

# Chairman's Statement

To Our Shareholders:

On behalf of the board of directors (the "Board") of FSE Engineering Holdings Limited (the "Company", together with our subsidiaries, the "Group"), I am pleased to present the annual report of the Company for the year ended 30 June 2017 ("FY2017" or the "Year").

## MARKET REVIEW

Looking back at FY2017, the previous multi-polar world economy stabilised and was eventually showing signs of growth. However, while market confidence has picked up, there are challenges and uncertainties prevailing in the global political and economic scenes, like the Brexit negotiations, rising concern about China's economic growth prospects, anticipated balance-sheet shrinkage and interest rate normalisation by the US Federal Reserve, capital outflows from emerging economies, and most recently the still-evolving therefore unclear trade and fiscal policies initiated by the new US President. In the first half of FY2017, while the global economy was still sluggish and geopolitical uncertainties loomed, Hong Kong maintained reasonable economic growth but the operating environment at large for businesses in the city was still difficult. For the Group, having triumphed over challenges, economic and otherwise, over the years, backed by its extensive industry experience, a management team with proven expertise and relentless in its guiding efforts, and boasting a reputation well-appreciated by customers, it managed to achieve commendable growth for the Year. Its profit attributable to equity holders increased by HK\$10.6 million, or 6.5%, testifying to its resilience and capability to continuously grow its business. The Board has proposed a final dividend of HK8.1 cents per share for the Year. Including the interim dividend of HK7.4 cents per share for the six months ended 31 December 2016, the total dividend payout for the Year is HK15.5 cents per share, equivalent to a payout ratio of 40.1%.

## E&M ENGINEERING

### Hong Kong

Since the start of 2017, the Hong Kong Government has unveiled an array of initiatives favourable to the construction and E&M engineering industry. The Government is committed to continuing to rezone sites, stepping up land development and conducting reviews with the aim of optimising land use. In the medium and long term, new development areas and new town extensions are expected to translate into over 8.6 million square metres of industrial and commercial floor areas and over 220,000 residential units. According to latest estimates of the Construction Industry Council, the average E&M construction works expenditure for fiscal year 2017/18 will be over HK\$20.0 billion for the public sector and over HK\$28.0 billion for the private sector. Presuming there would not be prolonged debates by the HKSAR legislature on infrastructure projects, new public works could kick off as scheduled, and an upswing in infrastructure, public housing and private housing projects could be expected, which would in turn help drive healthier growth of the construction, E&M engineering and environmental engineering industries. To make sure it is ready to take on the various infrastructure projects in the pipeline and also the plans for hospital development and the Kai Tak Sports Park set to begin in Hong Kong, the Group will strive to maintain a stable and professional E&M team with capabilities in areas including Building Information Modelling (BIM) technology that can enhance engineering designs and work quality that meet the requirements of those projects. These efforts plus the backing of a strong balance sheet are going to fortify our presence and leadership in this pillar industry of the city.

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## Mainland China

Adopting prudent and neutral monetary policy, the Chinese government has found a good balance between containing financial risks and maintaining steady economic growth at 6.9% in the second quarter of this year. The country's economic fundamentals have remained benign with consistent growth in industrial production and fixed asset investment. The current regional development focus of the Chinese government is to encourage different tier cities to capitalise on their own strengths and pursue befitting growth pattern with urbanisation as a key driver. At the core of 13th Five-Year Plan, the Chinese government clearly stated that its continuing push for urbanisation will not only be conducive to upgrade of coastal cities, but will also help rejuvenate construction and economic activities in urban as well as rural areas in the central and western regions of the country. This strategic emphasis should encourage rebalancing of the Chinese economy and unleash the enormous demand for housing and related commercial developments, therefore present fresh opportunities to the construction and E&M engineering industry. As the Group is one of the few Hong Kong-based E&M general engineering contractors with Class I Qualification in Mainland China, it has an advantage in forging ties with selected partners to expand its footprint in this crucial market. While optimistic about our prospect in the market, we will remain vigilant and keep a close watch on any possible changes in the economic climate and potential risks that come with business opportunities in this region. The Group will focus on identifying E&M engineering business opportunities in relation to the country's Belt and Road Initiative and 13th Five-Year Plan. As in previous years, the Group will work hard at maintaining its presence in Mainland China, adhering to a disciplined approach in business development.

## Macau

As for the Macau market, it has continued to show signs of gradual recovery. In its first Five-Year Development Plan (2016-2020), the Macau SAR Government states its wish to attain a balance between the gaming and non-gaming sectors, giving the city a vividly defined development outlook. The Plan contains such initiatives as developing a new urban zone, promoting development of integrated tourism and reinforcing non-gaming leisure and entertainment provisions, all of which will see Macau's economy becoming more diversified and in turn creating opportunities for the Group.

## ENVIRONMENTAL MANAGEMENT SERVICES

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

## APPRECIATION

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

**Dr. Cheng Kar Shun, Henry**

*Chairman*

Hong Kong, 22 September 2017