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FRONTIER SERVICES GROUP LIMITED

先豐服務集團有限公司*

(Incorporated in Bermuda with limited liability)

Website: www.fsgroup.com www.irasia.com/listco/hk/frontier

(Stock Code: 00500)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

The board of directors (the “**Board**”) of Frontier Services Group Limited (the “**Company**”) announces the final results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020. The final results of the Group have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

** For identification purposes only*

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Revenue from contracts with customers	3	756,123	605,246
Cost of direct materials and job expenses		(248,400)	(152,467)
Cost of aircraft management services		—	(81,520)
Data costs		(6,073)	(5,907)
Employee benefit expenses		(242,431)	(238,984)
Sub-contracting charges		(197,948)	(166,942)
Rental expenses	6	(12,562)	(12,692)
Repair and maintenance costs		(14,223)	(21,694)
Depreciation and amortisation	6	(49,684)	(53,569)
Loss on disposal of subsidiaries		—	(486)
Other operating expenses	6	(67,048)	(72,105)
Other income and other gains, net	6	8,335	4,263
Provision for impairment of property, plant and equipment and right-of-use assets		(15,731)	—
Provision for impairment of other intangibles		(2,029)	—
Impairment losses on financial assets		(30,866)	(14,266)
Operating loss		(122,537)	(211,123)
Interest income		2,033	3,702
Finance costs	4	(15,231)	(19,485)
Share of profits/(losses) of associates and a joint venture, net		3,344	(2,478)
Provision for impairment of assets held-for-sale		(10,396)	—
Provision for impairment of interest in an associate		—	(8,693)
Loss before income tax		(142,787)	(238,077)
Income tax (expense)/credit	5	(14,392)	9,491
LOSS FOR THE YEAR	6	(157,179)	(228,586)
Attributable to:			
Equity holders of the Company		(159,699)	(228,029)
Non-controlling interests		2,520	(557)
		(157,179)	(228,586)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted loss per share	7	(6.81) cents	(9.72) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(157,179)</u>	<u>(228,586)</u>
Other comprehensive (loss)/income		
Items that have been reclassified or may be subsequently reclassified to profit or loss		
— Foreign exchange differences	(4,598)	3,275
— Release of exchange reserve upon disposal of subsidiaries	<u>—</u>	<u>1,591</u>
Other comprehensive (loss)/income for the year, net of tax	<u>(4,598)</u>	<u>4,866</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(161,777)</u>	<u>(223,720)</u>
Attributable to:		
Equity holders of the Company	(164,310)	(223,141)
Non-controlling interests	<u>2,533</u>	<u>(579)</u>
	<u>(161,777)</u>	<u>(223,720)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		54,032	75,929
Right-of-use assets		139,674	144,421
Goodwill and other intangibles		319,985	7,646
Interests in associates		44,373	39,401
Interest in a joint venture		—	983
Deferred income tax assets		6,245	17,635
Non-current prepayments		45,760	54,917
Financial assets at fair value through other comprehensive income		5	4
Total non-current assets		<u>610,074</u>	<u>340,936</u>
CURRENT ASSETS			
Inventories		4,724	3,216
Trade and bills receivables	9	195,586	155,460
Prepayments, deposits and other receivables		75,466	110,485
Contract assets		11,957	—
Tax receivables		1,102	1,041
Cash and cash equivalents		267,431	318,681
Assets held-for-sale		<u>556,266</u> 7,133	<u>588,883</u> 10,099
Total current assets		<u>563,399</u>	<u>598,982</u>
Total assets		<u>1,173,473</u>	<u>939,918</u>

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
CURRENT LIABILITIES			
Trade payables	<i>10</i>	69,646	60,223
Other payables and accruals		119,316	91,012
Contract liabilities		34,158	4,725
Borrowings	<i>12</i>	21,439	18,443
Lease liabilities		30,821	54,584
Tax payables		6,875	103
		<hr/>	<hr/>
Total current liabilities		282,255	229,090
		<hr/>	<hr/>
Net current assets		281,144	369,892
		<hr/>	<hr/>
Total assets less current liabilities		891,218	710,828
NON-CURRENT LIABILITIES			
Lease liabilities		34,407	51,436
Deferred income tax liabilities		43,766	32,708
Contingent consideration payables	<i>11</i>	135,055	—
Borrowings	<i>12</i>	172,840	—
		<hr/>	<hr/>
Total non-current liabilities		386,068	84,144
		<hr/>	<hr/>
Total liabilities		668,323	313,234
		<hr/>	<hr/>
Net assets		505,150	626,684
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		234,482	234,482
Reserves		150,157	274,184
		<hr/>	<hr/>
		384,639	508,666
Non-controlling interests		120,511	118,018
		<hr/>	<hr/>
Total equity		505,150	626,684
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements of the Group for the year ended 31 December 2021 have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), a collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). These consolidated financial statements comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The consolidated financial statements for the year ended 31 December 2021 have been prepared on a historical cost basis, except for (i) certain financial assets and liabilities, which are carried at fair value and (ii) the assets held-for-sale which are measured at fair value less cost to sell.

1.2 IMPACT OF NEW, AMENDED AND REVISED HKFRSS

In the current year, the Group has adopted all the following new standards, amendments to standards and interpretation for the first time for the accounting period beginning on 1 January 2021:

Amendments to HKFRS 16	COVID-19 Related Rent Concessions
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The adoption of these amended HKFRSs does not have any material impact on the Group’s consolidated financial statements for the year.

The following new and amended HKFRSs have been issued, but are not effective for the Group's accounting period beginning on 1 January 2022 and have not been adopted early:

		Effective for accounting periods beginning on or after
Amendment to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendment to HKFRS 10 and HKAS 28	Sales of Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Costs of Fulfilling a Contract	1 January 2022
Annual improvements to HKFRSs 2018-2020 Cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	1 January 2022
Amendment to Accounting Guideline 5	Merger Accounting for Common Control Combinations (Revised)	1 January 2022
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023

The Group will adopt the above new or revised standards as and when they become effective. Management has performed preliminary assessment and does not anticipate any significant impact on the Group's financial position and results of operations upon adopting these standards.

2 SEGMENT INFORMATION

The chief operating decision maker has been identified as the Board of Directors of the Company. Management has determined the operating segments based on the internal reports reviewed by the Board of the Company that are used to assess performance and allocate resources. The Group's operating segments are structured and managed separately according to the services provided by different strategic business units, and the services offered are subject to risks and returns that are different from those of the other operating segments.

During the year, management has changed its internal performance review to align more closely with the Group's strategic decision and development, by reallocating some of the resources between Aviation and Logistics Business, Security, Insurance and Infrastructure Business and Others, to reflect the latest business development of the Group. The comparative amounts of the segment information in 2020 has been reclassified to reflect such change.

The operating segments of the Group are as follows:

- (i) Aviation and Logistics Business (“**AL Business**”) – Provision of aviation and logistics related services;
- (ii) Security, Insurance and Infrastructure Business (“**SII Business**”) – Provision of security, insurance and infrastructure related services; and
- (iii) Financial Market Information Business (“**FMI Business**”) – Provision of online financial market information.

Others include corporate income and expenses, other direct investments and others.

The Board of Directors of the Company assesses segment performance based on reportable operating result.

An analysis of the Group's revenue, results, assets, liabilities and expenditure for the year ended 31 December 2021 by operating segments is as follows:

	AL Business HK\$'000	SII Business HK\$'000	FMI Business HK\$'000	Others HK\$'000	Total HK\$'000
Revenue from contracts with customers (from external customers)	<u>494,241</u>	<u>236,148</u>	<u>14,095</u>	<u>11,639</u>	<u>756,123</u>
Depreciation	37,378	7,019	564	1,086	46,047
Amortisation	918	2,666	—	53	3,637
Provision for impairment of property, plant and equipment	5,389	—	—	—	5,389
Provision for impairment of right-of-use assets	10,342	—	—	—	10,342
Provision for impairment of other intangibles	2,029	—	—	—	2,029
Impairment losses on financial assets	<u>29,919</u>	<u>933</u>	<u>14</u>	<u>—</u>	<u>30,866</u>
Operating loss	<u>(46,704)</u>	<u>(22,553)</u>	<u>(1,076)</u>	<u>(52,204)</u>	(122,537)
Interest income					2,033
Finance costs					(15,231)
Share of profits of associates and a joint venture, net					3,344
Provision for impairment of assets held-for-sale					<u>(10,396)</u>
Loss before income tax					(142,787)
Income tax expense					<u>(14,392)</u>
Loss for the year					<u>(157,179)</u>
Total assets	<u>420,609</u>	<u>552,078</u>	<u>2,677</u>	<u>198,109</u>	<u>1,173,473</u>
Total assets include:					
Interests in associates	<u>635</u>	<u>41,496</u>	<u>—</u>	<u>2,242</u>	<u>44,373</u>
Total liabilities	<u>149,313</u>	<u>137,918</u>	<u>6,042</u>	<u>375,050</u>	<u>668,323</u>
Capital expenditure	<u>27,533</u>	<u>241,222</u>	<u>74</u>	<u>91,605</u>	<u>360,434</u>

An analysis of the Group's revenue, results, assets, liabilities and expenditure for the year ended 31 December 2020 by operating segments is as follows:

	AL Business HK\$'000 (Restated)	SII Business HK\$'000 (Restated)	FMI Business HK\$'000 (Restated)	Others HK\$'000 (Restated)	Total HK\$'000 (Restated)
Revenue from contracts with customers (from external customers)	510,443	80,120	14,480	203	605,246
Depreciation	43,776	5,866	555	1,683	51,880
Amortisation	1,604	85	—	—	1,689
Impairment losses on financial assets	14,232	—	34	—	14,266
Operating loss	(52,582)	(79,441)	(292)	(78,808)	(211,123)
Interest income					3,702
Finance costs					(19,485)
Share of losses of associates and a joint ventures, net					(2,478)
Provision for impairment of interest in an associate					(8,693)
Loss before income tax					(238,077)
Income tax credit					9,491
Loss for the year					(228,586)
Total assets	515,217	137,235	3,453	284,013	939,918
Total assets include:					
Interests in associates	—	37,458	—	1,943	39,401
Interest in a joint venture	—	—	—	983	983
Total liabilities	196,144	49,780	6,914	60,396	313,234
Capital expenditure	14,877	5,511	13	2,790	23,191

The Company is domiciled in Hong Kong. The Group's revenue from external customers by geographical regions is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Africa	444,519	366,738
Europe	—	104,364
The People's Republic of China ("PRC")		
— Mainland China	154,009	69,987
— Hong Kong	50,574	12,063
South-East Asia and Middle-East	107,021	52,094
	756,123	605,246

Revenue derived from external customers with amounts equal to or above 10% of the Group's revenue is as follows:

	Operating segment	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A	AL business	N/A*	78,588

* The revenue from customer A did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2021.

The total of non-current assets other than financial instruments and deferred income tax assets by geographical regions is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Africa	206,989	241,526
Europe	21,548	28,803
The PRC		
— Mainland China	10,966	17,907
— Hong Kong	321,403	5,252
South-East Asia and Middle-East	42,918	29,809
	603,824	323,297

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of revenue is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from provision of aviation and logistics services	494,241	510,443
Revenue from provision of security, insurance and infrastructure services	236,148	80,120
Revenue from provision of online financial market information	14,095	14,480
Others	11,639	203
	<u>756,123</u>	<u>605,246</u>

Disaggregation of revenue from contracts with customers:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Timing of revenue recognition		
At a point in time	503,901	492,497
Over time	252,222	112,749
	<u>756,123</u>	<u>605,246</u>

4 FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interests on:		
Bank and other loans	2,144	1,893
Lease liabilities	8,342	15,494
Convertible bonds	3,123	—
Financing arrangement fee	—	771
Net exchange loss on borrowings	1,622	1,327
	<u>15,231</u>	<u>19,485</u>

5 INCOME TAX EXPENSE/(CREDIT)

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current income tax		
Hong Kong		
— Provision for the year	1,110	—
Outside Hong Kong		
— Provision for the year	5,213	29
— Under provision in respect of prior years	—	(210)
	<u>6,323</u>	<u>(181)</u>
Deferred income tax	8,069	(9,310)
	<u>14,392</u>	<u>(9,491)</u>

Taxation on profits has been calculated on the estimated assessable profits for the year at the applicable rates of taxation prevailing in the countries/places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been provided for the year ended 31 December 2020 because the Group did not generate any assessable profit in Hong Kong during the year.

6 LOSS FOR THE YEAR

The Group's loss for the year is arrived at after charging/(crediting):

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
(a) Rental expenses		
Rentals on land and buildings	9,041	7,150
Rentals on equipment	3,403	4,809
Rentals on motor vehicle	118	733
	<u>12,562</u>	<u>12,692</u>
(b) Depreciation and amortisation		
Depreciation of right-of-use assets	28,735	33,483
Depreciation of property, plant and equipment	17,312	18,397
Amortisation of other intangibles	3,637	1,689
	<u>49,684</u>	<u>53,569</u>

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
(c) Other operating expenses		
Professional and consultancy fee	19,859	11,085
Travelling expenses	7,908	7,789
Net exchange (gains)/losses	(9,465)	3,738
Auditor's remuneration		
Audit services	3,037	2,800
Non-audit services	1,163	—
Provision for inventories	480	1,032
Others	44,066	45,661
	<u>67,048</u>	<u>72,105</u>
(d) Other income and other gains, net		
Warehouse income	(2,478)	(2,344)
Net (gain)/loss on disposal of property, plant and equipment	(2,371)	768
Others	(3,486)	(2,687)
	<u>(8,335)</u>	<u>(4,263)</u>

7 LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the Group's loss attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

The basic and diluted loss per share for the years ended 31 December 2021 and 2020 were the same because the effect of the assumed conversion of all dilutive potential ordinary shares outstanding, including the conversion of the exchangeable preference shares and convertible bonds, the issue of consideration shares under Note 11 below and the exercise of the outstanding share options, during the year was anti-dilutive.

The weighted average number of ordinary shares in issue during the both years were the number of ordinary shares in issue.

During both years, no new ordinary shares were issued under the share option schemes and the consideration shares under Note 11 below. Also, no new ordinary shares were issued as a result of the conversion of convertible bonds.

	2021	2020
Weighted average number of ordinary shares in issue	<u>2,344,818,660</u>	<u>2,344,818,660</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group's loss attributable to the equity holders of the Company	<u>(159,699)</u>	<u>(228,029)</u>

8 DIVIDENDS

The Board of the Company does not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

9 TRADE AND BILLS RECEIVABLES

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables from contracts with customers	189,233	147,170
Bills receivable	23,052	24,927
Less: loss allowance	<u>(16,699)</u>	<u>(16,637)</u>
	<u>195,586</u>	<u>155,460</u>

An aging analysis, based on the invoice date, of the trade receivables as at the date of statement of financial position is as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	81,402	55,809
1-2 months	30,597	33,154
2-3 months	14,527	6,814
Over 3 months	<u>62,707</u>	<u>51,393</u>
	<u>189,233</u>	<u>147,170</u>

As at 31 December 2021 and 2020, aging analysis of bills receivables based on the bills receiving date is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	1,407	2,970
1-2 months	—	7,129
2-3 months	—	3,922
Over 3 months	21,645	10,906
	<u>23,052</u>	<u>24,927</u>

The fair values of trade and bills receivables approximate their carrying amounts.

Credit terms of one to three months from invoice date are generally granted to major customers. The Group seeks to maintain strict control over its outstanding receivables. The Group performs ongoing credit evaluation of its customers and makes frequent contact with its customers, if necessary.

10 TRADE PAYABLES

An aging analysis, based on invoice date, of the trade payables as at the date of statement of financial position is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	46,557	32,409
1-2 months	9,406	14,134
2-3 months	3,906	4,908
Over 3 months	9,777	8,772
	<u>69,646</u>	<u>60,223</u>

The fair values of trade payables approximate their carrying amounts.

11 BUSINESS COMBINATION

Summary of acquisition

On 22 October 2021, the Group, through its wholly-owner subsidiary, acquired 100% of the issued share capital of DeWe Security Limited and its subsidiaries (“**DeWe Group**”), a group of entities which principally engaged in the provision of security and guarding services and healthcare services (the “**Acquisition**”). Management believed that the Acquisition will significantly improve the Group’s security business. In addition, the Acquisition will provide the Group with a steady source of income and cash inflow. The DeWe Group’s security and guarding services segment has a relatively stable portfolio of security contracts and strong credentials, enabling the Group to bid for government or private security contracts which require proof of track records. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	2021 <i>HK\$’000</i>
Purchase consideration:	
Cash paid	200,000
Contingent consideration	135,055
	<hr/>
Total purchase consideration	335,055
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The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value <i>HK\$’000</i>
Cash and cash equivalents	28,787
Intangible assets	80,831
Trade and other receivables	37,702
Other non-current assets	3,573
Other current assets	889
Trade and other payables and accruals	(34,405)
Lease liabilities	(2,475)
Income tax payables	(4,992)
Deferred income tax liabilities	(13,380)
	<hr/>
Net identifiable assets acquired	96,530
Add: goodwill	238,525
	<hr/>
Net assets acquired	335,055
	<hr/> <hr/>

(1) *Acquired receivables*

The fair value of acquired trade and other receivables is HK\$37,702,000. The fair value of acquired trade and other receivables approximates the gross contractual amount with no material loss allowance made upon the Acquisition.

(2) *Goodwill on acquisition*

The Group recognised goodwill of approximately HK\$238,525,000 in the consolidated statement of financial position, which was primarily attributable to the consideration that was mutually agreed between the parties, with reference to the carrying amount of the identifiable net assets of approximately HK\$96,530,000 as at the date of acquisition. Goodwill is primarily attributable to the anticipated profitability, cost saving synergy of the acquired business with the Group's existing security business and net cash inflows of the acquired business.

(3) *Acquired intangible assets*

The fair value of acquired intangible assets amounted to HK\$80,831,000 contained the below classes of assets:

	<i>HK\$'000</i>
Customer relationship	57,773
Order backlog	22,094
Telemed application software	964
	<hr/>
	80,831
	<hr/> <hr/>

(4) *Contingent consideration*

The Group shall satisfy the contingent consideration by the issue of maximum 230,769,228 shares of the Company (“**Consideration Shares**”) to the vendors of the Acquisition in three instalments within 14 business days after confirming the DeWe Group's net profit for (1) the period from the date of Acquisition completion to 31 December 2022 (the “**First Relevant Period**”); (2) the year ending 31 December 2023 (the “**Second Relevant Period**”); and (3) the year ending 31 December 2024 (the “**Third Relevant Period**”) (collectively, the “**Relevant Periods**”). The number of Consideration Shares to be issued for each Relevant Period is determined based on the DeWe Group's consolidated net profits after tax under the HKFRSs adopted by the Group and audited by the auditors appointed by the Company for the Relevant Period.

The fair value of contingent consideration amounting to HK\$135,055,000 on the Acquisition date was calculated with reference to the expected value of DeWe Group's net profits after tax during the Relevant Period, in which 192,935,000 Consideration Shares would be issued at share price as at the Acquisition date.

(5) *Revenue and profit contribution*

The acquired business contributed revenues of HK\$35,735,000 and net profit of HK\$3,108,000 to the Group for the period from 23 October 2021 to 31 December 2021.

If the acquisition had occurred on 1 January 2021, the Group's consolidated pro-forma revenue and loss for the year ended 31 December 2021 would have been HK\$868,046,000 and HK\$154,010,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2021, together with the consequential tax effects.

There were no acquisitions during the year ended 31 December 2020.

Acquisition – net of cash acquired

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	<u>200,000</u>	<u>–</u>
Less: Balances acquired		
Cash and cash equivalents	<u>(28,787)</u>	<u>–</u>
Net outflow of cash – investing activities	<u><u>171,213</u></u>	<u><u>–</u></u>

Acquisition-related costs

Acquisition-related costs of HK\$4,513,000 that were not directly attributable to the issue of shares are included in other operating expenses in the consolidated income statement and in operating cash flows in the consolidated statement of cash flows.

12 BORROWINGS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank loans and bank advances for discounted bills	21,439	18,443
Convertible bonds	172,840	—
	<u>194,279</u>	<u>18,443</u>

The fair value of the borrowings approximates its carrying amount.

On 22 October 2021, the Company completed the issuance of convertible bonds with an aggregate principal amount of HK\$210,000,000 to five different subscribers (the “**Bond Holders**”), which are convertible into 210,000,000 shares of the Company at a conversion price of HK\$1.00 per share upon full conversion (the “**Convertible Bonds**”). Pursuant to the terms of the Convertible Bonds, they bear interest at a coupon rate of 2.5% per annum and are due for repayment on 21 October 2023 (the “**Maturity Date**”). Interest attached to the Convertible Bonds are payable to the Bond Holders on the Maturity Date. The Company has the rights to extend the Maturity Date of the Convertible Bonds for an additional one year pursuant to the terms of the Convertible Bonds. The conversion rights attaching to any Convertible Bonds restrictions: may be exercised, at the option of the Bond Holders, to convert the Convertible Bonds in whole or in part of the outstanding principal amount of the Convertible Bonds into conversion shares, provided that the exercise of the conversion rights will not result in (i) the Company breaching the rules governing the exercise of convertible securities under the Listing Rules or (ii) the total issued Shares held by the public (as defined under the Listing Rules) being less than 25% (or the minimum public holdings for companies listed on the Stock Exchange as prescribed by the Listing Rules from time to time). Assuming the exercise in full of the conversion rights (the “**Conversion Rights**”) attached to the Convertible Bonds at the initial conversion price of HK\$1.00 per conversion share, an aggregate of 210,000,000 shares (with an aggregate nominal value of HK\$210,000,000) will be issued.

The fair value of the liability component of the Convertible Bonds was calculated using future repayments discounted at an estimated discount rate of 9.98% per annum. The residual amount of approximately HK\$40,283,000 (being the difference between the fair value of the Convertible Bonds at issuance date and the fair value of the liability component on initial recognition) is assigned as the equity component and is included in equity heading convertible bond equity reserve. The liability component is subsequently stated at fair value, with changes recorded in consolidated income statement.

The Convertible Bonds are presented in the consolidated statement of financial position as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Face value of bonds issued	210,000	–
Other equity securities – value of conversion rights	(40,283)	–
	<hr/>	<hr/>
	169,717	–
Interest expense*	3,123	–
	<hr/>	<hr/>
Non-current liability	172,840	–
	<hr/> <hr/>	<hr/> <hr/>

* Interest expense is calculated by applying the effective annual interest rate of 6.59% to the liability component.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS

Overall Performance

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts with customers	756,123	605,246
Cost of direct materials and job expenses	(248,400)	(152,467)
Cost of aircraft management services	—	(81,520)
Data costs	(6,073)	(5,907)
Employee benefit expenses	(242,431)	(238,984)
Sub-contracting charges	(197,948)	(166,942)
Rental expenses	(12,562)	(12,692)
Repair and maintenance costs	(14,223)	(21,694)
Depreciation and amortisation	(49,684)	(53,569)
Loss on disposal of subsidiaries	—	(486)
Other operating expenses	(67,048)	(72,105)
Other income and other gains, net	8,335	4,263
Provision for impairment of property, plant and equipment and right-of-use assets	(15,731)	—
Provision for impairment of other intangibles	(2,029)	—
Impairment losses on financial assets	(30,866)	(14,266)
Operating loss	(122,537)	(211,123)
Interest income	2,033	3,702
Finance costs	(15,231)	(19,485)
Share of profits/(losses) of associates and a joint venture, net	3,344	(2,478)
Provision for impairment of assets held-for-sale	(10,396)	—
Provision for impairment of interest in an associate	—	(8,693)
Loss before income tax	(142,787)	(238,077)
Income tax (expense)/credit	(14,392)	9,491
Loss for the year	<u>(157,179)</u>	<u>(228,586)</u>

Since the World Health Organisation declared COVID-19 a pandemic in early 2020, more and more countries across the globe shut down their borders and limited transportation and travel to contain the coronavirus (“COVID-19”) outbreak, thus, creating impediments for international business and logistic chains. As the outbreak caused disruptions in supply chain operations, the logistics and transportation industries were hampered in various ways across air, freight, and sea segments. The situation in 2021 has slightly been stabilised as more and more people have got vaccinated and more control measures on social distancing and against COVID-19 have been implemented around the globe. 2021 is the second financial year for Frontier Services Group Limited (the “Company”) and its subsidiaries (together, the “Group”) to operate our businesses under the pandemic. The Group has overcome a lot of challenges and difficulties and made good use of our resources so as to improve its operational performance.

Financial Key Performance Indicators

	Year ended 31 December	
	2021	2020
Basic loss per share	<u>(6.81) cents</u>	<u>(9.72) cents</u>
	As at 31 December	
	2021	2020
	HK\$'000	HK\$'000
Total assets	1,173,473	939,918
Equity attributable to the Company’s equity holders	384,639	508,666
Net asset value per share (excluding non-controlling interests)	16 cents	22 cents
Cash and bank balances	267,431	318,681
Current ratio	2.00	2.61
Total liabilities-to-total assets ratio	0.57	0.33
Price to book ratio	<u>3.78</u>	<u>2.90</u>

The reduction in cash and bank balances by HK\$51,250,000 was mainly due to the net cash used in operating activities of HK\$22,324,000, the net cash used in investing activities of HK\$192,669,000 and the net cash generated from financing activities of HK\$160,798,000

Revenue from contracts with customers

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Aviation and logistics business	494,241	510,443
Security, insurance and infrastructure business	236,148	80,120
Financial market information business	14,095	14,480
Others	11,639	203
	<u>756,123</u>	<u>605,246</u>

For the year ended 31 December 2021, the Group reported a consolidated revenue of HK\$756,123,000 (2020: HK\$605,246,000), representing an increase of 25% and the Group's loss for the year was reduced substantially by HK\$71,407,000 from HK\$228,586,000 in 2020 to HK\$157,179,000 in 2021, which was mainly due to the improvement in operating result in our aviation, security and infrastructure business. Also, certain cost cutting measures were in place during 2021 to further reduce our other operating costs.

The increase in the Group's revenue was mainly attributable to the growth in the security, insurance and infrastructure business segment for the year ended 31 December 2021. It mainly resulted from revenue generated from the provision of security services for projects in South-East Asia and Africa.

Overall Performance

Aviation and Logistics Business

The Group's aviation and logistics business reported a decrease in revenue of approximately HK\$16,202,000, after taking into account the reduction in revenue of HK\$104,364,000 as a result of the completion of the disposal of the Group's 51% interests in Maleth Aero Limited ("Maleth") in 2020. The reduction in revenue of Maleth was compensated by the significant growth in revenue by Frontier Logistics (Shanghai) Company Limited ("SH Logistics") and Phoenix Aviation Limited ("PAL").

SH Logistics's growth in revenue was mainly due to the increase in provision of integrated logistics with procurement services to those infrastructural projects in countries in Africa and South East Asia because of the resumption of the construction works. During 2021, SH Logistics managed to report a marked reduction in net operating loss in 2021.

PAL's performance continued to improve during 2021 and its profit increased significantly. The number of flying hours increased dramatically and PAL managed to secure fixed and guaranteed income contracts with some of its major customers. Although COVID-19 caused certain restrictions on cross border flying, PAL managed to take advantage of rendering more medical evacuation or air ambulance services, which generated much more revenue and profit to the Group. For 2021, PAL was one of the profit-making subsidiaries within the Group.

One of the Group's logistic bases located in South Africa, Transit Freight Forwarding (Pty) Ltd ("TFF"), was loss-making for the past two years. Its operating performance was greatly affected by cross border lockdowns, restrictions on supply chains, and the suspension of production as imposed by South Africa government. Warehousing capacity of TFF was under-utilised or left idle for certain months during the year, which resulted in gross loss for those months. This greatly affected the overall operating result of TFF and its revenue further decreased during 2021. Although its gross profit margin slightly improved when compared with last year, its loss for 2021 was increased due to impairment provisions made against some non-current assets including right-of-use assets of HK\$10,342,000, intangible assets of HK\$2,029,000 as well as the derecognition of deferred tax assets of HK\$10,799,000.

For the year ended 31 December 2021, the Group reported a revenue of HK\$494,241,000 (2020: HK\$510,443,000) and an operating loss of HK\$46,704,000 (2020: an operating loss of HK\$52,582,000) from this segment.

Security, Insurance and Infrastructure Business

This segment reported a significant improvement in both revenue and operating results, in particular, the security and infrastructure segments.

The Group's subsidiaries in Africa involved in the provision of security services in Africa countries reported a growth in revenue and result because the Group secured security contracts in certain of the Africa countries. Right now, the Group has rendered security services to Chinese entities in Africa and South-East Asia.

On insurance business, the Group's insurance related associated company reported a share of net profit of HK\$3,804,000 (2020: HK\$176,000).

On infrastructure business, the Group carried out an engineering, procurement and construction (“EPC”) contract for the construction of headquarter office building for Air Force of Laos Peoples’s Democratic Republic. The construction period of this contract is 2 years. Owing to the pandemic, the commencement of the construction work was delayed but certain phases of the construction were completed as of 31 December 2021.

For the year ended 31 December 2021, the Group reported a revenue of HK\$236,148,000 (2020: HK\$80,120,000) and an operating loss of HK\$22,553,000 (2020: an operating loss of HK\$79,441,000) from this segment.

Provision for Impairment Loss of Property, Plant and Equipment, Right-of-Use Assets, Financial Assets and Investment in an Associated Company classified as Assets Held-for-Sale

As mentioned in the preceding paragraph with respect to TFF, its businesses were greatly affected by the pandemic in South Africa. The pandemic caused a lot of unpredictable side effects to South Africa’s economy, which included change in logistic chain pattern, reduction in freight rate and other social problems such as increase in hijacking and robbery. All these resulted in under-utilisation of warehousing, reduction in profit margins and increase in operational costs such as diesel costs and insurance premium. As a result, management of the Group carried out another impairment test over TFF’s non-current assets in view of the fact that (i) the impact of the pandemic towards its business operation in South Africa will sustain for a much longer period than we initially expect; and (ii) the impact of COVID-19 has yet come to the peak. By reference to the cash flow projections prepared by management of the Group, impairment provisions have been set aside against its rights-of-use assets and intangible assets amounting to HK\$10,342,000 and HK\$2,029,000, respectively.

Provision for impairment losses was made against non-performing aircraft amounting to HK\$5,389,000 during the year ended 31 December 2021. Such provision was charged against the carrying amount of one aircraft so as to reflect its recoverable amount as at 31 December 2021. The respective aircraft was reclassified to assets held-for-sale as at 31 December 2021 with net carrying amount of HK\$7,133,000, as the Group intended to dispose of it. The recoverable amount of the aircraft is measured at fair value less costs of disposal which was determined with reference to price quotation offered by an independent potential buyer.

Owing to the pandemic, certain customers of the Group’s logistics, aviation and infrastructure businesses were affected, which resulted in higher credit risks being encountered by the Group. For the year ended 31 December 2021, the Group set aside impairment provision of HK\$30,866,000 against trade and other receivables.

In 2020, the Group made an impairment provision of HK\$8,693,000 against its 47% equity interests in an associated company called Xinyang Liliang Security Consulting Company Limited (“ISDC”) by reference to the agreed selling price of RMB8,500,000 (equivalent to HK\$10,396,000) as stated in an equity repurchase agreement dated 8 December 2020 (the “ISDC Agreement”) entered into between the Group and one of the existing equity holder of ISDC (the “ISDC Buyer”). As at 31 December 2020, the Group has reclassified its equity interests in ISDC as well as the loan to ISDC as assets held-for-sale. During the year, the ISDC Buyer did not fulfill its obligations and responsibilities. Further impairment provision of HK\$10,396,000 was set aside by the Group for the year ended 31 December 2021. The Group has engaged a lawyer in China to file a claim on those losses suffered by the Group against the ISDC Buyer. Subsequent to 31 December 2021, the claim against the ISDC Buyer has been handled by the court in China but no final decision has been made by the court.

PROSPECTS

Almost two years since the onset of the COVID-19 pandemic, the global economy started to rebound in 2021. Unfortunately, the rebound seems to be uneven across countries and industries because many countries and industries are still being affected by the resurgences of the pandemic. Although more and more people are being vaccinated, restrictions on travelling, lockdowns and social distancing are still in place. The carrying out of normal business activities that we can have prior to the outbreak of the COVID-19 pandemic are still being restricted or constrained.

COVID-19 related uncertainties remained throughout 2021. During 2021, the Group stayed focus on its core business development including securing more sizeable security projects overseas, the launching of an engineering, procurement and construction contract with a government body in Laos, the successful transformation of our Kenya based aviation arm from initially just concentrating on VIP chartering into air ambulance and medevac operator as well as the growth in business volume of our logistic arm in Shanghai, China. Together with those synergies brought in through the Acquisition and the appointment of new Group CEO, the Group’s commitment and determination towards security business has become more obvious. In the coming future, the Group will continuously build its security profile by making good use of the Acquisition and the new CEO’s experience and expertise in the security industry. Winning more sizeable projects both locally and overseas are expected because of our solid credentials and expertise knowledge in the security industry.

With overseas projects start to resume, the Group can take advantage of those footprints that it has already built and can further consolidate those resources and security force from the Targeted Group to penetrate more into those markets that we have not stepped in.

Demands for immediate medical support will keep on growing. With the healthcare sector being acquired through the Acquisition, the Group can take advantage of this synergy during the COVID-19 pandemic in Hong Kong and overseas. Together with our strong associations with United Nations and other global organisations, our aviation segment will continue to grow and is expected to generate a relatively stable income to the Group.

At present, most of the industries are still struggling and the outlook is subject to considerable uncertainty. Nevertheless, the Group still believes that there are business opportunities for us to grasp. Our recent successful in Laos will enable the Group to have security and infrastructure footprints there. We believe that the Group will have much more successful cases to deliver in the years to come.

At the same time, management of the Group will continue to closely monitor the Group's business development, implement any necessary measures and adapt to any required changes whenever necessary to tackle any difficulties during the COVID-19 pandemic. With greater population size being vaccinated and effective controls to prevent any serious outbreaks of the virus, it is expected that those being infected can be substantially reduced. Although setbacks and uncertainties are still surrounding us, we remain confident that the Group can attain more vigorous growth in terms of revenue and operating performance in the near future.

The Group believes that with the continued support from shareholders and financial creditors together with our firm commitment towards our mission and vision, the new management team, and the continued implementation of certain cost-saving measures, the Group will become stronger and thrive in these challenging times.

EMPLOYEES

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay level of its employees is competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance. Employees are offered discretionary year-end bonus based on individual merit.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group to recognise their contribution to the success of the Group. The Company has not granted any share options under its share option scheme during the year ended 31 December 2021 (2020: Nil).

The Company also operates a share award scheme to recognise the contributions by certain employees and persons to the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The Company has not granted any share under its share award scheme during the year ended 31 December 2021. (2020: Nil).

The total number of employees of the Group as at 31 December 2021 was 1,837 (2020 1,125).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2021, the Group recorded total assets of HK\$1,173,473,000 (2020: HK\$939,918,000) which were financed by liabilities of HK\$668,323,000 (2020: HK\$313,234,000), non-controlling interests of HK\$120,511,000 (2020: HK\$118,018,000) and shareholders' equity of HK\$384,639,000 (2020: HK\$508,666,000). The Group's net asset value per share (excluding non-controlling interests) as at 31 December 2021 amounted to HK\$0.16 (2020: HK\$0.22) per share.

As at 31 December 2021, the Group's available cash and bank balances were HK\$267,431,000 (2020: HK\$318,681,000) with a total borrowings of HK\$194,279,000 (2020: HK\$18,443,000). The Group's total borrowings mainly represented bank loans amounting to HK\$21,439,000 (2020: HK\$18,443,000) and Convertible Bonds amounting to HK\$172,840,000 (2020: Nil). As at 31 December 2021, the Group's borrowings were mainly denominated in Hong Kong dollars ("HK\$"), Renminbi ("RMB") and South Africa Rand ("ZAR"). The repayment terms of the Group's borrowings are ranging from 1 to 4 years (31 December 2020: 1 to 4 years). The Group, therefore, managed to maintain a surplus net cash and bank position as at 31 December 2021 and 2020.

As at 31 December 2021, the gearing ratio (ratio of the sum of total borrowings to the total assets) was approximately 16.6% (2020: 2.0%).

In May 2018, net proceeds of HK\$830,567,000 were raised through a subscription of shares under general mandate, as detailed in the Company's circular date 2 May 2018 (the "**Circular**"). Subsequent to the subscription and the announcement made in relation to the change of intended use of proceeds from the subscription of the Company on 24 March 2020, the intended use of net proceeds and actual usage up to 31 December 2021 are set out below:

	Intended use of net proceeds set out in the Circular HK\$'000	Intended use of net proceeds after the change as announced on 24 March 2020 HK\$'000	Actual use of net proceeds up to 31 December 2021 HK\$'000	Unutilised net proceeds as at 31 December 2021 HK\$'000
Setting up businesses in Myanmar, Laos and Cambodia	130,000	130,000	114,270	15,730
Setting up businesses in Pakistan and Xinjiang, China	120,800	20,800	20,800	—
Expansion of businesses in Africa and Middle East	70,767	170,767	170,767	—
General working capital for the Group's existing business	288,000	288,000	288,000	—
Working capital for establishment of new offices along Belt and Road regions	41,000	41,000	41,000	—
Repayment of the Group's indebtedness	180,000	180,000	180,000	—
Total	830,567	830,567	814,837	15,730

The outbreak of COVID-19 has affected and disrupted certain business activities of the Group. The intended use of the unutilised net proceeds are expected to be utilised by 30 June 2022. The expected timeline for the intended use of the unutilised net proceeds, which is subject to further adjustments if required, is based on the best estimation of the Company taking into account, among others, the prevailing and future market conditions and business developments and needs.

On 22 October 2021, the Company completed the issuance of convertible bonds with an aggregate principal amount of HK\$210,000,000 to five different subscribers, which are convertible into 210,000,000 shares of the Company at a conversion price of HK\$1.00 per share upon full conversion. Pursuant to the terms of the Convertible Bonds, they bear interest at a coupon rate of 2.5% per annum and are due for repayment on 21 October 2023. Interest attached to the Convertible Bonds are payable to the Bond Holders on the Maturity Date. The Company has the rights to extend the Maturity Date of the Convertible Bonds for an additional one year pursuant to the terms of the Convertible Bonds. Further details in relation to the terms of the Convertible Bonds are set out in Note 12 in the notes to the consolidated financial statements of this announcement.

The aggregate amount of the net proceeds received from the Convertible Bonds have been applied as to HK\$150,000,000 for the settlement of the remaining consideration of the Acquisition and as to HK\$60,000,000 as the Group's working capital. The intended use of the net proceeds from Convertible Bonds are expected to be utilised by 31 December 2022.

Treasury Policies

The Group adopts conservative treasury policies and has tight controls over its cash management. The Group's cash and bank balances are held mainly in HK\$, RMB, United States dollars ("US\$") and Kenyan Shillings ("KES"). Other than the bank deposits pledged for the Group's bank borrowings, surplus cash is generally placed on term deposits and investments depending on the Group's funding requirements.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group currently operates mainly in Africa, South East Asia, Europe and Mainland China including Hong Kong.

For operations in Africa, most of the transactions are denominated in US\$, KES and ZAR. The exchange rates of KES and ZAR against HK\$ have decreased by 2.9% and decreased by 7.4% respectively during the year ended 31 December 2021. No financial instrument was used for hedging purposes for the year due to the prohibitive cost of available hedging opportunities. The Group is closely monitoring the currency exchange risk of KES and ZAR and will consider the use of financial instrument for hedging purposes, if necessary.

For operations in South East Asia, majority of the transactions are denominated in US\$ while only some of the operating expenses are denominated in the respective local currency such as Burmese Kyat ("MMK"), Cambodian Riel ("KHR"), Bangladeshi Taka ("BDT") and Lao Kip ("LAK"). The Group manages its currency exchange risk of the above currencies by closely monitoring the fluctuation in exchange rates on MMK, KHR, BDT and LAK.

For operations in Mainland China, most of the transactions are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the Chinese government. No financial instrument was used for hedging purposes for the year. The Group is closely monitoring the currency exchange risk of RMB and is looking for any opportunities to mitigate the currency exchange risk of RMB.

For operations in Hong Kong, most of the transactions are denominated in HK\$ and US\$. The exchange rate of US\$ against HK\$ is relatively stable, and the related currency exchange risk is considered minimal.

Material Acquisitions and Disposals of Subsidiaries and Associates

Acquisition of 100% equity interests in DeWe Security Limited (“DeWe Security”)

On 22 October 2021, the Group completed the acquisition of 100% interests in DeWe Security, a company incorporated in the British Virgin Islands, and its subsidiaries (the “**Targeted Group**”) from DeWe Security Limited (61%) and South Pacific Resources Investment Limited (39%), both companies are beneficially owned by Mr. Li Xiaopeng at a consideration of HK\$500,000,000 (the “**Acquisition**”). The initial consideration for the Acquisition is in the form of cash of HK\$200,000,000 (the “**Initial Consideration**”) and the remaining is in the form of shares as deferred consideration of HK\$300,000,000, which is payable by three instalments at an issue price of HK\$1.30 per share after the achievement of the targeted profit by the Targeted Group for the next three consecutive relevant period or year. The principal businesses of the Targeted Group are the provision of security and guarding services and healthcare and rescue services in Hong Kong and overseas. The Acquisition will significantly improve the Group’s security business in Hong Kong with a steady source of income and cash inflow. Also, the Acquisition of the healthcare and rescue services represented a unique opportunity for the Group to expand its foothold in the medical and healthcare sector. The Initial Consideration for the Acquisition was satisfied as to HK\$50,000,000 by the Group’s internal resources and as to the remaining consideration of HK\$150,000,000 by the proceeds from the issuance of convertible bonds. Further details in relation to the Acquisition and the issuance of convertible bonds were set out in the Company’s announcements dated 23 September 2021 and 8 October 2021 as well as in Notes 11 and 12 in the notes to the consolidated financial statements of this announcement.

Other than the above mentioned, the Group did not have any material acquisitions or disposals of subsidiaries and associates during the year ended 31 December 2021.

Charges on Assets

As at 31 December 2021, the Group had certain trade receivables of HK\$27,526,000 (2020: HK\$24,012,000) were pledged to banks as securities for banking facilities.

Future Plans for Material Investments or Capital Assets and Capital Expenditure Commitments

As at 31 December 2021, the Group did not have any concrete future plans for material investments or capital assets and material capital expenditure commitments.

However, the Group always seeks for new investment opportunities in order to broaden the revenue base, improve the Group’s profitability and enhance shareholders’ value in long term.

Contingent Liabilities

Save as disclosed under the heading “Charges on Assets”, the Group does not have material contingent liability as at 31 December 2021.

Subsequent Events

Due to the fifth wave of outbreak of COVID-19 in Hong Kong since early 2022, the relevant precautionary and control measures has become stringent. Management expected the resumption of its cross-border healthcare business as planned would delay and its business in Hong Kong might be subject to a certain extent of disruption. This would result in deterioration in the performance of business held by certain subsidiaries in Hong Kong, in particular the cross-border healthcare business of the Group. In preparing this set of consolidated financial statements, the Group tested goodwill for impairment and the recoverable amount of the relevant CGUs exceeded its carrying amount, thus no provision for impairment was made in relation to those subsidiaries in Hong Kong. In performing this assessment, the Group estimated the present value of future cash flows of the CGUs based on the conditions as at 31 December 2021. In the goodwill impairment test to be performed in 2022, COVID-19 outbreak and its impact on the present value of estimated future cash flows of the CGUs will be considered. Up to the date on which this set of consolidated financial statements were authorised for issue, the Group is still in the process of assessing the impacts of the COVID-19 on the performance of the relevant CGUs and is currently unable to estimate the quantitative impacts to the Group. Management will closely and continuously monitor the situation and assess the financial impact to the Group.

On 20 January 2022, Mr. Li Xiaopeng was appointed as an executive Director and chief executive officer of the Company.

Except for as disclosed above, there are no material subsequent events undertaken by the Company or by the Group after 31 December 2021 and up to the date of this announcement.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed securities during the year ended 31 December 2021. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year ended 31 December 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2021, the Board of the Company has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") from time to time, as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules to regulate the directors' securities transactions. Having made specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors' securities transactions throughout their tenure during the year ended 31 December 2021.

SCOPE OF WORK OF INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the draft consolidated financial statements of the Group for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the Hong Kong Exchanges and Clearing Limited's website ("HKExnews website") at www.hkexnews.hk and the Company's website at www.fsgroup.com. The 2021 annual report of the Company containing all the information required by Appendix 16 of the Listing Rules will be dispatched to the shareholders of the Company and published on the HKExnews website and the Company's website in due course.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Mr. Yap Fat Suan, Henry, Mr. Cui Liguu and Mr Hooi Hing Lee. Mr. Yap Fat Suan, Henry is the chairman of the Audit Committee. The Audit Committee has adopted the terms of reference which are in line with the CG Code. The Group's final results for the year ended 31 December 2021 have been reviewed by the Audit Committee.

By Order of the Board
Frontier Services Group Limited
Chan Kam Kwan, Jason
Company Secretary

Hong Kong, 30 March 2022

At the date of this announcement, the Board of the Company comprises the non-executive director of Mr. Chang Zhenming (Chairman), Mr. Fei Yiping, Mr. Chan Kai Kong, Mr. Dorian Barak and Mr. Zhang Yukuan; the executive directors of Mr. Ko Chun Shun, Johnson (Deputy Chairman), Mr. Luo Ning (Deputy Chairman) and Mr. Li Xiaopeng; and the independent non-executive directors of Mr. Yap Fat Suan, Henry, Mr. Hooi Hing Lee, Dr. Chan Wing Mui, Helen and Mr. Cui Liguu.