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FRONTIER SERVICES GROUP LIMITED

先豐服務集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00500)

SUPPLEMENTAL ANNOUNCEMENT ON DISCLOSEABLE TRANSACTION — ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Reference is made to the announcement of Frontier Services Group Limited (the “**Company**”) dated 23 September 2021 (the “**Announcement**”) in relation to, among others, acquisition of 100% equity interest in the target company involving issue of consideration shares under general mandate. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as defined in the Announcement.

The Company would like to provide the following supplemental information regarding the Announcement.

BASIS FOR DETERMINATION OF THE CONSIDERATION FOR THE ACQUISITION

The consideration for the Acquisition and the Target Group’s expected profit (i.e. DC Calculation Basis) were determined after arm’s length negotiations among parties to the Acquisition Agreement (the “**Parties**”) taking into account the following factors:

- The Target Group’s unaudited profit after tax for the years ended 31 December 2019 and 2020 were approximately HK\$20,000,000 and approximately HK\$16,500,000, respectively. The Group noted that the Target Group had managed to make a profit despite the global impact of COVID-19 in 2020. Based on a price-to-earnings ratio of 10 times which the Company considers to be a fair and reasonable multiple (given the average price-to-earnings ratio of Hong Kong Hang Seng constituents (year-to-date up to and including the date of the Acquisition Agreement) of approximately 12.8 times, ranging from approximately 9.6 times to 15.9 times), the Company negotiated and arrived at the initial consideration of HK\$200,000,000;

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- Considering Mr. Li's solid background and rich experience particularly in the security solutions (including security, medicare and rescuing) and management, the Acquisition not only will increase the Group's market share on the security segment, but also add the innovative intelligent medical solutions segment which can comprehensively meet the security and medical needs of Chinese workforce worldwide. Based on the business plan of the Target Group, the Target Group intends to engage in overseas security projects mainly from mining and energy companies invested by Chinese enterprises and expects such business will contribute to the expected profit of HK\$50,000,000 in the First Relevant Period. The Acquisition will make the Group and Mr. Li a strong alliance, and will allow the Group and Mr. Li to complement each other to stand out in the market and increase market share. Mr. Li will contribute to the overall development and operation of relevant business through his 30 years' experience in the relevant industry;
- During the COVID-19 pandemic, the mindset and behaviour of patients have been greatly influenced. The acceptance of the digital technology in delivery of healthcare services led to a rapid and widespread development of internet healthcare sector. Such development was also supported by the government bodies in the PRC including the National Healthcare Security Administration, which launched an electronic medical insurance system to regulate the prices and set out insurance policies for internet-based medical services provided in the PRC. The Target Group is planning to provide telemed services (intelligent corporate health solutions) to address the increasing demand by Chinese workforce worldwide, and the designated telemed APP may be launched as early as the end of 2021. In 2022, in view of its full-scale operation, it is estimated that income to be generated from the telemed platform will substantially increase and contribute to the Target Group's expected profit in the First Relevant Period;
- In addition, the Target Group has secured new co-operation arrangements with hospitals and clinics in the PRC in 2021, which is expected to contribute to the Target Group's expected profit in the First Relevant Period by referring new oncology patients and those requiring human papillomavirus ("HPV") vaccination to the Target Group. After the World Health Organization published a global strategy (the "**Global Strategy**") in November 2020 which recommended the HPV vaccination as one of the effective measures to accelerate the elimination of the cervical cancer, the PRC government announced that it would fully support the Global Strategy, including the HPV vaccination in the PRC, which is beneficial to the relevant business of the Target Group. Considering the current low HPV vaccination rate and the national policy to promote the HPV vaccination in the PRC, the HPV vaccination market is expected to experience an exponential growth in coming years. It is estimated that the referrals of new oncology patients and those requiring HPV vaccination will contribute to the Target Group's expected profit in the First Relevant Period. In determining the DC Calculation Basis for the Second Relevant Period and the Third Relevant Period, the Parties have built in an organic growth rate of 15% which the Board considers reasonable given the prospect of the Target Group's business set out above. The Parties are therefore confident that the business of the Target Group will grow and prosper post-Acquisition Completion;

- Against this backdrop, the Parties negotiated and arrived at the deferred consideration mechanism which would only be payable by the Company by the issuance of the Consideration Shares if and when the Target Group achieves the expected profit, i.e. the DC Calculation Basis. The expected profit of each Relevant Period will exclude, among others, the extraordinary items in the relevant year. The purpose of this mechanism is to provide financial incentives to the Vendors by encouraging them to achieve higher net profits for the Target Group after Acquisition Completion, which in turn will contribute to the consolidated financial results of the Group. To state the obvious, if the Target Group's net profit (excluding, among others, the extraordinary items in the relevant year) is less than HK\$20,000,000 for any Relevant Period, no deferred consideration will be payable to the Vendors for that Relevant Period (i.e. no Consideration Shares would be issued for that Relevant Period). The threshold of HK\$20,000,000 was set with reference to the Target Group's unaudited profit after tax for the year ended 31 December 2019 of approximately HK\$20,000,000. Furthermore, the deferred consideration will be proportionately reduced if the Target Group's net profit is less than the DC Calculation Basis in each of the Relevant Periods. The Board believes that the above mechanism is able to strike a balance between the dilution effect on the Company's shareholding (which will not be immediate and will be subject to stringent safeguards) and the need to provide incentives to the Vendors for achieving better performance; and
- The maximum consideration for the Acquisition (i.e. HK\$500,000,000) represents a maximum price-to-earnings ratio of 10 times (with reference to the DC Calculation Basis in any given Relevant Period) based on the expected profit of HK\$50,000,000 for the First Relevant Period. The upward trajectory of the expected profit figures are set with reference to the Parties' confidence that the business will continue to grow and expand over the years. The higher the expected profit gets, the lower the overall price-to-earnings ratio is to the valuation of the Acquisition, and better profit can be recorded by the Company.

In view of the above, as well as the reasons for and benefits of the Acquisition as set out in the Announcement, the Board considers the consideration for the Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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

Hong Kong, 8 October 2021

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; the executive Directors are Mr. Ko Chun Shun, Johnson (Deputy Chairman) and Mr. Luo Ning (Deputy Chairman); and the independent non-executive Directors are Mr. Yap Fat Suan, Henry, Mr. Cui Liguang and Mr. Hooi Hing Lee.

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