

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 2017.

MARKET REVIEW

While the economic impact of political changes remains to be seen, the global economy is expected to maintain its momentum through 2017 and carry over to the rest of this year with 3.9% growth. In the big picture of a broad-based economic upturn supported by solid employment, stable inflation environment and financial market performance, major advanced economies are likely to show further moderate expansion enhanced by elevated business confidence and corporate earnings. The mainland economy is also set to sustain notable growth, spanning from construction to manufacturing, trade and services. However, there are challenges and uncertainties in the global political and economic environment that necessitate attention, like the formal Brexit negotiations, China's economic growth prospects, further balance-sheet shrinkage and interest rate normalisation measures by the US Federal Reserve, and most recently the unclear trade and fiscal stimulus policies initiated by the US president. Within the current broadly benign global economic conditions, Hong Kong is anticipated to maintain reasonable economic growth but the operating environment at large for businesses in the city still warrants caution and enterprises should be well-prepared for any potential impact from industry volatilities. The Group also encounters a multitude of challenges mainly keen competition and labour shortage of skilled workers in the marketplace which impact the profit margin. However, 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, the Group has managed to achieve commendable growth during the period under review. Its profit attributable to equity holders increased by HK\$4.5 million, or 5.5%, testimony to its resilience and capability to continuously grow its business. The Board has declared the payment of an interim dividend of HK7.8 cents per share for the six months ended 31 December 2017, equivalent to a payout ratio of 40.5%.

E&M ENGINEERING

Hong Kong

The Hong Kong Government has set aside a total of more than HK\$70 billion for the housing reserve and is committed to continuing to rezone sites, stepping up land development and conducting reviews with the aim of optimising land use. The public housing supply target for the 10-year period from 2018/19 to 2027/28 has been announced to be 280,000 units including 200,000 public rental housing units and 80,000 subsidised sale flats and the average E&M construction works expenditure for the fiscal year 2018/19 is to be more than HK\$20.0 billion for the public sector and more than 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 in the construction, E&M engineering and environmental management services sectors. To ensure adequate preparation to take on the various infrastructure projects in the pipeline and also begin planning for the tenders for hospital development, the Kai Tak Sports Park and the relocation of three government buildings in Wanchai, the Group is striving to maintain a stable and professional E&M team with our advanced technological capabilities in areas including Building Information Modelling (BIM) technology that can enhance engineering designs and work quality to meet the requirements of these projects. These efforts supported by a strong balance sheet should fortify our presence and leadership in this pillar industry of the city.

Chairman's Statement

Mainland China

Under the agenda of the 19th Communist Party Congress, the policy focus is to reinforce economic stability. With the implementation of a proactive fiscal policy together with the neutral and prudent monetary policy, the Chinese government has found a good balance between curbing financial risks and maintaining steady economic growth at 6.9% in 2017. In line with its principles of the "National New-type Urbanisation Plan, the urbanisation rate and income per capita in Mainland China have increased steadily in recent years. The Chinese government clearly stated that its continuing push for urbanisation will not only be conducive to an 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 shift of emphasis should encourage rebalancing of the Chinese economy and unleash the enormous demand for housing and related commercial developments, therefore presenting 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 the selected partners to expand its footprint in this crucial market. While being optimistic about our prospects in the market, we will remain vigilant and keep a close watch on any possible changes in the economic climate and potential risks along with available business opportunities in this region. Leveraging our extensive project experience and advanced information technology application, the Group intends to focus on identifying E&M engineering business opportunities in relation to the country's Belt and Road Initiative, the construction of the Greater Bay Area and the Pan-Pearl River Delta regional co-operation. As in previous years, the Group will work hard at maintaining its presence in Mainland China, adhering to a disciplined approach to its business development.

Macau

The Macau economy has continued to show signs of transitioning to a sustainable market recovery. A new Cotai ferry terminal and the Hong Kong-Zhuhai-Macao Bridge also expected to open in 2018 could significantly increase traffic flow and accessibility and further enhance market growth. As revealed under its Five-Year Development Plan (2016–2020), the Macau SAR Government wishes to attain a balance between the gaming and non-gaming sectors, developing a new urban zone, promoting development of integrated tourism and reinforcing non-gaming leisure and entertainment provisions, all of which will see more diversity in Macau's economy and, in turn, creating ample 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 management services and projects. The Group continues to capitalise on this trend and provide customers with total solutions that are energy efficient as well as environmentally friendly.

CONCLUSION

With our solid and healthy financial position, the Group will continue to dedicate our efforts to consistently seeking business opportunities that can further expand our business and maximize our shareholders' value.

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 dedication. As always, we remain fully committed to assuring the Group's long-term development and fair returns to shareholders.

Dr. Cheng Kar Shun, Henry
Chairman

Hong Kong, 27 February 2018