer and its qualification and experience for preparation of the Valuation Report. The Valuer confirmed that it is independent of and not connected with the Group, the Vendor, the Target Group and their respective associates. Furthermore, the Valuer has confirmed that the Valuation Report is prepared in line with the standard valuation procedures and practices, the valuation method adopted is commonly used for valuing assets similar to the Properties and the underlying assumptions and basis used in the Valuation Report are fair and reasonable.

As stated in the Valuation Report, in arriving at the Valuation of HK$288 million for the Properties, the Valuer has adopted the direct comparison approach, in which the value is determined by making reference to comparable sales transactions as available in the relevant market (the "**Comparables**"). As advised by the Valuer the direct comparison approach is considered the most appropriate and most commonly used methodology in arriving at the valuation of the Properties.

In assessing the fairness and reasonableness of the Valuation, we have reviewed the Valuation Report and its underlying calculations, and the information of the Comparables adopted by the Valuer. Based on our discussion with the Valuer, we note that (i) the selection criteria of the Comparables is to select those available market data which, in the Valuer's opinion, is the most comparable to the Properties after having taken into account similarity in size and location; (ii) the selection of Comparables is based purely on the comparableness and no attempt has been made to include any outliers (e.g. properties with significantly higher unit prices) in the Valuation; and (iii) the Valuer has included all of the most suitable comparables which meets their selection criteria as identified by them based on their best information, knowledge and belief. The Valuer also advised that the valuation of the Property was carried out in accordance with the HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors. Based on the above, we believe the approach adopted by the Valuer in performing the valuation of the Properties and the assumptions taken into consideration by the Valuer are appropriate.

(iii) Payment Terms

The payment term of the Consideration is as follows:

(1) HK$28.5 million, representing 10% of the Consideration, has been paid as deposit by the Purchaser to the Vendor in cash upon signing of the Agreement; and

(2) HK$256.5 million, being the balance of 90% the Consideration, subject to adjustment, if any, by the amount of the NTAV of the Target Group as at the date of the Agreement, shall be paid by the Purchaser to the Vendor (or as the Vendor may direct in writing) in cash on the Completion Date.

(iv) Sale Loan

The Sale Loan represents the shareholder's loan owing from the Target to the Vendor, which is unsecured and non-interest bearing. Pursuant to the terms of the Agreement, upon Completion, the Sale Loan will be assigned by the Vendor to the Purchaser.

The Sale Loan will be eliminated in the Group's consolidated financial statements as each of the Target and the Subsidiary will become a wholly-owned subsidiary of the Company upon Completion. As such, the Consideration before the Adjustments will not be affected by the amount of the Sale Loan as at the Completion Date.

Our view

As explained above, the Consideration before the Adjustments is determined with reference to the Valuation and it represents the value of the Properties as agreed between the Purchaser and the Vendor. In assessing the fairness of the Valuation, we have discussed with the Valuer about the Valuation Report. Based on such discussion, we consider that the Valuation Report has been compiled by the Valuer after due and careful enquiry, and we are not aware of any material factors which would affect the reasonableness of the methodology, assumptions and basis adopted in the Valuation Report. We also consider that the Adjustments to the Consideration based on the NTAV of the Target Group as at the Completion Date is fair and reasonable as it adjusts for the other assets (other than the Properties) or other liabilities (other than the Sale Loan) which will be taken up by the Purchaser upon Completion on a dollar-for-dollar basis.

(v) Conditions precedent

The Proposed Acquisition is conditional upon the fulfillment or, where applicable, waiver of the Conditions Precedent. Please refer to the sub-section headed "Conditions Precedent to Completion" in the Letter from the Board for details.

If the Conditions Precedent cannot be satisfied (or waived) by the Long Stop Date, the Agreement shall cease and terminate and the Vendor shall forthwith refund to the Purchaser the deposit paid by Purchaser under the Agreement without interest. As at the Latest Practicable Date, none of the conditions have been fulfilled or waived.

Our view on the Agreement

Having considered the above, in particular (i) the Consideration is at a discount of approximately 1.0% to the Valuation; and (ii) the Adjustments to the Consideration reflects the NTAV of the Target Group as at the Completion Date, we are of the view that the principal terms of the 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 Company and the Independent Shareholders as a whole.

C. Possible financial effects of the Proposed Acquisition

(i) Accounting treatment upon completion of the Proposed Acquisition

Upon Completion, each of the Target and the Subsidiary will become an indirect wholly-owned subsidiary of the Company. As such, the financial results of the Target Group will be consolidated to the financial results of the Group. Given the holding of the Properties is the sole business of the Target Group, and the Property will be held for the own use of the Enlarged Group after the Proposed Acquisition, this will lead to an increase in depreciation arising from the Properties and it is expected that there will be no material change to the financial results of the Group after the consolidation of the Target's accounts.

As shown in the unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to the Circular, assuming the Proposed Acquisition had taken place on 30 June 2016, the consolidated total assets of the Enlarged Group would have increased to HK$2,758.4 million, taking into account the payments of the Consideration and the book value of the Properties, and the total liabilities of the Enlarged Group would have increased to approximately HK$1,857.2 million, taking into account legal and professional fees and other transaction costs payable in relation to the Proposed Acquisition.

(ii) Working capital

We understand from the Company that the Consideration will be funded by the internal resources of the Group. The Group had cash and cash equivalents of approximately HK$1,325.9 million as at 30 June 2016 as disclosed in the 2016 Annual Report. Excluding the unutilized net proceeds from its initial public offering completed in December 2015 (which is expected to be utilized in accordance with the plans set out in the Prospectus) as at 30 June 2016, the Group still had cash and cash equivalents of approximately HK$1,118.6 million as at 30 June 2016. Based on the aforesaid, we concur with the view of the Company that the Group would have sufficient internal resources to fulfill its payment obligations under the Proposed Acquisition.

RECOMMENDATION

Having considered that (i) the Proposed Acquisition is in line with the expansion strategy of the Group in providing additional office space to cater for the increase in human resources, specifically for enhancing work quality and engineering design capability; (ii) the Properties can eventually replace the Quarry Bay Premises which facilitates the centralization of the Group's management and operation; (iii) the major terms of the Agreement; (iv) the Consideration is at a 1.0% discount to the Valuation; and (v) the Adjustments to the Consideration reflects the NTAV of the Target Group as at the Completion Date, we are of the opinion that the Proposed Acquisition is not in the ordinary and usual course of business of the Company, is on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole, and the terms thereof are fair and reasonable so far as the Group and the Independent Shareholders are concerned.

Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
BOSC International Company Limited

Alex Lau	**Heidi Cheng**
Managing Director	*Managing Director*
Corporate Finance	*Corporate Finance*

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 2014, 30 June 2015 and 30 June 2016 is set out in a comparative table on page 123 of the annual report of the Company for the year ended 30 June 2016.

The audited financial statements of the Group for the year ended 30 June 2016 together with the notes thereto are contained in the annual report of the Company for the year ended 30 June 2016 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

The Enlarged Group

As at 31 August 2016, the Target Group have a shareholder's loan amount to HK$153 million.

As at 31 August 2016, the total value guaranteed under performance bonds issued by banks amounted to approximately HK$302.2 million. Under a performance bond, a bank will guarantee the payment to the customer of the Group normally of an amount equal to 5% or more (depending on the contract term of individual project) of the relevant total contract sum. The performance bonds are generally released upon the due completion of relevant service by the Company or by a certain stipulated date. The Company is generally required to provide a counter-indemnity and collateral to the bank that issues a performance bond.

As at 31 August 2016, being the latest practicable date for the purpose of this statement of indebtedness, 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 material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 30 June 2016, 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 PROSPECT OF ENLARGED GROUP

The Enlarged Group will continue to maintain the provision of electrical and mechanical engineering services and trading of environmental products and provision of related engineering and consultancy services as its core business on one hand and strive for new business opportunities for the future development of the Enlarged Group.

Though the global economy has experienced a wide range of challenges and market uncertainties arising from US monetary policies, weakness in commodity prices, rising concerns on China's economic growth prospects, capital outflows from the emerging economies and, most recently, the victory for Brexit in the United Kingdom, the Hong Kong Government is expected to unveil a range of supportive initiatives for the construction and electrical and mechanical engineering industry.

Without the prolonged contentious debates on infrastructure projects in the Legislative Council of Hong Kong, the schedule for new public works will not be delayed and should consequently lead to an upswing in infrastructure, public housing and private housing projects, which in turn will help drive the construction, electrical and mechanical engineering industry towards healthier growth ahead.

To capitalize on the various infrastructure investments that are set to take place in Hong Kong, the Enlarged Group plan to bolster its capabilities in ELV (extra-low voltage) system works and increase human resources aimed at enhancing work quality and engineering design capability. These efforts will thus strengthen the Enlarged Group's already extensive capabilities in Hong Kong and consolidate its position in this key market.

Regarding the Enlarged Group's environmental management services business, the increase in public awareness of environmental issues is boosting demand for associated environmental engineering services and projects. The Enlarged Group fully intends to capitalize on this trend by providing customers with total solutions that combine energy efficient, environmentally friendly, and renewable energy technologies.

The Completion will not affect the operation of the Enlarged Group's core business. The Properties will bring about rental costs saving as it will be reserved for self-occupation.

The Directors believe that the Proposed Acquisition enables the Enlarged Group to acquire additional premises for office use by members of the Enlarged Group as well as reducing the Enlarged Group's costs in leasing of office premises in the long run. In addition, the Directors believe that the additional office premises from the Properties enable the Group to:

- facilitate centralisation of its management and operation, enhance the flexibility in its future development as well as its overall competitiveness through improvement in operational efficiency, cohesion and communication among the staff given the Properties are located in the same building as the principal place of business of the Company in Hong Kong;

- cope with and facilitate its expansion plan on business, recruitment of staff and future growth in the long run; and

- broaden its fixed asset base with potential capital appreciation.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

25 October 2016

The Directors
FSE Engineering Holdings Limited

Dear Sirs,

We report on the financial information of Optimum Result Holdings Limited (the "Target Company") and its subsidiary (together, the "Target Group"), which comprises the consolidated and company statements of financial position of the Target Company as at 30 June 2014, 2015 and 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Company for each of the years ended 30 June 2014, 2015 and 2016 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of FSE Engineering Holdings Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 25 October 2016 (the "Circular") in connection with the proposed acquisition of the Target Group by the Company.

The Target Company was incorporated in the British Virgin Islands on 5 December 2011 as a limited liability company under the BVI Business Companies Act, 2004 of the British Virgin Islands.

As at the date of this report, the Target Company has direct interest in a subsidiary as set out in Note 9 of Section II below.

The consolidated financial statements of the Target Company for each of the years ended 30 June 2014, 2015 and 2016 were audited by PricewaterhouseCoopers pursuant to separate terms of engagement with the Target Company.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

The director of the Target Company during the Relevant Periods are responsible for the preparation of the consolidated financial statements of the Target Group that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiary (together, the "Group") as set out in the annual report of the Company for the year ended 30 June 2016.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company and of the Target Group as at 30 June 2014, 2015 and 2016 and of the Target Group's results and cash flows for the Relevant Periods.

I FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the financial information of the Target Group prepared by the director of the Target Company as at 30 June 2014, 2015 and 2016 and for each of the years ended 30 June 2014, 2015 and 2016. (the "Financial Information"):

Consolidated Statement of Comprehensive Income

		Year ended 30 June		
		2014	**2015**	**2016**
	Note	*HK$*	*HK$*	*HK$*
Revenue	*5*	7,506,936	7,529,790	8,487,786
Direct outgoings		(1,087,452)	(1,164,663)	(1,790,325)
		6,419,484	6,365,127	6,697,461
Changes in fair value of investment properties	*8*	13,000,000	19,000,000	5,000,000
Administrative expenses		(16,919)	(106,569)	(43,993)
Profit before taxation		19,402,565	25,258,558	11,653,468
Taxation	*6*	(1,057,234)	(1,033,473)	(1,078,634)
Profit for the year		18,345,331	24,225,085	10,574,834
Other comprehensive income		—	—	—
Total comprehensive income for the year		18,345,331	24,225,085	10,574,834

Consolidated Statement of Financial Position

		As at 30 June		
		2014	**2015**	**2016**
	Note	*HK$*	*HK$*	*HK$*
ASSETS				
Non-current assets				
Investment properties	*8*	259,000,000	278,000,000	283,000,000
Current assets				
Deposits and prepayment		221,735	221,735	222,641
Trade receivables	*10*	—	633,196	—
Cash and cash equivalents		4,100	264,262	288,993
		225,835	1,119,193	511,634
Total assets		259,225,835	279,119,193	283,511,634
EQUITY				
Share capital	*11*	8	8	8
Retained earnings		87,424,569	111,649,654	122,224,488
Total equity		87,424,577	111,649,662	122,224,496
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	*12*	2,067,559	2,792,892	3,491,115
Current liabilities				
Accruals		96,151	35,000	575,000
Rental deposits		1,950,984	2,226,957	2,252,088
Amount due to the immediate holding company	*13*	—	162,106,542	154,280,384
Amount due to the ultimate holding company	*13*	167,686,564	—	—
Current income tax liabilities		—	308,140	688,551
		169,733,699	164,676,639	157,796,023
Total liabilities		171,801,258	167,469,531	161,287,138
Total equity and liabilities		259,225,835	279,119,193	283,511,634
Net current liabilities		(169,507,864)	(163,557,446)	(157,284,389)
Total assets less current liabilities		89,492,136	114,442,554	125,715,611

Statement of Financial Position

		As at 30 June		
		2014	**2015**	**2016**
	Note	*HK$*	*HK$*	*HK$*
ASSETS				
Non-current assets				
Investment in a subsidiary	*9*	1	1	1
Current assets				
Prepayment		2,060	2,060	2,060
Amount due from a subsidiary	*13*	—	162,087,478	154,256,406
		2,060	162,089,538	154,258,466
Total assets		2,061	162,089,539	154,258,467
EQUITY				
Share capital	*11*	8	8	8
Accumulated losses	*17*	(12,097)	(17,011)	(21,925)
Total equity		(12,089)	(17,003)	(21,917)
LIABILITIES				
Current liabilities				
Amount due to the immediate holding company	*13*	—	162,106,542	154,280,384
Amount due to the ultimate holding company	*13*	14,149	—	—
Amount due to a subsidiary	*13*	1	—	—
Total liabilities		14,150	162,106,542	154,280,384
Total equity and liabilities		2,061	162,089,539	154,258,467
Net current liabilities		(12,090)	(17,004)	(21,918)

Consolidated Statement of Changes in Equity

	Share capital *HK$*	Retained earnings *HK$*	Total *HK$*
At 1 July 2013	8	69,079,238	69,079,246
Profit and other comprehensive income for the year	—	18,345,331	18,345,331
At 30 June 2014	8	87,424,569	87,424,577
Profit and other comprehensive income for the year	—	24,225,085	24,225,085
At 30 June 2015	8	111,649,654	111,649,662
Profit and other comprehensive income for the year	—	10,574,834	10,574,834
At 30 June 2016	8	122,224,488	122,224,496

Consolidated Statement of Cash Flows

		Year ended 30 June		
		2014	**2015**	**2016**
	Note	*HK$*	*HK$*	*HK$*
Cash flows from operating activities				
Cash generated from operations	*14(a)*	7,094,294	5,840,184	7,850,889
Net cash generated from operating activities		7,094,294	5,840,184	7,850,889
Cash flows from financing activities				
Decrease in amount due to the immediate holding company	*14(b)*	—	(5,580,022)	(7,826,158)
Decrease in amount due to the ultimate holding company	*14(b)*	(7,095,094)	—	—
Net cash used in financing activities		(7,095,094)	(5,580,022)	(7,826,158)
Net (decrease)/increase in cash and cash equivalents		(800)	260,162	24,731
Cash and cash equivalents at beginning of the year		4,900	4,100	264,262
Cash and cash equivalents at end of the year		4,100	264,262	288,993
Analysis of cash and cash equivalents				
Cash at bank		4,100	264,262	288,993

II NOTES TO THE FINANCIAL INFORMATION

1 General information

Optimum Result Holdings Limited is a limited liability company incorporated in the British Virgin Islands on 5 December 2011. The address of its registered office is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The Target Company is an investment holding company and its subsidiary is principally engaged in property investment.

The ultimate holding company of the Target Company is New World Development Company Limited, a company incorporated and listed in Hong Kong. The immediate holding company of the Target Company is Catchy Investments Limited, a limited liability company incorporated in the British Virgin Islands.

The Financial Information is presented in Hong Kong dollars, unless otherwise stated.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The Financial Information is prepared in accordance with the applicable requirements of the Companies Ordinance for all the years presented.

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

As at 30 June 2016, the Target Group and Target Company's current liabilities exceeded current assets by HK$157,284,389 and HK$21,918 respectively. The ultimate holding company has confirmed its intention to provide continuing financial support to the Target Group and Target Company so as to enable the Target Group and Target Company to meet their liabilities as and when they fall due and to carry on their business without any significant curtailment of operations. Accordingly, the Financial Information has been prepared on a going concern basis.

Impact of new standards and amendments and improvements to existing standards that are effective after 30 June 2016

HKICPA has issued certain new standards and amendments and improvements to existing standards which are relevant to the Target Group's operation but not yet effective as at 30 June 2016 and the Target Group has not yet early adopted.

		Effective for accounting periods beginning on or after
HKAS 1 Amendment	Disclosure initiative	1 January 2016
HKAS 27 Amendment	Equity method in separate financial statements	1 January 2016
HKFRS 10 and HKAS 28 Amendment	Sale or contribution of assets between on investor and its associate or joint venture	1 January 2016
Annual Improvements Project	Annual improvements 2012–2014 Cycle	1 January 2016
HKAS 7 Amendment	Statement of cash flows	1 January 2017
HKAS 12 Amendment	Income taxes	1 January 2017
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019

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

2.2 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Target Group has control. The Target Group controls an entity when the Target 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 fully consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Target Group's accounting policies.

The Target 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 Target 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 Target 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 HKFRSs.

Acquisition-related costs are expensed 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 directly in the consolidated statement of comprehensive income.

(ii) Disposal of subsidiaries

When the Target 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 consolidated 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 Target Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(iii) Separate financial statements

Investment in a subsidiary is accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of the subsidiary are accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investment in the subsidiary is required upon receiving dividends from the investment if the dividend exceeds the total comprehensive income of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Target Group. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is determined by professional valuation conducted at end of each reporting period. Changes in fair values are recorded in the consolidated statement of comprehensive income. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Target Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

2.4 Trade receivables

Trade receivables are rental income receivable from tenants. If collection of trade 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.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.5 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to 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 the consolidated 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 an asset's 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 (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Cash and cash equivalents

Cash and cash equivalents include deposits held at call with banks.

2.7 Other payables

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.8 Provisions

Provisions are recognised when the Target 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 has been reliably estimated. 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.

2.9 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Group.

Contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.10 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Target 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 and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 Financial Information. However, 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 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 end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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.

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.

2.11 Functional and presentation currency

Items included in the Financial Information of the Target Group are measured using the currency of the primary economic environment in which the Target Group operates (the "functional currency"). The Financial Information is presented in Hong Kong dollar ("HK$"), which is the Target Company's functional and presentation currency.

2.12 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided.

Rental income from investment property is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

Air-conditioning charges and management fee income are recognised when the services are rendered.

2.13 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under an operating lease, the asset is included in the consolidated statement of financial position based on the nature of the asset.

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.14 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The director of the Target Company that make strategic decisions have been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

3 Financial risk management

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: credit risk and liquidity risk.

The Target Group's ultimate holding company has centralised treasury function for all of its subsidiaries. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(i) Credit risk

Credit risk is managed by the ultimate holding company on a group basis. The credit risk of the Target Group mainly arises from trade receivables, deposits paid and deposits with banks. The exposures to these credit risks are closely monitored on an ongoing basis by management of the ultimate holding company. Deposits with banks are mainly placed with high-credit-quality financial institutions. To limit the credit risk exposure, the Target Group has the policy to require deposits from tenants. The Target Group carries out regular review to minimise exposures to credit risk.

(ii) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and ensuring the availability of funding from the ultimate holding company. Management of the ultimate holding company regularly monitors current and expected liquidity requirements and ensures that adequate funding is available for operating, investing and financing activities.

The table below analyses the Target Group's financial liabilities and its rental deposit into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year or on demand *HK$*	**Between 2 and 5 years** *HK$*	**Total** *HK$*
At 30 June 2014			
Rental deposits	—	1,950,984	1,950,984
Amount due to the ultimate holding company	167,686,564	—	167,686,564
At 30 June 2015			
Rental deposits	—	2,226,957	2,226,957
Amount due to the immediate holding company	162,106,542	—	162,106,542
At 30 June 2016			
Rental deposits	—	2,252,088	2,252,088
Amount due to the immediate holding company	154,280,384	—	154,280,384

3.2 Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for it members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Group finances its operations by its cash flows from operations or obtains financing and financial support from the ultimate holding company. In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to members or sell assets to reduce debt.

3.3 Fair value estimation

The carrying amounts of the Target Group's financial assets and financial liabilities, approximate their fair values due to the short-term maturities. See Note 8 for disclosures of the investment properties that are measured at fair value.

4 Critical accounting estimates and judgements

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

The Target 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 effect on carrying amounts of assets and liabilities are as follows:

Valuation of investment properties

The fair value of each investment property is individually determined at the end of each reporting period by independent valuers based on a market value assessment. The valuers have performed the valuations using the capitalisation of income approach. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cashflow profile. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Details of the judgement and assumptions have been disclosed in Note 8.

5 Revenue and segment information

The director of the Target Company is the Target Group's CODM. Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

The Target Group's revenue represents the rental and related income from investment properties located in Hong Kong. An analysis of the Target Group's revenue is as follows:

	Year ended 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Revenue			
Rental income	6,593,124	6,593,124	7,457,427
Air-conditioning charges and management fee income	913,812	936,666	1,030,359
	7,506,936	7,529,790	8,487,786

The Target Group operates in one single business segment and one single geographical segment during the Relevant Periods. Therefore, there is no further segmental analysis provided here.

6 Taxation

	Year ended 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Current taxation — Hong Kong profits tax	—	308,140	400,411
Over-provision in prior years	—	—	(20,000)
Deferred taxation relating to temporary differences *(Note 12)*	1,057,234	725,333	698,223
	1,057,234	1,033,473	1,078,634

Hong Kong profits tax has been provided at the rate of 16.5% for the years ended 30 June 2014, 2015 and 2016 on the estimated assessable profit for the year.

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

	Year ended 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Profit before taxation	19,402,565	25,258,558	11,653,468
Calculated at a taxation rate of 16.5%	3,201,423	4,167,662	1,922,823
Income not subject to taxation	(2,145,000)	(3,135,000)	(825,000)
Over-provision in prior years	—	—	(20,000)
Expenses not deductible for taxation purposes	811	811	811
Taxation	1,057,234	1,033,473	1,078,634

7 Benefits and interests of the director

The following disclosures are made pursuant to section 383(1)(a) to (f) of the Companies Ordinance Cap. 622 and Parts 2 to 4 of the Companies (Disclosure of Information about Benefits of Directors) Regulation Cap. 622G:

(a) During the Relevant Periods, no emoluments, retirement benefits, payments or benefits in respect of termination of the director's services were paid or made, directly or indirectly, to the director; nor are there any payable. During the Relevant Periods, no consideration was provided to or receivable by third parties for making available director's services.

(b) During the Relevant Periods, there are no loans, quasi-loans or other dealings in favour of the director, his controlled bodies corporate and connected entities.

(c) During the Relevant Periods, no significant transactions, arrangements and contracts in relation to the Target Company's business to which the Target Company was a party and in which the director of the Target Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(d) In addition to the director's emoluments disclosed above, during the years ended 30 June 2014, 2015 and 2016, the director of the Target Company received emoluments from the holding companies, amounting to HK$8.2 million, HK$9.0 million and HK$7.1 million respectively, part of which is in respect of his services to the holding companies and its subsidiaries. No apportionment has been made as the director consider that it is impracticable to apportion this amount between his services to the holding companies or its subsidiaries and his services to the Target Group.

8 Investment properties

	As at 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
At beginning of the year	246,000,000	259,000,000	278,000,000
Changes in fair value	13,000,000	19,000,000	5,000,000
At end of the year	259,000,000	278,000,000	283,000,000

Valuation processes of the Target Group

The Target Group measures its investment properties at fair value. The investment properties were revalued annually by Savills Valuation and Professional Services Limited, an independent qualified valuer, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued, at 30 June 2014, 2015 and 2016 on an open market value basis. For the investment properties, their current use equates to the highest and best use.

The Target Group's finance department includes a team that reviews the valuation performed by the independent valuer for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuer at least once a year, in line with the Target Group's reporting dates.

At each financial year end, the finance department verifies all major inputs to the independent valuation report; assesses property valuation movements when compared to the prior year valuation report; and holds discussions with the independent valuer.

Valuation techniques

Fair value of the investment properties is derived using the income capitalisation method. Income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rate, which is derived from analysis of sale transactions and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

As at 30 June 2014, 2015 and 2016, all investment properties are included in level 3 fair value hierarchy.

The different levels of fair value measurement have been defined as follows:

— Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

— Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

— Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

There were no changes to the valuation techniques during the years and there were no transfers between fair value hierarchy during the years.

Information about fair value measurements using significant unobservable inputs:

	Fair value			Valuation technique	Range of significant unobservable inputs					
					Prevailing market rents per month			Capitalisation rate		
	2014	2015	2016		2014	2015	2016	2014	2015	2016
	HK$	*HK$*	*HK$*							
Commercial properties –HK	259,000,000	278,000,000	283,000,000	Income capitalisation	HK$22 per square feet	HK$23 per square feet	HK$23 per square feet	3.25%	3.25%	3.10%

Prevailing market rents are estimated based on the independent valuer's view of recent lettings, within the subject properties and other comparable properties. The higher the rents, the higher the fair value.

Capitalisation rates are estimated by the independent valuer based on the risk profile of the properties being valued and the market conditions. The lower the rates, the higher the fair value.

9 Subsidiary

	As at 30 June		
	2014	2015	2016
	HK$	*HK$*	*HK$*
Unlisted shares, at cost	1	1	1

The subsidiary, Ocean Front Investments Limited, was incorporated in Hong Kong on 25 November 2011. The paid-up capital is HK$1 as at the end of each year in the Relevant Periods. The subsidiary is 100% directly held by the Target Company as at the end of each year in the Relevant Periods. Its principal activity is property investment in Hong Kong.

The statutory financial statements of the subsidiary for the years ended 30 June 2014, 2015 and 2016 were prepared in accordance with Hong Kong Financial Reporting Standards and audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

10 Trade receivables

	As at 30 June		
	2014	2015	2016
	HK$	*HK$*	*HK$*
Trade receivables	—	633,196	—

Trade receivables are denominated in Hong Kong dollars and their carrying amounts approximate their fair values.

The customers of the Target Group repay the amount on a monthly basis.

As at 30 June 2015, trade receivables of HK$633,196 were past due but not impaired. Trade receivables represented rental income receivable from a tenant. The tenant is a fellow subsidiary to the Target Group. Rental income is charged in advance to the tenants at the beginning of each month which becomes due upon the issuance of invoices. The aging analysis of these trade receivables as at respective end of the reporting period is as follows:

	As at 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Within one month	—	633,196	—

The maximum exposure to credit risk at the reporting date is the carrying values of each class of receivables mentioned above.

11 Share capital

	As at 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Issued and fully paid:			
Share of US$1	8	8	8

12 Deferred tax (assets)/liabilities

	As at 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Deferred income tax assets	(27,110)	—	—
Deferred income tax liabilities	2,094,669	2,792,892	3,491,115
	2,067,559	2,792,892	3,491,115

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax relates to the same fiscal authority. Deferred income tax assets are expected to be recovered within twelve months while deferred income tax liabilities are expected to be settled after more than twelve months. Their movements in the Target Group's deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the Relevant Periods are as follows:

	Tax losses		
	As at 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
At beginning of the year	(386,121)	(27,110)	—
Charged to the consolidated statement of comprehensive income *(Note 6)*	359,011	27,110	—
At end of the year	(27,110)	—	—

	Accelerated tax depreciation		
	As at 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
At beginning of the year	1,396,446	2,094,669	2,792,892
Charged to the consolidated statement of comprehensive income *(Note 6)*	698,223	698,223	698,223
At end of the year	2,094,669	2,792,892	3,491,115

The Target Group has used the presumption that the carrying amount of the investment property using fair value model will be recovered through sales. Accordingly, no provision for deferred tax is made on revaluation surplus of the investment property as there is no capital gain tax in Hong Kong.

13 Balances with group companies

The amounts are unsecured, interest free and have no fixed terms of repayment.

14 Note to the consolidated statement of cash flows

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

	Year ended 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Profit before taxation	19,402,565	25,258,558	11,653,468
Changes in fair value of investment properties	(13,000,000)	(19,000,000)	(5,000,000)
Operating profit before working capital changes	6,402,565	6,258,558	6,653,468
Increase in deposits and prepayment	—	—	(906)
Decrease/(increase) in trade receivables	625,578	(633,196)	633,196
Increase/(decrease) in accruals	66,151	(61,151)	540,000
Increase in rental deposits	—	275,973	25,131
Cash generated from operations	7,094,294	5,840,184	7,850,889

(b) Major non-cash transaction:

During the year ended 30 June 2015, the amount due to ultimate holding company of HK$167,686,564 was settled through amount due to immediate holding company.

15 Operating lease receivable

The future minimum rental receivable under non-cancellable operating leases is as follows:

	As at 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Not later than one year	6,593,124	7,457,427	7,536,000
Later than one year and not later than five years	549,427	15,700,000	8,164,000
	7,142,551	23,157,427	15,700,000

16 Related party transactions

Except as disclosed elsewhere in the Financial Information, the Target Group regularly conducts transactions in the normal course of business with a fellow subsidiary and a related company, details of which during the Relevant Periods are as follows:

	Year ended 30 June		
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Rental income, air-conditioning charges and management fee income from a fellow subsidiary *(Note)*	7,506,936	7,529,790	6,327,348
Rental income, air-conditioning charges and management fee income from a related company *(Note)*	—	—	2,160,438

Note: Rental income, air-conditioning charges and management fee income from a fellow subsidiary and a related company are subject to the terms agreed by the parties involved, which is at fixed monthly fees.

The fellow subsidiary and related company refers to a subsidiary and a joint venture of the ultimate holding company respectively.

17 Reserve movement of the Target Company

	Accumulated losses
	HK$
At 1 July 2013	7,183
Loss for the year	4,914
At 30 June 2014	12,097
Loss for the year	4,914
At 30 June 2015	17,011
Loss for the year	4,914
At 30 June 2016	21,925

18 Subsequent event

On 30 September 2016, the director of the Target Company declared a dividend of HK$21,000,000.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or its subsidiary in respect of any period subsequent to 30 June 2016 and up to the date of this report. On 30 September 2016, the director of the Target Company declared a dividend of HK$21,000,000.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

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 30 June 2016 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 2016.

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 annual report of the Company for the year ended 30 June 2016 and the accountant's report of the Target 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 30 June 2016 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 30 June 2016	The Target Group as at 30 June 2016	Pro forma adjustments			Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 30 June 2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
Non-current Assets						
Property, plant and equipment	187,409	—		281,509	1,516	470,434
Investment properties	—	283,000	(1,491)	(281,509)		—
Land use rights	23,087	—				23,087
Intangible assets	35,321	—				35,321
Deferred tax assets	4,581	—				4,581
	250,398	283,000				533,423
Current Assets						
Inventories	17,733	—				17,733
Amount due from customers for contract works	317,082	—				317,082
Trade and other receivables	842,276	223				842,499
Cash and bank balances	1,325,926	289	(278,505)			1,047,710
	2,503,017	512				2,225,024
Current Liabilities						
Amount due to customers for contract works	1,138,368	—				1,138,368
Amount due to the immediate holding company	—	154,280	(154,280)			—
Trade and other payables	654,923	2,827			1,516	659,266
Taxation payable	14,471	689				15,160
	1,807,762	157,796				1,812,794
Net Current Assets/(Liabilities)	695,255	(157,284)				412,230
Total Assets Less Current Liabilities	945,653	125,716				945,653
Non-current Liabilities						
Deferred tax liabilities	44,485	3,491	(3,491)			44,485
	44,485	3,491				44,485
Net assets	901,168	122,225				901,168

(2) Notes to Unaudited Pro Forma Financial Information of the Enlarged Group

1. The balances were extracted from the audited consolidated statement of financial position of the Group as at 30 June 2016 as set out in the published annual report of the Company for the year ended 30 June 2016.

2. The balances were extracted from the audited consolidated statement of financial position of the Target Group as at 30 June 2016 included in the accountant's report of the Target Group as set out in Appendix II to this Circular.

3. The Directors considered that the Proposed Acquisition is an acquisition of assets instead of a business combination. The property acquired will be for the own use of the Enlarged Group. This adjustment represents the recognition of the assets acquired, and the liabilities assumed in the Proposed Acquisition, the settlement of purchase consideration and the elimination of amount due to the then immediate holding company.

   For the purpose of the Unaudited Pro Forma Financial Information and solely for illustrative purpose only, the Directors have assessed the fair values of the identifiable assets and liabilities of the Target Group. The purchase consideration will be allocated to the assets acquired and liabilities assumed based on relative fair value. The carrying values of the financial assets and liabilities approximate to their fair values due to the short-term maturities, while the remaining unallocated consideration is attributable to the investment properties acquired.

   Pursuant to the Agreement, the consideration for acquisition of 100% equity interest in the Target Group and the Sale Loan amounted to HK$285,000,000. The consideration shall be adjusted by reference to the aggregate of the tangible assets of the Target Group which is readily convertible into cash or cash equivalent (but excluding the investment properties), any current assets less the aggregate of all liabilities (but excluding the amount due to the then immediately holding company) as at the Completion Date.

   Deferred tax liabilities recognised by the Target Group as at 30 June 2016 in respect of the taxable temporary differences arising from investment properties before the Proposed Acquisition is not recognised in the unaudited pro forma statement of assets and liabilities of the Enlarged Group. In accordance with HKAS 12 Income Taxes, deferred tax liabilities shall not be recognised for all taxable temporary differences if it is arising from the initial recognition of an asset in a transaction which is not a business combination, and at that time of the transaction, affects neither accounting profit nor taxable profit.

   The adjusted consideration calculated and allocation to respective assets and liabilities are as follows:

   Calculation of adjusted consideration

	HK$'000
Consideration	285,000
Adjustment on consideration	(6,495)
Adjusted consideration	278,505

Allocation to assets and liabilities:

	HK$'000
Investment properties	281,509
Deposits and prepayment	223
Cash and bank balances	289
Accruals and rental deposits	(2,827)
Current income tax liabilities	(689)
	278,505

The Directors expect that the adjusted consideration of HK$278,505,000 will be financed by cash on hand. Therefore, for the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, it is assumed that the adjusted consideration will be paid by cash and a deduction of HK$278,505,000 in cash and bank balances will be recognised to reflect the payment of the consideration.

The amount due to the then immediate holding company (i.e. the Vendor) will be transferred to the Group upon the completion of the Proposed Acquisition. The balance has been eliminated in the Unaudited Pro Forma Financial Information of the Enlarged Group.

Since the fair values of the assets and liabilities of the Target Group at the actual completion date may be substantially different from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identifiable net assets and the adjusted consideration to be recognised in connection with the Proposed Acquisition may be different from the amounts presented here and the differences may be significant.

4. The adjustment represents the reclassification from investment properties to property, plant and equipment in the unaudited pro forma statement of assets and liabilities of the Enlarged Group, as the Directors have determined that the property will be occupied for own use upon completion of the Proposed Acquisition.

5. The amount 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 and treated as part of the cost of assets acquisition.

6. Except for the dividend of HK$21,000,000 declared by the director of the Target Company on 30 September 2016, which has not been reflected in the above Unaudited Pro Forma Financial Information of the Enlarged Group, 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 30 June 2016.

C. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report on the unaudited financial information of the Enlarged Group, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

pwc 羅兵咸永道

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 Optimum Result Holdings Limited and its subsidiary (the "**Target Group**") (collectively the "**Enlarged Group**") by the directors of the Company (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 30 June 2016 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages III-1 to III-4 of the Company's circular dated 25 October 2016, in connection with the proposed acquisition of the Target Group (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 page III-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 30 June 2016 as if the Proposed Acquisition had taken place at 30 June 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 30 June 2016, on which an audit report has been published.

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

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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**").

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 AG7 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 30 June 2016 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 judgment, 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 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,
25 October 2016

MANAGEMENT DISCUSSION AND AN ANALYSIS OF THE TARGET GROUP

Set out in Appendix II to this Circular is the accountant's report on the Target Group for the three financial years ended 30 June 2014, 2015 and 2016. Below is the management discussion and analysis of the Target Group during the period reported on which should be read in conjunction with the accountant's report on the Target Group set out in Appendix II to this Circular.

Financial Year ended 30 June 2016 ("FY2016") compared with Financial Year ended 30 June 2015 ("FY2015")

Revenue

The Target Group's revenue represented the rental income and management fee income generated from leasing of the Properties. The Target Group's revenue for FY2016 was approximately HK$8.5 million, representing an increase of approximately 13.3%, as compared with approximately HK$7.5 million in FY2015. The increase in revenue was mainly attributable to the increment in monthly rental income upon the renewal of tenancy of the Properties during the year ended 30 June 2016.

Net rental incomes

The Target Group's net rental income margin decreased from 84.5% in FY2015 to 78.9% in FY2016. This decrease was primarily due to the increase in direct outgoing expenses incurred for the reinstatement of the Properties to the condition for sales.

Changes in fair value of investment

The Target Group's fair value gain on investment properties amounted to approximately HK$5.0 million in FY2016, representing a decrease of approximately 73.7%, as compared with HK$19.0 million in FY2015. Despite the fact that the Properties still recorded a fair value gain of HK$5.0 million in FY2016, the decrease in fair value gain as compared with FY2015 coincided with the then market trend.

Total comprehensive income

As a result of the above, the profit of the Target Group for FY2016 amounted to approximately HK$10.6 million, representing a decrease of approximately 56.2%, as compared with HK$24.2 million in FY2015.

Financial Year ended 30 June 2015 compared with Financial Year ended 30 June 2014 ("FY2014")

The Target Group's revenue remained stable at approximately HK$7.5 million for both FY2015 and FY2014 as same monthly rental income was recorded for both years in pursuant to a three-year contract. The Target Group's net rental income margin remained relatively stable at approximately 84.5% in FY2015 as compared to approximately 85.5% in FY2014.

The Target Group's fair value gain on investment properties amounted to approximately HK$19.0 million in FY2015, representing an increase of approximately 46.2%, as compared with HK$13.0 million in FY2014. The increase coincided the then market trend.

As a result of the above, the total comprehensive income of the Target Group for FY2015 amounted to approximately HK$24.2 million, representing an increase of approximately 32.2%, as compared with HK$18.3 million in FY2014.

Liquidity and financial resources

As at 30 June 2016, the Target Group's current assets amounted to approximately HK$0.22 million which represented decrease of HK$0.63 million or 74.1%. This decrease was primarily due to the settlement of trade receivable during the year ended 30 June 2016. As at 30 June 2015, the Target Group's current assets amounted to approximately HK$0.85 million, which was mainly comprised the deposit and prepayment and trade receivable; which represented increase of approximately HK$0.63 million or 286.4% as compared to approximately HK$0.22 million as at 30 June 2014.

As at 30 June 2014, 2015 and 2016, the Target Group's cash and bank balances amounted to approximately HK$0.04 million, HK$0.26 million and HK$0.29 million respectively. The amounts of all cash and cash equivalent held by the Target Group are denominated in Hong Kong dollars.

The Target Group primarily finances its operation from its holding company. The Target Group adopts a prudent funding and treasury policy towards its overall business operation with an aim to minimize financial risks.

As at 30 June 2014, 2015 and 2016, the total assets of the Target Group amounted to approximately HK$259.2 million, HK$279.1 million and HK$283.5 million respectively, the total liabilities of the Target group amounted to approximately HK$171.8 million, HK$167.5 million and HK$161.3 million respectively, and the total equity attributable to owners of the Target Group amounted to approximately HK$87.4 million, HK$111.6 million and HK$122.2 million respectively.

Amount with related party transactions

All the revenue of the Target Group for the three years ended 30 June 2014, 2015 and 2016 was generated from renting the Properties to the fellow subsidiary and related company subject to the terms agreed by the parties involved which is at fixed monthly fees.

As at 30 June 2014, amount due to ultimate holding company amounted to approximately HK$167.7 million. As at 30 June 2015 and 2016, amount due to immediate holding company amounted to approximately HK$162.1 million and HK$154.3 million respectively.

Save as disclosed above, no related party transaction was entered into by the Target Group for the years ended 30 June 2014, 2015 and 2016.

Significant investments, material acquisitions or disposals

There was no significant investments, material acquisitions or disposal during the three years ended 30 June 2014, 2015 and 2016.

Contingent liabilities and capital commitment

As at 30 June 2014, 2015 and 2016, the Target Group did not have any significant contingent liabilities and capital commitment.

Foreign exchange exposure

As the Target Group's principal business is property holding in Hong Kong, majority of transactions, recognised assets and liabilities are denominated in Hong Kong dollars, there is no significant exposure to foreign currency exchange risks. The Target Group had not entered into any foreign currency exchange forward contracts for hedging purposes for the three years ended 30 June 2014, 2015 and 2016.

Pledge of assets

As at 30 June 2014, 2015 and 2016, the Target Group did not have any charge over its assets.

Gearing ratios

The gearing ratio of the Target Group, which is equal to total liabilities (inclusive of the amount due to ultimate holding company and immediate holding company) over total equity as at 30 June 2014, 2015 and 2016, was approximately 196.5%, 150.0% and 132.0% respectively.

Number of employees

During the three years ended 30 June 2014, 30 June 2015 and 30 June 2016, the Target Group did not have any employees.

The following is the text of a letter and valuation certificate prepared for the purpose of inclusion in this Circular received from the Independent Valuer in connection with its valuation of the Properties as at 5 October 2016.

DTZ CUSHMAN & WAKEFIELD
戴德梁行

16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

25 October 2016

The Directors
FSE Engineering Holdings Limited
Units 801–810, 8/F, Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay, Kowloon
Hong Kong

Dear Sirs,

Re: 17th Floor, Chevalier Commercial Centre, No. 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong (the "Property")

Instructions, Purpose & Date of Valuation

We refer to your instructions for us to value the Property to be acquired by FSE Engineering Holdings Limited (the "Company") or its subsidiaries (hereinafter together referred to as the "Group"). We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the Property as at 5 October 2016 (the "Valuation Date").

Basis of Valuation

Our valuation of the Property represents its market value which in accordance with the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors ("HKIS") 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".

Valuation Assumptions

In undertaking our valuation, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

Our valuation of the Property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

Method of Valuation

We have valued the Property by direct comparison approach by making reference to comparable sales transactions as available in the relevant market, assuming sale of the Property in its existing state and on vacant possession basis.

Source of Information

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of property, particulars of occupancy, floor areas and all other relevant matters. Dimensions and measurements included in the valuation certificate attached are based on the copies of documents or other information provided to us by the Group and are therefore only approximations. No on-site measurement has been carried out.

Title Investigation

We have not been provided with copies of the title documents relating to the Property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas in the valuation certificate attached are approximations.

Site Inspection

Our valuer, Amy Ho, who is a member of the HKIS, inspected the exterior and wherever possible the interior of the Property in September 2016. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Property is free of rot, infestation or any other structural defects. No test was carried out on any of the services.

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
DTZ Cushman & Wakefield Limited
K. B. Wong
MHKIS, RPS(GP)
Senior Director, Valuation & Advisory Services

Note: Mr. K.B. Wong is a Registered Professional Surveyor (General Practice) who has over 30 years' experience in valuation of properties.

VALUATION CERTIFICATE

Property to be acquired by the Group for owner occupation

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 5 October, 2016
17th Floor, Chevalier Commercial Centre, No. 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong 31,400/620,000th shares of and in New Kowloon Inland Lot No. 5974	The Property comprises the whole office space on the 17th floor of a 21-storey commercial building completed in 1992. The Property has a gross floor area of approximately 31,400 sq ft (2,917.13 sq m). The locality of the property is served by public transport services and characterised by commercial/industrial developments of various age. The Property is held from the Government under Conditions of Sale No. 12059 from 27 February 1989 to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the Property per annum.	According to the information from the Group, as at the Valuation Date, the Property was subject to a tenancy for a term of 3 years from 1 August 2015 to 31 July 2018 at a monthly rent of HK$628,000. However, the Property will be acquired on vacant possession basis. As instructed, we have valued the Property on an assumption of vacant possession basis.	HK$288,000,000

Notes:

(1) The registered owner of the Property is Ocean Front Investments Limited.

(2) There is no encumbrance registered against the Property.

(3) The Property is zoned for "Commercial" use under Ngau Tau Kok and Kowloon Bay Outline Zoning Plan No. S/K13/28 dated 11 April 2014.

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 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. Henry Cheng	FSE Holdings *(Note 3)*	Beneficial owner *(Note 4)*	90,000,000 shares of HK$0.10 each (L)	18%
Mr. Doo William Junior Guilherme	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 5)*	25,000,000 shares of HK$0.10 each (L)	5%
	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 6)*	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 7)*	45,000,000 shares of HK$0.10 each (L)	9%
Mr. Lee Kwok Bong	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 8)*	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.

(4) The shares are held by Chow Tai Fook Nominee Limited for Dr. Henry Cheng.

(5) These 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.

(6) These 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.

(7) 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.

(8) 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

In this paragraph:

"NWD Group" means NWD together with its subsidiaries and associates from time to time but excluding the NWCL Group, the NWDS Group and the NWS Group;

"NWS Group" means NWS Holdings Limited ("**NWS**"), the issued shares of which are listed on the Stock Exchange (stock code: 659), together with its subsidiaries and associates from time to time but excluding the NWCL Group, the NWD Group and the NWDS Group;

"NWDS Group" means New World Department Store China Limited ("**NWDS**"), the issued shares of which are listed on the Stock Exchange (stock code: 825), together with its subsidiaries and associates from time to time but excluding the NWCL Group, the NWD Group and the NWS Group;

"NWCL Group" means New World China Land Limited ("**NWCL**") together with its subsidiaries and associates from time to time but excluding the NWD Group, the NWDS Group and the NWS Group; and

"CTF Jewellery Group"	means Chow Tai Fook Jewellery Group Limited ("**CTF Jewellery**"), the issued shares of which are listed on the Stock Exchange (stock code: 1929), together with its subsidiaries and associates from time to time but excluding the NWCL Group, the NWD Group the NWDS Group and the NWS Group.

As at the date of this Circular, Dr. Henry Cheng, a non-executive Director, is interested in the following agreements in respect of the continuing connected transactions of the Company between the Group and the various groups, which are the family business of Dr. Henry Cheng, and as mentioned below which are significant in relation to the business of the Enlarged Group:

(1) a master services agreement entered into by the Company with NWD on 20 November 2015 providing a master framework agreement for the various continuing connected transactions between the Group and the NWD Group in relation to (a) the provision of E&M engineering services (including building materials trading services) and environmental services by the Group to the NWD Group; and (b) the provision of property leasing services by the NWD Group to the Group. In respect of transactions contemplated under (a) and (b) above, the consideration payable by the NWD Group to the Group or vice versa shall be determined in the ordinary course of business, on normal commercial terms and based on the then prevailing market rates negotiated on arm's length basis. As disclosed in the section headed "Connected Transactions" of the Company's prospectus dated 26 November 2015 ("**Company's Prospectus**"), (a) the annual caps in respect of transactions contemplated under (a) above for the financial year ended 30 June 2016 was HK$57 million and for the financial year ending 30 June 2017 is HK$65 million; and (b) the annual caps in respect of transactions contemplated under (b) above for the financial year ended 30 June 2016 was HK$0.6 million and for the financial year ending 30 June 2017 is HK$0.6 million;

(2) a master services agreement entered into by the Company with NWS on 20 November 2015 providing a master framework agreement for the various continuing connected transactions between the Group and the NWS Group in relation to (a) the provision of E&M engineering services (including building materials trading services) and environmental services by the Group to the NWS Group; and (b) the provision of builder's work services by the NWS Group to the Group. In respect of transactions contemplated under (a) and (b) above, the consideration payable by the NWS Group to the Group or vice versa shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable than those charged and provided to independent third party customers of the Group or the NWS Group. As disclosed in the section headed "Connected Transactions" of the Company's Prospectus, (a) the annual caps in respect of transactions contemplated under (a) above for the financial year ended 30 June 2016 was HK$1,400 million and for the financial year ending 30 June 2017 is

HK$1,600 million; and (b) the annual caps in respect of transactions contemplated under (b) above for the financial year ended 30 June 2016 was nil and for the financial year ending 30 June 2017 is nil;

(3) a master services agreement entered into by the Company with NWCL on 20 November 2015 providing a master framework agreement for the various continuing connected transactions between the Group and the NWCL Group in relation to (a) the provision of E&M engineering services (including building materials trading services) by the Group to the NWCL Group; and (b) the provision of property leasing services by the NWCL Group to the Group. In respect of transactions contemplated under (a) and (b) above, the consideration payable by the NWCL Group to the Group or vice versa shall be determined in the ordinary course of business, on normal commercial terms and based on the then prevailing market rates negotiated on arm's length basis. As disclosed in the section headed "Connected Transactions" of the Company's Prospectus, (a) the annual caps in respect of transactions contemplated under (a) above for the financial year ended 30 June 2016 was HK$210 million and for the financial year ending 30 June 2017 is HK$210 million; and (b) the annual caps in respect of transactions contemplated under (b) above for the financial year ended 30 June 2016 was HK$0.8 million and for the financial year ending 30 June 2017 is HK$0.8 million; and

(4) a master services agreement entered into by the Company with CTF Jewellery on 20 November 2015 providing a master framework agreement for the various continuing connected transactions between the Group and the CTF Jewellery Group in relation to the provision of E&M engineering services (including building materials trading services) by the Group to the CTF Jewellery Group. The consideration payable by the CTF Jewellery Group to the Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable than those charged and provided to independent third party customers of the Group. As disclosed in the section headed "Connected Transactions" of the Company's Prospectus, the annual caps for the financial year ended 30 June 2016 was HK$75 million and for the two financial years ending 30 June 2017 and 30 June 2018 are HK$61 million and HK$90 million respectively.

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 2016, 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. DIRECTOR'S 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

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within the two years immediately preceding the date of this Circular which are, or may be, material:

(1) the share swap agreement dated 30 June 2015 entered into among FSE Management Company Limited (as vendor and one of the warrantors and covenantors), the Company as purchaser and other parties as warrantors and covenantors pursuant to which the Company acquired the entire issued share capital in each of Building Material Supplies Limited, FSE Engineering Group Limited and FSE Environmental Technologies Limited, in consideration of and in exchange for which the Company (i) allotted and issued, credited as fully paid, an aggregate of 299,000,000 new Shares to FSE Holdings; and (ii) credited as fully paid at par the 1,000,000 Shares issued as nil paid which were registered in the name of FSE Holdings;

(2) the deed of indemnity dated 20 November 2015 executed by FSE Holdings in favour of the Company (for itself and as trustee for the subsidiaries stated therein);

(3) the non-compete undertakings dated 20 November 2015 executed by the controlling shareholders of the Company in favour of the Company;

(4) the underwriting agreement dated 25 November 2015 relating to public offering of 11,250,000 Shares for subscriptions by members of the public in Hong Kong entered into, among other parties, the Company;

(5) the underwriting agreement dated 3 December 2015 relating to international placing of 101,250,000 Shares entered into, among other parties, the Company; and

(6) the 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
BOSC International Company Limited	A corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
DTZ Cushman & Wakefield Limited	Property valuer
PricewaterhouseCoopers	Certified Public Accountants

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 2016 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) from the date of this Circular up to 30 November 2016:

(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 15 to 16 of this Circular;

(3) the letter from BOSC International to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 17 to 27 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 property valuation report on the Properties issued by the Independent Valuer 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 Agreement;

(10) the accountant's report of the Company containing the audited consolidated financial statements of the Group for the year ended 30 June 2015;

(11) the annual report of the Company for the year ended 30 June 2016; and

(12) 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 Codan 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 Strategic Room, 2401–02, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Wednesday, 30 November 2016 at 11:00 a.m. or immediately after conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution to be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT:**

(1) the Proposed Acquisition (as defined in the circular (the "**Circular**") of the Company dated 25 October 2016) by Fortunate House Limited, a wholly-owned subsidiary of the Company, as purchaser from Catchy Investments Limited as vendor on terms and conditions of the conditional agreement for sale and purchase dated 5 October 2016 (the "**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 Agreement, be and they are hereby approved;

(2) 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

(3) 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 and other applicable law, rules and regulations."

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

Hong Kong, 25 October 2016

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 Monday, 28 November 2016 to Wednesday, 30 November 2016 (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 Friday, 25 November 2016.

6. Voting on the above resolution will be taken by poll.

As at the date of this notice, the Board comprises Dr. Cheng Kar Shun, Henry (Chairman) as non-executive Director, Mr. Wong Kwok Kin, Andrew (Vice-Chairman), Mr. Poon Lock Kee, Rocky (Chief Executive Officer), Mr. Lam Wai Hon, Patrick, Mr. Doo William Junior Guilherme, Mr. Lee Kwok Bong and Mr. Soon Kweong Wah as executive Directors, and 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.