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 2017

The board of directors (the "**Board**") of Frontier Services Group Limited (the "**Company**") presents the unaudited consolidated results and financial position of the Company and its subsidiaries (together, the "**Group**") for the six-month period ended 30 June 2017, together with the comparative figures for the corresponding period in 2016. These condensed consolidated interim financial statements are unaudited but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2017

		Six-month period ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
			(Restated)
	Note	***HK$'000***	*HK$'000*
Revenue	*2*	**322,838**	209,619
Cost of direct materials and job expenses		**(56,826)**	(44,879)
Cost of aircraft management services		**(63,719)**	—
Data costs		**(3,711)**	(3,967)
Employee benefit expenses		**(80,882)**	(84,856)
Sub-contracting charges		**(135,894)**	(100,145)
Operating lease rentals		**(9,690)**	(11,801)
Repairs and maintenance costs		**(11,142)**	(23,833)
Depreciation and amortisation		**(16,239)**	(16,960)
Other income and other gains/(losses), net		**2,528**	(8,974)
Other operating expenses		**(30,432)**	(39,898)
Gain on disposal of available-for-sale financial assets		**592**	10,438
Operating loss		**(82,577)**	(115,256)
Interest income		**5,233**	8,619
Finance costs	*3*	**(10,291)**	(12,874)
Share of loss of associates		**(1,682)**	(15)
Loss before income tax		**(89,317)**	(119,526)
Income tax credit	*4*	**5,945**	15,128
LOSS FOR THE PERIOD	*5*	**(83,372)**	(104,398)
Attributable to:			
Equity holders of the Company		**(82,666)**	(104,398)
Non-controlling interests		**(706)**	—
		(83,372)	(104,398)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*6*		
Basic and diluted loss per share		**(6.00) cents**	(8.51) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2017

	Six-month period ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
LOSS FOR THE PERIOD	**(83,372)**	(104,398)
Other comprehensive loss		
Items that have been reclassified or may be subsequently reclassified to profit or loss		
Foreign exchange differences	**6,431**	(7,210)
Change in value of available-for-sale financial assets	**(126)**	(11,517)
Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	**(604)**	(10,629)
Other comprehensive income/(loss) for the period, net of tax	**5,701**	(29,356)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(77,671)**	(133,754)
Attributable to:		
Equity holders of the Company	**(77,055)**	(133,754)
Non-controlling interests	**(616)**	—
	(77,671)	(133,754)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	**30 June 2017 (Unaudited)** *HK$'000*	31 December 2016 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**323,029**	337,728
Goodwill and other intangibles		**33,735**	35,327
Interests in associates		**5,925**	7,185
Pledged bank deposits		**—**	66,070
Restricted cash		**—**	5,045
Deferred income tax assets		**7,736**	5,345
Non-current prepayments		**31,269**	28,348
Prepaid operating lease rentals		**1,364**	1,393
Available-for-sale financial assets		**51**	61
Total non-current assets		**403,109**	486,502
CURRENT ASSETS			
Inventories		**7,328**	6,183
Trade receivables	*8*	**104,636**	87,480
Prepayments, deposits and other receivables		**77,694**	77,414
Tax receivables		**565**	960
Available-for-sale financial assets		**—**	1,281
Restricted cash		**15,135**	9,991
Pledged bank deposits		**222,832**	150,138
Cash and cash equivalents		**181,079**	68,144
		609,269	401,591
Assets held for sale		**24,534**	24,374
Total current assets		**633,803**	425,965

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
As at 30 June 2017

	Note	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
CURRENT LIABILITIES			
Trade payables	9	**90,156**	79,134
Other payables and accruals		**56,356**	49,735
Borrowings		**250,843**	187,681
Tax payables		**100**	465
Total current liabilities		**397,455**	317,015
Net current assets		**236,348**	108,950
Total assets less current liabilities		**639,457**	595,452
NON-CURRENT LIABILITIES			
Borrowings		**61,471**	129,103
Deferred income tax liabilities		**57,090**	60,455
Other long-term liabilities		**6,963**	6,963
Total non-current liabilities		**125,524**	196,521
Net assets		**513,933**	398,931
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		**144,970**	123,370
Reserves		**246,051**	152,033
		391,021	275,403
Non-controlling interests		**122,912**	123,528
Total equity		**513,933**	398,931

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 2017 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 2016, 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, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments. The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2016.

1.2 IMPACT OF NEW, AMENDED AND REVISED HKFRSs

In the current period, the Group has adopted all the new and amended HKFRSs, which 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 2017. The adoption of these new and amended HKFRSs does not have any material impact on the Group's financial statements for the period.

The following new and amended HKFRSs have been issued, but are not effective for the Group's accounting period beginning on 1 January 2017 and have not been early adopted:

HKAS 28 (Amendments)	Measuring an Associate or Joint Venture at Fair Value
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 1 (Amendments)	Deletion of Short-Term Exemptions for First-Time Adopters
HKFRS 2 (Amendments)	Classification and Measurement of Share-Based Payment Transactions
HKFRS 4 (Amendments)	Insurance Contracts
HKFRS 9 (2014)	Financial Instruments
HKFRS 10 (Amendments) and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarification of HKFRS 15
HKFRS 16	Leases
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
HK(IFRIC) — Int 23	Uncertainty Over Income Tax Treatments

The adoption of HKAS 28 (Amendments), HKAS 40 (Amendments), HKFRS 1 (Amendments), HKFRS 2 (Amendments), HKFRS 4 (Amendments), HKFRS 9 (2014), HKFRS 10 (Amendments) and HKAS 28 (Amendments), HK(IFRIC)-Int 22 and HK(IFRIC)-Int 23 would not have any significant impact on the Group's results of operations and financial position.

HKFRS 15 will primarily affect the Group's revenue recognition as it will replace HKAS 18 which covers contracts for goods and services. Management is currently assessing the effects of adopting HKFRS 15 on the Group's condensed consolidated financial statements and has identified that revenue from rendering of service is likely to be affected. The adoption of HKFRS 15, which addresses the identification of separate performance obligations, could affect the timing of revenue recognition. At this stage, it is not practicable to provide the quantitative impact of HKFRS 15 as at the date of publication of these condensed consolidated financial statements.

HKFRS 16 will primarily affect the accounting for the operating leases of the Group as lessee, not as lessor. At 30 June 2017, the Group had non-cancellable operating lease commitments of HK$72,604,000. Upon adoption of HKFRS 16, the majority of operating lease commitments will be recognised in the condensed consolidated statement of financial position as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost and the right-of-use assets will be depreciated on a straight-line basis during the lease terms.

There are no other new, amended or revised HKFRSs that are not yet effective that are expected to have any impact on the Group.

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. Summary details of the operating segments are as follows:

(i) Aviation and Logistics Business ("**AL Business**") – Provision of aviation and logistics services;

(ii) Financial Market Information Business ("**FMI Business**") – Provision of online financial market information; and

(iii) Direct Investments – Other direct investments, including interests in associates and available-for-sale financial assets.

Others include corporate income and expenses and others.

The Board of the Company assesses segment performance based on reportable segment results after taking consideration of exceptional items.

An analysis of the Group's revenue, results, total assets and total liabilities information for the six-month period ended 30 June 2017 by operating segments is as follows:

	Unaudited				
	AL Business *HK$'000*	**FMI Business** *HK$'000*	**Direct Investments** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Revenue (from external customers)	**313,091**	**9,747**	**—**	**—**	**322,838**
Depreciation	**14,445**	**46**	**—**	**135**	**14,626**
Amortisation	**1,613**	**—**	**—**	**—**	**1,613**
Operating profits/(loss)	**(53,914)**	**(407)**	**592**	**(28,848)**	**(82,577)**
Interest income					**5,233**
Finance costs					**(10,291)**
Share of loss of associates					**(1,682)**
Loss before income tax					**(89,317)**
Income tax credit					**5,945**
Loss for the period					**(83,372)**
Total assets	**959,455**	**3,918**	**11,241**	**62,298**	**1,036,912**
Total liabilities	**493,749**	**6,890**	**8,877**	**13,463**	**522,979**

An analysis of the Group's revenue, results, total assets and total liabilities information for the six-month period ended 30 June 2016 by operating segments is as follows:

	Unaudited				
	AL Business *HK$'000* (Restated)	FMI Business *HK$'000*	Direct Investments *HK$'000*	Others *HK$'000* (Restated)	Total *HK$'000* (Restated)
Revenue (from external customers)	198,827	10,792	—	—	209,619
Depreciation	15,403	122	—	152	15,677
Amortisation	1,283	—	—	—	1,283
Operating profit/(loss)	(61,473)	(459)	10,438	(63,762)	(115,256)
Interest income					8,619
Finance costs					(12,874)
Share of loss of associates					(15)
Loss before income tax					(119,526)
Income tax credit					15,128
Loss for the period					(104,398)
Total assets	965,022	5,839	15,825	174,301	1,160,987
Total liabilities	533,186	7,521	8,815	97,163	646,685

3 FINANCE COSTS

	Six-month period ended 30 June	
	2017 **(Unaudited)** ***HK$'000***	2016 (Unaudited) *HK$'000*
Interests on:		
Bank loans	**5,201**	6,450
Finance leases	**3,621**	4,008
Financing arrangement fees	**819**	3,199
Net exchange losses/(gains) on borrowings	**650**	(783)
	10,291	12,874

4 INCOME TAX CREDIT

	Six-month period ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current income tax		
Outside Hong Kong		
Provision for the period	**(82)**	(2,143)
Adjustment in respect of prior periods	**(16)**	(11)
	(98)	(2,154)
Deferred income tax		
Outside Hong Kong	**6,043**	17,282
Income tax credit	**5,945**	15,128

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

Income tax expenses are recognised based on management's estimate of the weighted average annual income tax expected for the full financial year.

5 LOSS FOR THE PERIOD

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

	Six-month period ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of direct materials and job expenses *(Note (i))*	**56,826**	44,879
Depreciation	**14,626**	15,677
Amortisation of intangibles	**1,592**	1,261
Amortisation of prepaid operating lease rentals	**21**	22
Engine overhaul cost	**—**	9,555
Operating lease rentals on land and buildings	**8,189**	10,455
Operating lease rentals on equipment	**1,383**	1,228
Operating lease rentals on motor vehicle	**118**	118
Other operating expenses including, inter alia:		
Professional and consultancy fee	**8,145**	11,349
Travelling expenses	**5,239**	7,187
Net exchange gains	**(3,448)**	(226)
Net loss on disposal of subsidiaries	**—**	7,621
Acquisition-related costs	**24**	3,118
Net loss on disposal of property, plant and equipment	**3,570**	2,806
Provision for impairment of trade receivables	**155**	321
Reversal of provision for inventories	**(11)**	(14)

Note:

(i) The cost of direct materials and job expenses includes, inter alia, parts for aircraft maintenance services, fuel cost, take-off, landing and depot charges, crew cost, toll cost and custom clearing cost.

6 LOSS PER SHARE

The calculation of the basic loss per share for the 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 period less the weighted average number of ordinary shares held for share award scheme during the period.

The calculation of the diluted loss per share for the 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 period less the weighted average number of ordinary shares held for share award scheme during the period assuming the conversion of the exchangeable preference shares and the exercise of the outstanding share options, the dilutive potential ordinary shares of the Company. A calculation is made to determine the number of ordinary shares that could have been acquired at fair value (determined as the average market share price of the Company's ordinary shares over the period) based on the monetary values of the exchange price of the exchangeable preference shares and the subscription rights attached to the outstanding share options.

The basic and diluted loss per share for the six-month period ended 30 June 2017 were the same because the effect of the assumed conversion of all dilutive potential ordinary shares outstanding during the period was anti-dilutive.

The weighted average number of ordinary shares in issue during the period less the weighted average number of ordinary shares held for share award scheme during the period for the calculation of the basic and diluted loss per share is set out as follows:

	Six-month period ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue	**1,379,294,163**	1,232,541,355
Less: Weighted average number of ordinary shares held for share award scheme	**(1,277,735)**	(5,375,000)
	1,378,016,428	1,227,166,355
	HK$'000	*HK$'000*
Group's loss attributable to the equity holders of the Company	**(82,666)**	(104,398)

7 DIVIDENDS

The Board of the Company does not recommend the payment of any interim dividend for the six-month period ended 30 June 2017 (2016: Nil).

8 TRADE RECEIVABLES

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

	30 June 2017 (Unaudited) *HK$'000*	31 December 2016 (Audited) *HK$'000*
Within 1 month	**51,556**	48,926
1-2 months	**23,768**	17,654
2-3 months	**10,190**	3,977
Over 3 months	**19,978**	17,624
	105,492	88,181
Less: Provision for impairment	**(856)**	(701)
	104,636	87,480

The fair value of trade receivables approximates its carrying amount.

Credit term of one month 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.

9 TRADE PAYABLES

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

	30 June 2017 (Unaudited) *HK$'000*	31 December 2016 (Audited) *HK$'000*
Within 1 month	**50,051**	50,027
1-2 months	**21,010**	20,410
2-3 months	**9,093**	3,915
Over 3 months	**10,002**	4,782
	90,156	79,134

The fair value of trade payables approximates its carrying amount.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results

Overall Performance

	Six-month period ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Revenue	**322,838**	209,619
Cost of direct materials and job expenses	**(56,826)**	(44,879)
Cost of aircraft management services	**(63,719)**	—
Data costs	**(3,711)**	(3,967)
Employee benefit expenses	**(80,882)**	(84,856)
Sub-contracting charges	**(135,894)**	(100,145)
Operating lease rentals	**(9,690)**	(11,801)
Repairs and maintenance costs	**(11,142)**	(23,833)
Depreciation and amortisation	**(16,239)**	(16,960)
Other income and other gains/(losses), net	**2,528**	(8,974)
Other operating expenses	**(30,432)**	(39,898)
Gain on disposal of available-for-sale financial assets	**592**	10,438
Operating loss	**(82,577)**	(115,256)
Interest income	**5,233**	8,619
Finance costs	**(10,291)**	(12,874)
Share of loss of associates	**(1,682)**	(15)
Loss before income tax	**(89,317)**	(119,526)
Income tax credit	**5,945**	15,128
Loss for the period	**(83,372)**	(104,398)

The Group reported consolidated revenue of HK$322,838,000 for the six-month period ended 30 June 2017. The financial effect of the Group's acquisition of Maleth Aero Limited ("**Maleth**") was the fundamental driver of the 32.6% revenue growth on a semi-annual basis. For the six-month period ended 30 June 2017, the Group reported an operating loss of HK$82,577,000, substantial decrease over the same period for 2016, mainly due to tight costs control and no engine overhaul cost recorded in the first half of 2017.

Revenue

	Six-month period ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Aviation and logistics business	**313,091**	198,827
Financial market information business	**9,747**	10,792
	322,838	209,619

Consolidated revenue for the six-month period ended 30 June 2017 was HK$322,838,000, increased 54.0% on semi-annual basis. The incorporation of the results for Maleth was the primary driver of the 32.6% semi-annual growth in total revenue. More specifically, Maleth contributed approximately HK$68,267,000 of revenue respectively to the Group's revenue for the six-month period ended 30 June 2017. As a result, and in line with prior periods, aviation and logistics ("**AL**") business accounted for 97.0 % of the Group's revenue for the six-month period ended 30 June 2017. The Group's remaining legacy unit, financial market information ("**FMI**") business, produced HK$9,747,000 of revenue for the six-month period ended 30 June 2017, a decline of 9.7% versus 2016 as market demand slackened.

Gain on Disposal of Available-for-Sale Financial Assets

The gain on disposal of available-for-sale financial assets for the six-month period ended 30 June 2017 represents the net gain on disposal of shares of Yunfeng Financial Group Limited (formerly known as REORIENT GROUP LIMITED) ("**YFGL**") in the market.

REVIEW OF OPERATING SEGMENTS

Aviation and Logistics Business ("AL segment")

With continuous growth in the Group's AL segment in the first half of 2017, HK$313,091,000 of revenue was reported from operating subsidiaries mainly from Africa, southern Europe and mainland China. The effects of Maleth acquisition and organic growth in Transit Freight Forwarding Proprietary Limited ("**TFF**") were fundamental catalyst in AL segment revenue growth comparing the first half of 2016. The Group will continue to implement cost containment measures to increase profitability and potential value in the AL segment.

TFF, a South African based warehouse and logistic company, generated HK$165,971,000 of revenue for the first half of 2017. This 36.7% revenue growth were roughly in line with management expectation. In the remainder of 2017, with new board member and senior management on board, TFF will conduct a new thorough cost analysis and will develop a specialty logistics division to further increase its operational efficiency and profitability of the company. Cheetah Logistics SARL, a small Congolese logistic company, has continued and will continue to strive for improvements in their revenue and results in 2017.

Maleth, a Malta based aircraft management services company, was acquired in July 2016. With partial-year results included, Maleth contributed HK$68,267,000 to total revenue in the first half of 2017. With expected expansion through managing more aircraft and providing freight services to Asia, we are optimistic about the operations and results of Maleth in 2017. Phoenix Aviation Limited ("**PAL**"), a Kenyan aviation company based in Nairobi, reported a 31.1% decline in revenue comparing the first half in 2016. Downward price pressure and keen competition in the charter and air ambulance services in Africa deeply impacted on the overall results of PAL. Improved performance is expected from PAL upon the implementation of cost containment measures in the second half of 2017.

The Group has narrowed its first half AL segment loss by 12.3% to HK$53,914,000 comparing the first half of 2016. With the launching of new global logistics centers and various cost containment measures, positive impacts will be expected from AL results in the second half of 2017.

Financial Market Information Business ("FMI segment")

For the six-month ended 30 June 2017, the Group's FMI segment generated reported revenue of HK$9,747,000. This legacy business unit provides online financial market data and related information. FMI segment revenue for the first six months of 2017 represents a 9.7% decrease as compared to the same period last year. The FMI segment, a non-core business segment of the Group's overall operations, produced a small operating loss of HK$407,000 for the six-month period ended 30 June 2017.

Direct Investments

Direct investments is the Group's segment for available-for-sale financial assets and other direct investment holdings. For the six-month period ended 30 June 2017, the Group generated HK$592,000 in profit from the direct investments segment. This resulted from the disposal of shares of YFGL in the open market during the period. For 2016, the comparable reported profit from the direct investments segment also included a profit of HK$10,438,000 resulting from the disposal of shares in the predecessor to YFGL.

PROSPECTS

In the first half of 2017, the Group embarked on an expansion into new target markets and service offerings in accordance with the Belt and Road initiative. The Group's capabilities were further underpinned by the expansion of key offices, appointments of new senior management, acquisition of relevant security licences and companies in target markets in addition to taking steps in enhancing better corporate governance, improving operational productivity and creating greater synergies amongst different divisions.

Security services are a key market differentiator and service offering for clients in frontier markets. The Group expanded its team of international security professionals and set up of a global security center in Dubai. The investment in an international security and defense college in Beijing will further strengthen the Group's ability in training the Group's professional security and potential clients' personnel to the recognised international standards. The Group will continue to extend its footprint by pursuing security licences and forming strategic alliances with local partners in our target markets.

With strategic partners of reputable Chinese domestic and international insurers, our Insurance Division is expected to fulfill growing demand from our clients across our target markets. Leveraging the Group's full-spectrum capabilities in security and logistics, our insurance services are one of the key components of the integrated risk management solution. This integrated offering is poised to fundamentally alter the traditional, reactive approach of companies operating in complex environments through proactive and comprehensive risk mitigation policies.

In the remainder of the year, our aviation division will continue to benefit from organic growth through managing more aircraft and providing freight services from Europe to Asia in Malta and entering into an agreement on potential medical evacuation partnership in Kenya. Our logistics division is expected to grow through acquiring more customers throughout African regions and the openings of our global logistics centers in Shanghai and Nairobi. With senior logistics professionals in managing global large-scale programs in our new logistics centers, we are able to provide our potential Chinese and international clients with end-to-end worldwide logistics solutions. The Group will continue to focus on various cost containment measures to increase profitability in the aviation and logistic division.

The Group looks ahead to the second half of 2017 with optimism. Investments are made in key strategic initiatives, enhancing our competitive position and supporting the Group's long-term growth.

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 did not grant any share options under its share option scheme during the six-month period ended 30 June 2017 (2016: 12,295,030 share options).

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 granted 1,137,000 shares under its share award scheme during the six-month period ended 30 June 2017 (2016: 10,067,000 shares).

The total number of employees of the Group as at 30 June 2017 was 449 (31 December 2016: 430).

FINANCIAL REVIEW

Liquidity and Financial Resources

At 30 June 2017, the Group recorded total assets of HK$1,036,912,000 (31 December 2016: HK$912,467,000) which were financed by liabilities of HK$522,979,000 (31 December 2016: HK$513,536,000), non-controlling interests of HK$122,912,000 (31 December 2016: HK$123,528,000) and shareholders' equity of HK$391,021,000 (31 December 2016: HK$275,403,000). The Group's net asset value per share (excluding non-controlling interests) as at 30 June 2017 amounted to HK$0.27 (31 December 2016: HK$0.22).

The Group recorded cash and bank balances of HK$419,046,000 (31 December 2016: HK$299,388,000) and secured borrowings of HK$312,905,000 (excluding facility arrangement fees of HK$591,000) (31 December 2016: HK$318,164,000 (excluding facility arrangement fees of HK$1,380,000)) as at 30 June 2017. During the six-month period ended 30 June 2017, bank loans amounting to HK$180,896,000 in aggregate (31 December 2016: HK$422,130,000) were matured and repaid by internal resources. The Group's borrowings, which comprise of bank loans, finance leases and other loan and are denominated in United States dollars ("**US$**"), South African Rand ("**ZAR**") and Euro ("**EUR**"), will mature in 1 to 4 years (31 December 2016: 1 to 4 years) as at 30 June 2017. Except for the borrowings of HK$43,092,000 (31 December 2016: HK$45,635,000) which are interest bearing at fixed rates, the remaining balances of HK$269,813,000 (31 December

2016: HK$272,529,000) are interest bearing at floating rates as at 30 June 2017. On the basis of the Group's net borrowings (total borrowings less cash and bank balances) relative to the shareholders' equity and non-controlling interests, the Group's gearing ratio was nil (31 December 2016: 0.07) as at 30 June 2017.

On 13 March 2017, the Company issued 216,000,000 new shares at an issue price of HK$0.90 each. Net proceeds of HK$192,456,000 was raised for the working capital for the development and expansion of the Group's existing AL business

At 30 June 2017, the Company had 336,665,545 outstanding share options (31 December 2016: 361,856,173), out of which 131,549,888 share options (31 December 2016: 133,949,888) were granted under its share option schemes. On 14 January 2017, 12 February 2017 and 30 June 2017, 22,790,628 share options, 1,000,000 share options and 1,400,000 share options were lapsed respectively. If all of the remaining outstanding share options were exercised, a gross proceeds of approximately HK$338 million (31 December 2016: HK$339 million) in aggregate would be raised before deducting any issuance expenses.

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 Hong Kong dollars ("**HK$**"), Renminbi ("**RMB**"), US$ and EUR. Other than the bank deposits pledged for the Group's bank borrowings, surplus cash is generally placed in term deposits and investments in light of the Group's funding requirements.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group currently operates mainly in Hong Kong, Africa, Malta and mainland China.

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.

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 0.6% and increased by 4.9% respectively during the six-month period ended 30 June 2017. No financial instrument was used for hedging purposes for the period 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 Malta, most of the transactions are denominated in EUR and US$. The exchange rate of EUR against HK$ has increased by 9.1% during the six-month period ended 30 June 2017. No financial instrument was used for hedging purposes for the period. The Group is closely monitoring the currency exchange risk of EUR and will consider the use of financial instrument for hedging purposes, if necessary.

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. The exchange rate of RMB against HK$ has devalued since August 2015. 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.

Material Acquisitions and Disposals of Subsidiaries and Associates

On 28 April 2017, a wholly-owned subsidiary of the Company entered into a conditional investment agreement for the acquisition of 25% equity interest in the International Security and Defense College ("**ISDC**"), a training school in Beijing principally engaged in the provision of private security training courses, for a consideration of approximately RMB10,000,000 (equivalent to approximately HK$11,522,000). On the same date, the wholly-owned subsidiary entered into a loan agreement with ISDC, pursuant to which the wholly-owned subsidiary would provide a loan of RMB4,189,000 (equivalent to approximately HK$4,827,000). The acquisition of 25% equity interest in ISDC was completed on 7 July 2017.

Save as mentioned above, the Group did not have any other material acquisitions or disposals of subsidiaries and associates during the six-month period ended 30 June 2017.

Charges on Assets

At 30 June 2017, the Group had bank deposits amounting to approximately HK$222,832,000 (31 December 2016: HK$216,208,000) and certain trade receivables of HK$10,639,000 (31 December 2016: HK$9,366,000) pledged to banks as security for bank borrowings. In addition, an indirect wholly-owned subsidiary of the Company has also issued a fixed and floating debenture on all its assets and property and has mortgaged an aircraft as securities for its banking facilities.

Future Plans for Material Investments or Capital Assets

The Group did not have any concrete future plans for material investments or capital assets as at 30 June 2017 (31 December 2016: Nil). However, the Group always seeks for new investment opportunities in the AL business to broaden the revenue and profit potential of the Group and enhance shareholders' value in long term.

Capital Expenditure Commitments

The Group did not have any material capital expenditure commitments as at 30 June 2017.

Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various claims, suits, investigations and legal proceedings that arise from time to time. Although the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or results of operations, litigation is inherently unpredictable. Therefore, the Group could incur judgements or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

At 30 June 2017, an indirect wholly-owned subsidiary of the Company has issued a fixed and floating debenture on all its assets and property and has mortgaged an aircraft as securities for its banking facilities of US$3,000,000 (equivalent to approximately HK$23,421,000) (31 December 2016: US$3,000,000 (equivalent to approximately HK$23,268,000)). At 30 June 2017, this subsidiary had contingent liabilities up to US$1,340,000 (equivalent to approximately HK$10,461,000) in respect of certain guarantees issued by the bank under the banking facilities for the performance of certain service contracts of the subsidiary (31 December 2016: US$1,420,000 (equivalent to approximately HK$11,014,000)).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed securities during the six-month period ended 30 June 2017. Neither the Company nor any of its subsidiaries, except 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 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six-month period ended 30 June 2017, 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 on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

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 the six-month period ended 30 June 2017.

PUBLICATION OF INTERIM RESULTS AND 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 2017 interim 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.

By Order of the Board
FRONTIER SERVICES GROUP LIMITED
Erik D. Prince
Chairman

Hong Kong, 22 August 2017

At the date of this announcement, the Board of the Company comprises the executive directors of Mr. Erik D. Prince (Chairman), Mr. Ko Chun Shun, Johnson (Deputy Chairman), Mr. Luo Ning (Deputy Chairman), Dr. Hua Dongyi (Chief Executive Officer) and Mr. Hu Qinggang; and the independent non-executive directors of Mr. Yap Fat Suan, Henry, Professor Lee Hau Leung and Dr. Harold O. Demuren.

* *For identification purposes only*