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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)

**INTERIM RESULTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022**

The board of directors (the “**Board**”) of Frontier Services Group Limited (the “**Company**”) presents the unaudited consolidated financial results and financial position of the Company and its subsidiaries (together, the “**Group**”) for the six-month period ended 30 June 2022 (the “**Current Period**”), together with the comparative amounts for the corresponding period of 2021. These unaudited condensed interim financial statements have been reviewed by members of the audit committee of the Company.

** For identification purposes only*

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2022

		Six-month period ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
Revenue from contracts with customers	2 & 3	503,839	310,460
Cost of direct materials and job expenses		(148,766)	(94,628)
Data costs		(2,709)	(2,964)
Employee benefit expenses		(177,208)	(113,743)
Sub-contracting charges		(137,255)	(83,467)
Rental expenses	6	(5,340)	(7,444)
Repairs and maintenance costs		(5,592)	(6,872)
Depreciation and amortisation	6	(27,342)	(24,002)
Other operating expenses	6	(31,807)	(25,941)
Other income and other gains, net	6	6,094	4,945
Impairment losses on financial assets		(2,997)	(350)
Provision for impairment of right-of-use assets		(5,668)	—
Operating loss		(34,751)	(44,006)
Interest income		696	1,205
Finance costs	4	(15,398)	(5,959)
Share of profits of associates and a joint venture, net		1,795	703
Provision for impairment of asset held-for-sale		—	(10,215)
Loss before income tax		(47,658)	(58,272)
Income tax (expense)/credit	5	(7,107)	904
LOSS FOR THE PERIOD	6	(54,765)	(57,368)
Attributable to:			
Equity holders of the Company		(59,164)	(59,760)
Non-controlling interests		4,399	2,392
		(54,765)	(57,368)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted loss per share	7	(2.52) cents	(2.55) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2022

	Six-month period ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	<u>(54,765)</u>	<u>(57,368)</u>
Other comprehensive loss		
Items that have been reclassified or may be subsequently reclassified to profit or loss		
Foreign exchange differences	<u>(6,185)</u>	<u>(89)</u>
Other comprehensive loss for the period, net of tax	<u>(6,185)</u>	<u>(89)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(60,950)</u>	<u>(57,457)</u>
Attributable to:		
Equity holders of the Company	<u>(65,375)</u>	<u>(59,853)</u>
Non-controlling interests	<u>4,425</u>	<u>2,396</u>
	<u>(60,950)</u>	<u>(57,457)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
	<i>Note</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		65,559	54,032
Right-of-use assets		98,612	139,674
Goodwill and other intangibles		312,936	319,985
Interests in associates		46,075	44,373
Deferred income tax assets		25	6,245
Non-current prepayments		46,994	45,760
Financial assets at fair value through other comprehensive income		5	5
		<hr/>	<hr/>
Total non-current assets		570,206	610,074
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		5,085	4,724
Trade and bills receivables	9	182,039	195,586
Prepayments, deposits and other receivables		80,006	75,466
Contract assets		84,931	11,957
Tax receivables		1,723	1,102
Cash and cash equivalents		213,145	267,431
		<hr/>	<hr/>
		566,929	556,266
Assets held-for-sale		—	7,133
		<hr/>	<hr/>
Total current assets		566,929	563,399
		<hr/>	<hr/>
Total assets		1,137,135	1,173,473
		<hr/>	<hr/>

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
	<i>Note</i>		
CURRENT LIABILITIES			
Trade payables	<i>10</i>	136,301	69,646
Other payables and accruals		129,208	119,316
Contract liabilities		8,526	34,158
Borrowings	<i>11</i>	9,936	21,439
Lease liabilities		26,013	30,821
Tax payables		4,287	6,875
		<hr/>	<hr/>
Total current liabilities		314,271	282,255
		<hr/>	<hr/>
Net current assets		252,658	281,144
		<hr/>	<hr/>
Total assets less current liabilities		822,864	891,218
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Lease liabilities		18,308	34,407
Deferred income tax liabilities		41,480	43,766
Contingent consideration payable		135,055	135,055
Borrowings	<i>11</i>	181,462	172,840
		<hr/>	<hr/>
Total non-current liabilities		376,305	386,068
		<hr/>	<hr/>
Total liabilities		690,576	668,323
		<hr/>	<hr/>
Net assets		446,559	505,150
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	<i>12</i>	234,482	234,482
Reserves		87,141	150,157
		<hr/>	<hr/>
		321,623	384,639
Non-controlling interests		124,936	120,511
		<hr/>	<hr/>
Total equity		446,559	505,150
		<hr/> <hr/>	<hr/> <hr/>

Notes:

1.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated interim financial statements of the Group for the six-month period ended 30 June 2022 (the “**Current Period**”) have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). These condensed consolidated interim financial statements should be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 December 2021 (“**2021 Annual Financial Statements**”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA.

These condensed consolidated interim financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities, which are carried at fair value. The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the 2021 Annual Financial Statements, except for the adoption of new standards and interpretations effective as of 1 January 2022.

1.2 NEW, AMENDED AND REVISED HKFRSs

In the Current Period, the Group has adopted the following amended HKFRSs, a collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA which are mandatory and relevant to the Group’s operations for the accounting period beginning on 1 January 2022:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations

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

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 early adopted:

		Effective for annual periods beginning on or after
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
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 Hong Kong Interpretation 5	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

2 SEGMENT INFORMATION

The chief operating decision maker has been identified as the Board 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.

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 Security, Insurance and Infrastructure Business and Others, to reflect the latest business development of the Group. The comparative amounts of the segment information in 2021 has been reclassified to reflect such change.

- (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 provision of healthcare and airport management services as well as corporate income and expenses, other direct investments and others.

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

An analysis of the Group's revenue, results, total assets and total liabilities information for the Current Period by operating segments is as follows:

	Unaudited				
	AL	SII	FMI	Others	Total
	Business	Business	Business	Business	Business
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contracts with customers (from external customers)	213,855	255,079	7,087	27,818	503,839
Depreciation	16,204	3,295	280	514	20,293
Amortisation	60	6,828	—	161	7,049
Impairment losses on financial assets	804	2,177	16	—	2,997
Provision for impairment of right-of-use assets	5,668	—	—	—	5,668
Operating profit/(loss)	(24,889)	7,985	(88)	(17,759)	(34,751)
Interest income					696
Finance costs					(15,398)
Share of profits of associates, net					1,795
Loss before income tax					(47,658)
Income tax expenses					(7,107)
Loss for the Current Period					(54,765)
Total assets	361,755	613,055	3,008	159,317	1,137,135
Total liabilities	139,827	177,429	6,007	367,313	690,576

An analysis of the Group's revenue, results, total assets and total liabilities information for the six-month period ended 30 June 2021 by operating segments is as follows:

	Unaudited				Total <i>HK\$ '000</i>
	AL Business <i>HK\$ '000</i>	SII Business <i>HK\$ '000</i> (Restated)	FMI Business <i>HK\$ '000</i>	Others <i>HK\$ '000</i> (Restated)	
Revenue from contracts with customers (from external customers)	236,066	63,735	7,218	3,441	310,460
Depreciation	19,471	3,217	281	518	23,487
Amortisation	472	43	—	—	515
Impairment losses on financial assets	334	—	16	—	350
Operating loss	(340)	(16,270)	(399)	(26,997)	(44,006)
Interest income					1,205
Finance costs					(5,959)
Share of profits of associates and a joint venture, net					703
Provision for impairment of asset held-for-sale					(10,215)
Loss before income tax					(58,272)
Income tax credit					904
Loss for the period					(57,368)
Total assets	535,930	158,595	3,102	191,685	889,312
Total liabilities	189,852	69,035	6,481	54,757	320,125

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers:

	Six-month period ended 30 June	
	2022 (Unaudited) <i>HK\$'000</i>	2021 (Unaudited) <i>HK\$'000</i>
Timing of revenue recognition		
At a point in time	241,457	238,573
Over time	262,382	71,887
	<hr/>	<hr/>
Revenue from contracts with customers (from external customers)	503,839	310,460
	<hr/> <hr/>	<hr/> <hr/>

4 FINANCE COSTS

	Six-month period ended 30 June	
	2022 (Unaudited) <i>HK\$'000</i>	2021 (Unaudited) <i>HK\$'000</i>
Interests on:		
Bank and other loans	2,463	1,171
Lease liabilities	4,152	4,939
Convertible bonds	8,622	—
Net exchange loss/(gain) on borrowings	161	(151)
	<hr/>	<hr/>
	15,398	5,959
	<hr/> <hr/>	<hr/> <hr/>

5 INCOME TAX (EXPENSE)/CREDIT

	Six-month period ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current income tax		
Hong Kong		
Provision for the period	(454)	—
Outside Hong Kong		
Provision for the period	(771)	(972)
Under provision in respect of prior years	(1,073)	—
	<u>(2,298)</u>	<u>(972)</u>
Deferred income tax	(4,809)	1,876
	<u>(7,107)</u>	<u>904</u>

Taxation on profits has been calculated on the estimated assessable profits for both periods 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.

Income tax (expense)/credit is recognised based on management's estimate of the weighted average annual income tax expected for the full financial year.

6 LOSS FOR THE PERIOD

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

	Six-month period ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(a) Rental expenses		
Rentals on land and buildings	4,641	4,812
Rentals on equipment	699	2,514
Rentals on motor vehicle	—	118
	<u>5,340</u>	<u>7,444</u>
(b) Depreciation and amortisation		
Depreciation of right-of-use assets	13,814	14,700
Depreciation of property, plant and equipment	6,479	8,787
Amortisation of other intangibles	7,049	515
	<u>27,342</u>	<u>24,002</u>
(c) Other operating expenses		
Professional and consultancy fee	12,080	5,825
Travelling expenses	2,511	3,071
Net exchange gains	(4,661)	(4,464)
Auditor's remuneration		
Audit services	1,600	1,400
Non-audit services	—	—
Provision for inventories	—	67
Others	20,277	20,042
	<u>31,807</u>	<u>25,941</u>
(d) Other income and other gains, net		
Warehouse income	(1,200)	(3,012)
Net (gain)/loss on disposal of property, plant and equipment and asset held-for-sale	(1,220)	311
Others	(3,674)	(2,244)
	<u>(6,094)</u>	<u>(4,945)</u>

7 LOSS PER SHARE

The calculation of the basic loss per share for the Current Period 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 Current Period.

The basic and diluted loss per share for both periods were the same because the effect of the conversion of all dilutive potential ordinary shares outstanding, including the conversion of the exchangeable preference shares and the exercise of the outstanding share options, during both periods was anti-dilutive.

The weighted average number of ordinary shares in issue during both periods were the number of ordinary shares in issue, as there were (i) no new ordinary shares issued under the share option scheme; (ii) no contingent consideration share issued in relation to the acquisition of 100% interests in DeWe Security Limited and its subsidiaries; and (iii) no new ordinary shares were issued as a result of the conversion of outstanding convertible bonds.

	Six-month period ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
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>
Loss attributable to the equity holders of the Company	<u>(59,164)</u>	<u>(59,760)</u>

8 DIVIDENDS

The Board of the Company does not recommend the payment of any interim dividend for the six-month period ended 30 June 2022 (30 June 2021: Nil).

9 TRADE AND BILLS RECEIVABLES

	30 June 2022 (Unaudited) <i>HK\$'000</i>	31 December 2021 (Audited) <i>HK\$'000</i>
Trade receivables from contracts with customers	198,208	189,233
Bill receivables	<u>1,350</u>	<u>23,052</u>
	199,558	212,285
Less: loss allowance	<u>(17,519)</u>	<u>(16,699)</u>
	<u>182,039</u>	<u>195,586</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.

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Within 1 month	91,442	81,402
1-2 months	27,678	30,597
2-3 months	12,725	14,527
Over 3 months	66,363	62,707
	<u>198,208</u>	<u>189,233</u>

As at 30 June 2022, aging analysis of bills receivable based on the bills receiving date is as follows:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Within 1 month	—	1,407
Over 3 months	1,350	21,645
	<u>1,350</u>	<u>23,052</u>

No transfer of bank acceptance bills with recourse in exchange for cash as at 30 June 2022.

The Group transferred certain bank's acceptance bills amounting to RMB10,200,000 (equivalent to HK\$12,476,000) with recourse in exchange for cash as at 31 December 2021. The transactions have been accounted for as collateralised bank borrowings.

The maximum exposure to credit risk as at the date of statement of financial position is the fair value of trade and bills receivables mentioned above.

10 TRADE PAYABLES

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Within 1 month	106,515	46,557
1-2 months	7,929	9,406
2-3 months	3,409	3,906
Over 3 months	18,448	9,777
	<hr/> 136,301 <hr/>	<hr/> 69,646 <hr/>

The fair values of trade payables approximate their carrying amounts.

11 BORROWINGS

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Bank loans and bank advances for discounted bills	9,936	21,439
Convertible bonds	181,462	172,840
	<hr/> 191,398 <hr/>	<hr/> 194,279 <hr/>

The fair values of the borrowings approximate their carrying amounts.

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. 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 amortised cost.

The convertible bonds are presented in the consolidated statement of financial position as follows:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Liability component at 1 January	172,840	—
Face value of bonds issued	—	210,000
Other equity securities - value of Conversion Rights	—	(40,283)
	<u>172,840</u>	<u>169,717</u>
Interest expense*	8,622	3,123
	<u>181,462</u>	<u>172,840</u>

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

12 SHARE CAPITAL

	Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
Authorised		
At 31 December 2021 (audited) and 30 June 2022 (unaudited)	6,000,000,000	600,000
	<u>6,000,000,000</u>	<u>600,000</u>
Issued		
At 31 December 2021 (audited) and 30 June 2022 (unaudited)	2,344,818,660	234,482
	<u>2,344,818,660</u>	<u>234,482</u>

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS

Overall Performance

	Six-month period ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Revenue from contracts with customers	503,839	310,460
Cost of direct materials and job expenses	(148,766)	(94,628)
Data costs	(2,709)	(2,964)
Employee benefit expenses	(177,208)	(113,743)
Sub-contracting charges	(137,255)	(83,467)
Rental expenses	(5,340)	(7,444)
Repairs and maintenance costs	(5,592)	(6,872)
Depreciation and amortisation	(27,342)	(24,002)
Other operating expenses	(31,807)	(25,941)
Other income and other gains, net	6,094	4,945
Impairment losses on financial assets	(2,997)	(350)
Provision for impairment of right-of-use assets	(5,668)	—
Operating loss	(34,751)	(44,006)
Interest income	696	1,205
Finance costs	(15,398)	(5,959)
Share of profits of associates and a joint venture, net	1,795	703
Provision for impairment of asset held-for-sale	—	(10,215)
Loss before income tax	(47,658)	(58,272)
Income tax (expense)/credit	(7,107)	904
Loss for the period	<u>(54,765)</u>	<u>(57,368)</u>

Revenue from contracts with customers

	Six-month period ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Aviation and logistics business	213,855	236,066
Security, insurance and infrastructure business	255,079	63,735
Financial market information business	7,087	7,218
Others	27,818	3,441
	<u>503,839</u>	<u>310,460</u>

For the six months ended 30 June 2022, the Group reported a 62% growth in revenue from HK\$310,460,000 in 2021 to HK\$503,839,000 in 2022. This was mainly due to the marked improvement in operating performance of the security, insurance and infrastructure business. As a result, the Group's operating loss for the Current Period significantly reduced from HK\$44,006,000 in 2021 to HK\$34,751,000 in 2022. Set out below is the overall performance of the Group by business.

Overall Performance

Security, Insurance and Infrastructure Business

Security

After years of effort in investing and participating in the security business in overseas plus the positive contributions brought in from the newly acquired subsidiaries in October last year, most subsidiaries in the security business managed to generate profits in overseas and in Hong Kong during the Current Period. Total revenue of HK\$182,609,000 (30 June 2021: HK\$63,568,000) was contributed from the security business for the Current Period, representing 187% growth. Its net profit after net off of amortisation of those intangible assets arising from those newly acquired subsidiaries for the Current Period was HK\$1,576,000 (30 June 2021: a net loss of HK\$18,327,000, including an impairment loss of HK\$10,215,000 arising from an associated company in security business), which presents an obvious improvement in the security business. The Group's overseas subsidiaries in the security business performed quite well in certain countries in Africa and South East Asia.

Insurance

The Group's insurance business reported a net profit of HK\$650,000 (30 June 2021: a net profit of HK\$15,000) for the Current Period. The betterment was mainly due to the profit contribution from an associated company in Africa.

Infrastructure

During the Current Period, the infrastructure business had also performed well, which was mainly attributable to the contribution of an infrastructure project in the Lao People's Democratic Republic (“**Laos**”). The project in Laos had merely commenced its construction work in the second half of 2021, and it had already reported a staggering revenue of HK\$71,924,000 (30 June 2021: Nil) for the Current Period. As of 30 June 2022, approximately 59% of the construction works had been completed, and further revenue was recognised. All in all, the Laos' infrastructure project contributed a profit of HK\$12,872,000, the Group's overall infrastructure business reported a net profit of HK\$6,731,000 for the Current Period (30 June 2021: a net loss of HK\$7,349,000).

Aviation and Logistics Business

Aviation

Phoenix Aviation Limited (“**PAL**”) in Kenya is the main contributor of the Group's aviation business. Its profit had reduced during the Current Period due to the sharp drop in demand for air ambulance services as a result of the COVID-19 pandemic has been brought under control by most African countries and the termination of the fixed and guaranteed income contract with a major client. Its net profit had reduced from HK\$13,710,000 in 2021 to HK\$6,275,000 in 2022. PAL is now in search for solutions to enhance the utilization rate (i.e. the flying hours) of its existing aircraft and to expand its fleet capacities so as to strengthen its aircraft mix and widen its income stream.

Logistics

Transit Freight Forwarding Pty Ltd (“**TFF**”), our logistic arm in South Africa, continued to report a net loss of HK\$17,102,000 for the Current Period (30 June 2021: HK\$8,260,000). The adverse results were mainly attributed to the continued downturn of the economy in South Africa and high operational costs in the logistics industry. High fuel and diesel costs driven by the war between Russia and Ukraine as well as the tense relationship between China and US have posed additional burden to the operations of TFF. Intensive competition and price pressures from its competitors made TFF difficult to shift some of its costs burden to its customers by adjusting its freight and rental charge upwards. Last year, the Group had performed an impairment test against its long life assets and already set aside impairment provisions against some of its non-current assets of HK\$23,170,000, including impairment on right-of-use assets and intangible assets, and the derecognition of deferred tax asset. TFF had remained non-performing even after the Group had tried various measures to streamline TFF's operations in the past two years. There has been no indication that TFF can turnaround its operations in the foreseeable future. Hence, after due consideration of TFF's prospect, the Group had decided not to provide further financial support to TFF effecting from the second half of 2022. On 4 July 2022, the Company announced that the directors of TFF had passed a resolution to place TFF under business rescue proceedings in accordance with the applicable laws and regulations in South Africa. In case the business rescue proceedings of TFF is to be unsuccessful or no viable proposal is made available to TFF, TFF will be wound up by way of voluntary liquidation. Owing to this, the Group had set aside further impairment provisions against TFF's non-performing assets amounting to HK\$12,070,000 and also set aside a restructuring provision of HK\$8,000,000 based on the current status of the business rescue process.

Regarding the Group's other logistics arms, Frontier Logistics (Shanghai) Company Limited ("**SH Logistics**") reported an increase in revenue by 63% from HK\$48,983,000 in 2021 to HK\$79,966,000 in 2022 and reduction in loss by 52% from HK\$2,418,000 in 2021 to HK\$1,169,000 in 2022. In May 2022, Shanghai was under draconian lockdown because of a coronavirus outbreak. Containment measures, city-wide testing and partial city lockdowns had immensely affected and hindered the business performance of SH Logistics during the first half of 2022.

Other than TFF and SH Logistics, the remaining logistics businesses were either operating below breakeven or at slight losses. All in all, the logistic business of the Group reported a total revenue of HK\$167,124,000 for the Current Period (30 June 2021: HK\$171,921,000) and the net loss further increased from HK\$18,163,000 in the first half of 2021 to HK\$43,459,000 in the first half of 2022. Management of the Group will closely monitor the business development of the logistics business and will consider how to reposition itself in the market so as to minimise the loss to be incurred.

Healthcare Business

The Group through a number of wholly-owned medical related subsidiaries, such as GlobalMedicare Limited, Global Feminine Centre Limited and Wemed Limited, provided a range of medical consultation services during the Current Period. They altogether generated a total revenue of HK\$23,837,000 and a net profit of HK\$7,910,000 to the Group for the Current Period.

PROSPECTS

It has been more or less two and a half years since COVID-19 became endemic in much of the world. Although infections continue to drop, completely eradicating the virus is difficult. All in all, COVID-19 has gone from being a fresh emergency to a fact of life. Many countries around the world have begun to relax their travel restrictions and social distancing measures in the hope of resuming their business activities back to their pre-pandemic levels. However, the Group has encountered some other new challenges in the face of the complex and severe market situation around the globe, such as the sharp rise in fuel prices which end up with high operational costs in our logistics and aviation segment; high inflation rate in certain overseas markets lead to high finance costs and increase in costs of living, and increase in foreign exchange risks which inevitably increase our overall operational costs for every segment. In response to all these uncertainties, the management of the Group has taken proactive measures to overcome all these challenges and remained focused on our annual goals and tasks to minimise the Group's loss and achieve the Group's 2022 target, which is close to breakeven as soon as possible.

The global macroeconomic landscape is expected to be highly uncertain for the remaining half of 2022. Many global economic growth projections set in early 2022 had to be revised downwards as a result of new geopolitical tensions and the continued impact of the pandemic. Many overseas projects were either delayed or put on hold. Customers from emerging countries find it difficult to get the required US dollar to pay for their international businesses resulting in unnecessary payment delays. This indirectly enhances our funding costs and ultimately erodes our services' profitability level. Continued strong US dollar also costs the Group a higher financial burden as those currencies in the emerging countries are subject to higher depreciation risks. Fortunately, most of the service or project contracts are settled in US dollar, which minimises the Group's exposure to foreign exchange risks.

The Group's security segment remains our core business stream, and it is expected to become the major contributor to the Group gradually. The Group has accumulated a lot of overseas security exposures through our presence in Africa, South East Asia, the Middle East and China (including Hong Kong). Our overseas security presences have received a lot of recognitions in their respective place of origin, enabling the Group to secure much more sizeable security contracts in different countries or regions overseas with remarkable profitability. Hence, it is expected that our overseas security companies can continuously deliver considerable returns to the Group in the near future.

Together with those synergies brought in through the acquisition last October, the Group's roadmap for the security segment has become clear. The Group will continuously build on its security profile in Hong Kong by making good use of the two existing wholly-owned subsidiaries holding various kinds of security licenses in Hong Kong. We aim to secure more representative and sizable security projects in Hong Kong.

Demands for online medical support keep on increasing. GlobalMedicare Limited and its subsidiaries ("GMC") has successfully enhanced its recognition in the market through its active involvement during the last wave of the COVID-19 pandemic in Hong Kong. The Group believes GMC can refocus on its strength and build more medical networks and opportunities in Hong Kong. GMC can also utilise our internal synergies through the Group's insurance segment to broaden its networks with insurance companies and those Chinese entities in Hong Kong. This can enable it to widen its sources of income and profitability level.

With respect to the aviation segment, the Group decided not to make any significant capital investment in aircraft but the Group will use dry lease arrangements to enhance its fleet capabilities and capacities further to better serve its customers' needs. Co-operations with insurance companies are in discussion. The Company hopes this will bring in additional catalysts to boost the business operation of the Group's aviation segment.

In the first half of 2022, the Group had undertaken a series of measures to improve the operational performance of the logistics segment. The Group had stopped the continuous support granted to the loss-making arm in South Africa. The Group aim to further minimise its loss in this segment soon. With further cost cut measures to be implemented in this segment, the Group believes that this segment can be operating at close to breakeven starting from next year.

Currently, most industries are still struggling, and the outlook is still subject to considerable uncertainties, particularly the new geopolitical tensions and the re-election of governments to be taken place in certain countries in Africa and South East Asia. Hence, the Group will remain cautious about all these latest development. Nevertheless, the Group still believes that there are business opportunities for us to grasp. Our recent success in certain countries can enable us to build our footprints further there. At the same time, the Group will continue to implement cost-saving measures to enhance our competitiveness in the market. The Group believes that with the continuous support from our shareholders together with our firm commitment to our mission, the Group will become stronger and thrive for success during these challenging times. The operating performance of the first half of 2022 is a good indication or sign for the Group to get back on the right track to success.

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 granted 23,400,000 share options under its share option scheme during the six-month period ended 30 June 2022 (30 June 2021: 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 their services 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 shares under its share award scheme during the six-month period ended 30 June 2022 (30 June 2021: Nil).

The Group's total number of employees as at 30 June 2022 was 1,816 (30 June 2021: 1,376; 31 December 2021: 1,837). Employee benefit expenses increased during the Current Period because the overall number of employees increased, especially those full-time security officers. This was mainly due to the fact that security is a labour-intensive business. The completion of the acquisition of those security companies in Hong Kong in October 2021 together with the increase in the size of operation of the Group's overseas security businesses during the Current Period substantially expand the Group's overall work force.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2022, the Group recorded total assets of HK\$1,137,135,000 (31 December 2021: HK\$1,173,473,000) which were financed by liabilities of HK\$690,576,000 (31 December 2021: HK\$668,323,000), non-controlling interests of HK\$124,936,000 (31 December 2021: HK\$120,511,000) and shareholders' equity of HK\$321,623,000 (31 December 2021: HK\$384,639,000). The Group's net asset value per share (excluding non-controlling interests) as at 30 June 2022 amounted to HK\$0.14 (31 December 2021: HK\$0.16) per share.

As at 30 June 2022, the Group's available cash and bank balances were HK\$213,145,000 (31 December 2021: HK\$267,431,000) with a total borrowings of HK\$191,398,000 (31 December 2021: HK\$194,279,000). The Group's total borrowings mainly represented bank loans amounting to HK\$9,936,000 (31 December 2021: HK\$21,439,000) and Convertible Bonds amounting to HK\$181,462,000 (31 December 2021: HK\$172,840,000). As at 30 June 2022, 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 2021: 1 to 4 years). The Group, therefore, managed to maintain a surplus net cash and bank position as at 30 June 2022 and 31 December 2021.

As at 30 June 2022, the gearing ratio (ratio of the sum of total borrowings to the total assets) was approximately 16.8% (31 December 2021: 16.6%).

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 and US\$. Surplus cash is generally placed on term deposits 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 and Mainland China including Hong Kong.

For operations in Africa, most of the transactions are denominated in US\$, Kenyan Shillings ("KES") and ZAR. The exchange rates of KES and ZAR against HK\$ have decreased by 3.4% and 2.2% respectively during the Current Period ended 30 June 2022. 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 the 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"), Bangladeshi Taka ("BDT"), Lao Kip ("LAK") and Cambodian Riel ("KHR"). The Group manages its currency exchange risk of the above currencies by closely monitoring the fluctuation in exchange rates on MMK, BDT, LAK and KHR.

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 Period. 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.

Significant Investments Held and Material Acquisitions

The Group did not have any significant investment held nor there were any other material acquisitions or disposals of subsidiaries, associates or joint venture during the six-month period ended 30 June 2022.

Charges on Assets

As at 30 June 2022, the Group had certain trade receivables of HK\$24,378,000 (31 December 2021: HK\$27,526,000) were pledged to banks as securities for banking facilities.

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

As at 30 June 2022, 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 Liability

The Group has received a letter from the lawyer of Aircraft Engine Lease Finance Inc. ("AELF") in respect of several claims against Frontier Services Limited ("FSL"), a wholly-owned subsidiary of the Company, totaling approximately US\$5.8 million (equivalent to approximately HK\$45.5 million) (the "Alleged Claims"). AELF alleged that these claims are covered under the indemnification clause of the Stock Purchase Agreement dated 15 December 2020, details of which were set out in the Company's announcement dated 22 June 2022. No litigation has been commenced by AELF against the Group as at the date of this announcement and no contingent liability was recognised in relation to the Alleged Claims.

Based on the information currently made known to the Board, and after consulting with the legal counsel, the Board believes that the allegations asserted in the Alleged Claims are untrue, unfounded and/or unsustainable. The Company will take every possible step to vigorously contest against the Alleged Claims, and if necessary, to make counterclaims against AELF for breach of contract and/or tort to protect the interests of the Company and its shareholders.

Save as disclosed elsewhere in this announcement, the Group does not have material contingent liability as at 30 June 2022.

Subsequent Events

On 4 July 2022, after careful consideration, the Company announced that the directors of TFF had passed a resolution to apply for business rescue proceedings in South Africa. For more information, please refer to the Company's announcement dated 4 July 2022.

Save as the above, there are no material subsequent events undertaken by the Company or by the Group after 30 June 2022 and up to the date of the interim result announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed securities during the six-month period ended 30 June 2022. Neither the Group nor the trustee of the share award scheme of the Company has purchased or sold any of the Company's listed securities during the six-month period ended 30 June 2022.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six-month period ended 30 June 2022, 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**").

AUDIT COMMITTEE

The Company has an audit committee (the "**Audit Committee**") which was established with the written terms of reference in compliance with Rule 3.21 of the Listing Rules. Currently, the Audit Committee comprises three independent non-executive directors of the Company namely Mr. Yap Fat Suan, Henry (chairman), Mr. Cui Liguang and Mr. Hooi Hing Lee.

The unaudited condensed consolidated interim financial statements of the Group for the six-month period ended 30 June 2022 have been reviewed by the Audit Committee together with the management of the Company. The Audit Committee is of the opinion that such results compiled with the applicable accounting standards, the requirements under the Listing Rules and other application legal requirements, and that adequate disclosures had been made.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 (six-month period ended 30 June 2021: Nil) to holders of ordinary shares of the Company.

PUBLICATION OF INTERIM 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 interim report of the Company for the Current Period 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.

By Order of the Board
FRONTIER SERVICES GROUP LIMITED
Chan Kam Kwan, Jason
Company Secretary

Hong Kong, 30 August 2022

As at the date of this announcement, the non-executive Directors are Mr. Chang Zhenming (Chairman), Mr. Fei Yiping, Mr. Chan Kai Kong, Mr. Dorian Barak and Mr. Zhang Yukuan; the executive Directors are Mr. Ko Chun Shun, Johnson (Deputy Chairman), Mr. Luo Ning (Deputy Chairman) and Mr. Li Xiaopeng (Chief Executive Officer); and the independent non-executive Directors are Mr. Yap Fat Suan, Henry, Mr. Hooi Hing Lee, Mr. Cui Liguang and Dr. Chan Wing Mui, Helen.