

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 unaudited condensed consolidated interim results of the Group for the six months ended 31 December 2016.

In 2016, a wide range of challenges and uncertainties emerged in the global political and economic scenes, like the Brexit referendum, rising concern over China's economic growth prospects, anticipated increase in interest rate by the US Federal Reserve, capital outflows from emerging economies, and most recently the trade and fiscal policies the new US President indicated he would implement after he took office. With the global economy sluggish and geopolitical risks rising, while Hong Kong maintained modest economic growth in the first three quarters of 2016, the operating environment for businesses across the board in the city is expected to continue to be difficult. For the Group, economic and other challenges, the likes of those current, are nothing new. With extensive industry experience, a management team with proven expertise and relentless in its guiding efforts, and also a solid reputation well-appreciated by customers, we are confident of overcoming the challenges we are facing. The fact that the Group was able to achieve satisfactory performance and delivered commendable financial results during the period under review, with profit attributable to equity holders up by HK\$6.9 million or 9.2%, is proof of our resilience and capability to continuously grow our business. The Board has declared the payment of an interim dividend of HK7.4 cents per share for the six months ended 31 December 2016.

With the city managing modest economic growth against uncertainties and harsh circumstances, the Hong Kong Government is expected to unveil a range of initiatives favourable for the construction and E&M engineering industry. Already, the Chief Executive of Hong Kong made it clear in his Policy Address delivered on 18 January 2017 that 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 the latest estimates of Construction Industry Council, E&M construction works expenditure for fiscal year 2017/18 will be over HK\$15.0 billion for the public sector and over HK\$25.0 billion for the private sector. Presuming there will not be prolonged debates by the HKSAR legislature on infrastructure projects, new public works can kick off as scheduled, an upswing in infrastructure, public housing and private housing projects can be expected, which will in turn help drive healthier growth of the construction, E&M engineering and environmental engineering industries. To make sure it is ready for taking on the various infrastructure projects in the pipeline and also the plans for hospital development and the multi-purpose Sports Complex at Kai Tak set to begin in Hong Kong, the Group will strive to maintain a stable and professional E&M team with capabilities, including in the area of Building Information Modelling (BIM) technology, to enhance engineering design and work quality. These efforts plus the backing from a strong balance sheet are going to fortify our presence in this key market.

As in previous years, the Group has worked hard at maintaining its presence in Mainland China, adhering to a disciplined approach in business development. Despite the slowdown of economic growth, the country's economic fundamentals remain strong. 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. Also, right at the start of its 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 persistence should encourage rebalancing of the Chinese economy and unleash the enormous demand for housing and related commercial developments and 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

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prospect in the market, we will remain vigilant and keep a close watch on any possible changes in the economic climate and the potential risks that come with business opportunities in this region. The Group will focus on identifying E&M engineering business opportunities in the advent of the country's Belt and Road Initiative and 13th Five-Year Plan.

As for the Macau market, it continues to show signs of gradual stabilisation. The Macau SAR Government has launched its first Five-Year Development Plan, which focuses on attaining a balance between 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.

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

On behalf of the board of directors of the Company, I would like to take this opportunity to express my sincere gratitude to all shareholders, customers and business partners for their unwavering support. I wish to also thank the management team and fellow staff members for their wholehearted 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, 23 February 2017