
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult a licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Frontier Services Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, licensed securities dealer or other agents through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an offer or invitation to subscribe for, acquire or purchase any securities nor is it calculated to invite any such offer or invitation.



FRONTIER SERVICES GROUP LIMITED

先豐服務集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00500)

**(I) CONNECTED TRANSACTION INVOLVING SUBSCRIPTION
OF SHARES BY A CONNECTED PERSON
UNDER CP SPECIFIC MANDATE;
(II) SUBSCRIPTIONS OF SHARES BY OTHER SUBSCRIBERS
UNDER OTHER SPECIFIC MANDATES;
AND
(III) NOTICE OF SPECIAL GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

 **SOMERLEY CAPITAL LIMITED**

A letter from the Board is set out on pages 5 to 19 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the CP Subscription is set out on pages 20 to 21 of this circular. A letter from Somerley Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the CP Subscription is set out on pages 22 to 45 of this circular.

A notice convening the SGM to be held at 10:00 a.m. on 18 May 2018, Friday at Suite 3902, 39/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong is set out on pages 53 to 55 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable to the Hong Kong branch share registrar and transfer office of Frontier Services Group Limited, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong and in any event not later than 48 hours before the time of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

* For identification purposes only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	20
Letter from Somerley Capital Limited	22
Appendix — General information	46
Notice of the SGM	53

DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than Saturdays or Sundays or public holidays) on which licensed banks in Hong Kong are open for general banking business
“China Taiping”	China Taiping Insurance Holdings Company Limited (中國太平保險控股有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00966)
“CITIC Group Corporation”	中國中信集團有限公司(CITIC Group Corporation), a company established in the PRC with limited liability
“Company”	Frontier Services Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00500)
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“CP Completion”	completion of the CP Subscription
“CP Consideration”	the total amount of Subscription Price payable by Easy Flow for CP Subscription pursuant to the terms of the relevant Subscription Agreement
“CP Specific Mandate”	a specific mandate to be sought from the Independent Shareholders at the SGM for the allotment and issue of the CP Subscription Shares upon CP Completion
“CP Subscription”	the subscription of up to 370,000,000 Shares by Easy Flow under the relevant Subscription Agreement

DEFINITIONS

“CP Subscription Share(s)”	the number of the Subscription Shares to be subscribed for by Easy Flow under the CP Subscription
“Director(s)”	the director(s) of the Company
“Easy Flow”	Easy Flow Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect subsidiary of CITIC Group Corporation
“EU”	the European Union
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, namely Mr. Yap Fat Suan, Henry, Professor Lee Hau Leung and Dr. Harold O. Demuren established to advise the Independent Shareholders regarding the CP Subscription
“Independent Shareholders”	Shareholders who do not have any material interest in the Subscriptions other than being Shareholders
“Independent Third Party(ies)”	the independent third party(ies) who is/are, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, independent of the Company and the connected persons of the Company
“Last Trading Day”	1 March 2018, being the last trading day of the Shares immediately before the date of the Subscription Agreements
“Latest Practicable Date”	27 April 2018, being the latest practicable date prior to printing of this circular for ascertaining certain information in this Circular
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Long-Stop Date”	29 June 2018 (or such other date as may be agreed by the relevant Subscriber and the Company in writing in respect of the relevant Subscription Agreement)
“Other Completion”	completion of the Other Subscriptions
“Other Specific Mandate(s)”	the specific mandate(s) to be sought from the Shareholders at the SGM for the allotment and issue of the Other Subscription Shares upon the Other Completion
“Other Subscribers”	Taiping and Trinity Gate
“Other Subscription Shares”	a total of 270,000,000 Shares to be subscribed for by the Other Subscribers under the Other Subscriptions
“Other Subscriptions”	the respective subscriptions by Taiping and Trinity Gate under the relevant Subscription Agreements
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular
“Relevant Persons”	the Group, the Shareholders, the Company’s potential investors and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of the Shares including the Stock Exchange
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened to consider and approve, among other things, the Subscriptions
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Sommerly” or “Independent Financial Adviser”	Sommerly Capital Limited, a licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the CP Subscription

DEFINITIONS

“Specific Mandates”	the CP Specific Mandate and the Other Specific Mandates
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	Easy Flow, Taiping and Trinity Gate, the subscribers of the Subscription Shares under the Subscription Agreements, each a “ Subscriber ”
“Subscription Agreements”	the three conditional share subscription agreements each dated 2 March 2018 entered into between the Company and each of the Subscribers in relation to the respective Subscriptions, each a “ Subscription Agreement ”
“Subscription Price”	HK\$1.30 per Subscription Share
“Subscription Shares”	up to 640,000,000 new Shares, each a “ Subscription Share ”
“Subscriptions”	the CP Subscription and the Other Subscriptions, each a “ Subscription ”
“Taiping”	Taiping Trustees Limited (太平信托有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of China Taiping
“Trinity Gate”	Trinity Gate Limited, a company incorporated in the British Virgin Islands with limited liability
“UN”	the United Nations
“U.S.”	the United States of America



FRONTIER SERVICES GROUP LIMITED

先豐服務集團有限公司 *

(incorporated in Bermuda with limited liability)

(Stock Code: 00500)

Executive Directors:

Mr. Erik D. Prince (*Chairman*)
Mr. Ko Chun Shun, Johnson (*Deputy Chairman*)
Mr. Luo Ning (*Deputy Chairman*)
Dr. Hua Dongyi (*Chief Executive Officer*)
Mr. Hu Qinggang

Independent Non-executive Directors:

Mr. Yap Fat Suan, Henry
Professor Lee Hau Leung
Dr. Harold O. Demuren

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business

in Hong Kong:
Suite 3902, 39/F
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

2 May 2018

To the Shareholders

Dear Sirs,

**(I) CONNECTED TRANSACTION INVOLVING SUBSCRIPTION OF SHARES
BY A CONNECTED PERSON UNDER CP SPECIFIC MANDATE;
(II) SUBSCRIPTIONS OF SHARES BY OTHER SUBSCRIBERS
UNDER OTHER SPECIFIC MANDATES;
AND
(III) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 2 March 2018.

On 2 March 2018 (after trading hours), the Company and each of the Subscribers entered into three separate Subscription Agreements, pursuant to which the Company has conditionally agreed to allot and issue to the Subscribers, and the Subscribers have

* *For identification purposes only*

LETTER FROM THE BOARD

conditionally agreed to subscribe for up to 640,000,000 Subscription Shares at the Subscription Price of HK\$1.30 each, amounting to total gross proceeds of no more than approximately HK\$832 million.

The purpose of this circular is (i) to provide the Shareholders with further information on the Subscriptions; (ii) to set out the recommendations of the Independent Board Committee regarding the CP Subscription Agreement and the transactions contemplated thereunder; (iii) to set out the letter from Somerley, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the reasonableness and fairness of the terms and conditions of the CP Subscription Agreement and the transactions contemplated thereunder; and (iv) to give the Shareholders a notice of the SGM and other information in accordance with the requirements of the Listing Rules.

SUBSCRIPTION AGREEMENTS

The terms of the Subscription Agreements are substantially the same. Major terms of each of the Subscription Agreements are set out below:

Date

2 March 2018

Parties to the Subscription Agreements

Issuer

The Company

Subscribers

- (1) Easy Flow
- (2) Taiping
- (3) Trinity Gate

Easy Flow is a substantial shareholder of the Company by virtue of its holding of 237,592,607 Shares, representing approximately 15.84% of the total issued Shares as at the Latest Practicable Date. Trinity Gate held 66,939,571 Shares, representing 4.46% of the total issued Shares as at the Latest Practicable Date.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, each of Taiping, and Trinity Gate and its ultimate beneficial owner (save for Trinity Gate's aforesaid holding of Shares) were Independent Third Parties, and each of the Subscribers was independent of and not connected with the other.

Subscription Shares

Pursuant to the Subscription Agreements, the Company has conditionally agreed to allot and issue up to 640,000,000 Subscription Shares.

The table below sets out the number of Subscription Shares, the Subscription monies, and the proportion of the total issued share capital of the Company which the Subscription Shares to be subscribed for by each Subscriber (individually and in aggregate) accounted for or will account for: (i) as at the Latest Practicable Date; and (ii) immediately upon the Other Completion and the CP Completion (absent any other change in the total number of the issued Shares between the Latest Practicable Date and completion of the Subscriptions and on the assumption that all Subscriptions are completed):

				Approximate % of the total issued share capital	
				As at	the Other
				the Latest	Completion
				Practicable	and CP
				Date	Completion
Number of Subscription Shares	Aggregate subscription monies (HK\$)	Aggregate nominal value (HK\$)	As at the Latest Practicable Date	the Other Completion and CP Completion	Completion
Easy Flow	370,000,000	481,000,000	37,000,000	24.67%	17.29%
Taiping	160,000,000	208,000,000	16,000,000	10.67%	7.48%
Trinity Gate	110,000,000	143,000,000	11,000,000	7.33%	5.14%
	<u>640,000,000</u>	<u>832,000,000</u>	<u>64,000,000</u>	<u>42.67%</u>	<u>29.91%</u>

In the event that any of the Other Subscriptions are not completed, the number of the CP Subscription Shares shall be reduced so that the aggregate shareholding of Easy Flow in the Company will represent such percentage nearest to 29.9% of the total issued Shares of the Company as enlarged by the allotment and issue of the CP Subscription Shares upon CP Completion, but in any event the number of the CP Subscription Shares shall not exceed 370,000,000.

LETTER FROM THE BOARD

For illustrative purpose, if none of the Other Completion takes place, based on the number of Shares in issue as at the Latest Practicable Date, the number of CP Subscription Shares would be 300,739,787 new Shares upon CP Completion.

Ranking of Subscription Shares

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with Shares in issue at the time of allotment and issue of the Subscription Shares.

Subscription Price

Each of the Subscribers will subscribe for their respective Subscription Shares at the Subscription Price of HK\$1.30 per Subscription Share. The Subscription Price represents:

- (1) a discount of approximately 16.67% to the closing price of HK\$1.56 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (2) a discount of approximately 35.00% to the closing price of HK\$2.0 per Share as quoted on the Stock Exchange on 2 March 2018, the date of the Subscription Agreements;
- (3) a discount of approximately 31.58% to the closing price of HK\$1.9 per Share as quoted on the Stock Exchange on 1 March 2018, the Last Trading Day;
- (4) a discount of approximately 28.42% to the average closing price of approximately HK\$1.816 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (5) a premium of approximately 622.22% over the net asset value per Share of the Group of approximately HK\$0.18 (based on the consolidated net assets (excluding non-controlling interests) of the Group as at 31 December 2017 attributable to the Shareholders and the number of issued Shares as at the Latest Practicable Date).

The Subscription Price was arrived at after arm's length negotiations between the Company and each of the Subscribers with reference to the prevailing market price and the recent trading volume of the Shares and the net asset value of the Company.

LETTER FROM THE BOARD

The aggregate amounts of Subscription Price in respect of the Other Subscriptions and the CP Subscription are set out in the table under the section headed “Subscription Agreements – Subscription Shares” above and will be paid by the Subscribers to the Company in cash at Other Completion and CP Completion respectively.

Conditions to the Subscriptions

Completion of each of the Subscriptions is conditional upon the following conditions being satisfied (or waived as applicable):

- (1) the Independent Shareholders at the SGM having passed the relevant resolution approving (i) the relevant Subscription Agreement and the transactions contemplated under the relevant Subscription Agreement, and (ii) the grant of CP Specific Mandate or the relevant Other Specific Mandate (as the case may be); and
- (2) the Listing Committee having granted the listing of and permission to deal in the relevant Subscription Shares and such approval not having been revoked or withdrawn.

None of the above conditions can be waived unilaterally by any party to a Subscription Agreement. If any of the conditions precedent in respect of a Subscription Agreement is not fulfilled or waived prior to the Long-Stop Date, the relevant Subscription Agreement shall cease to be of any effect, save for claims arising out of any antecedent breaches thereof. As at the Latest Practicable Date, none of the above conditions had been satisfied or waived.

Each Subscription Agreement is not inter-conditional with the other Subscription Agreements.

Completion

Other Completion

The Other Completion under each of the relevant Subscription Agreement shall take place on the third Business Day (or such other date as agreed in writing by the Company and relevant Other Subscriber) after fulfilment of the last conditions precedent to the relevant Subscription under the relevant Subscription Agreement as described above. Each Other Completion is independent of the other.

LETTER FROM THE BOARD

CP Completion

The CP Completion shall take place on the third Business Day (or such other date as agreed in writing by the Company and Easy Flow) after the later of (i) fulfilment of the last conditions precedent to the CP Subscription under the relevant Subscription Agreement as described above; and (ii) the Other Completion, or the cessation or termination of the other Subscription Agreements for any reason whatsoever.

SPECIFIC MANDATES

The CP Subscription Shares and the Other Subscription Shares will be allotted and issued pursuant to the CP Specific Mandate and the relevant Other Mandates respectively to be sought from the Independent Shareholders at the SGM. Easy Flow and its associates are required to abstain from voting in respect of the resolutions approving the CP Subscription, the CP Specific Mandate, the Other Subscriptions and the Other Specific Mandates. Trinity Gate and its associates are required to abstain from voting in respect of the resolution approving the Subscription by Trinity Gate and the relevant Other Specific Mandate.

APPLICATIONS FOR LISTING OF THE SUBSCRIPTION SHARES

Applications will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares.

EFFECTS ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately following the Other Completion and the CP Completion; and (iii) immediately following the CP Completion but without the Other Completion (absent any other change in the issued Shares from the Latest Practicable Date to the date of the CP Completion and/or the Other Completion) are summarised as follows:

LETTER FROM THE BOARD

	As at the Latest Practicable Date		Immediately following the Other Completion and the CP Completion <i>(Note 2)</i>		Immediately following the CP Completion only without the Other Completion <i>(Note 2)</i>	
	<i>Number of Shares</i>	<i>% (Approx.)</i>	<i>Number of Shares</i>	<i>% (Approx.)</i>	<i>Number of Shares</i>	<i>% (Approx.)</i>
Easy Flow	237,592,607	15.84	607,592,607	28.40	538,332,394	29.90
Shares held by Directors						
Erik D. Prince ("Mr. Prince")	80,575,000	5.37	80,575,000	3.77	80,575,000	4.48
Ko Chun Shun, Johnson ("Mr. Ko") and his associates <i>(Note 1)</i>	225,817,535	15.06	225,817,535	10.55	225,817,535	12.54
Hu Qinggang	9,814,000	0.65	9,814,000	0.46	9,814,000	0.55
Lee Hau Leung	1,400,000	0.09	1,400,000	0.07	1,400,000	0.08
Harold O. Demuren	1,400,000	0.09	1,400,000	0.07	1,400,000	0.08
<i>Subtotal</i>	319,006,535	21.27	319,006,535	14.91	319,006,535	17.72
Public Shareholders						
Taiping	—	—	160,000,000	7.48	—	—
Trinity Gate	66,939,571	4.46	176,939,571	8.27	66,939,571	3.72
Other public Shareholders	876,164,290	58.43	876,164,290	40.94	876,164,290	48.66
<i>Subtotal</i>	943,103,861	62.89	1,213,103,861	56.69	943,103,861	52.38
Total	1,499,703,003	100.00	2,139,703,003	100.00	1,800,442,790	100.00

Note:

- The Shares held by Mr. Ko and his associates comprised 48,276,719 Shares held by First Gain International Limited (wholly owned by Mr. Ko), 175,500,000 Shares held by Rich Hill Capital Limited (wholly owned by Mr. Ko) and 2,040,816 Shares held by Mr. Ko's spouse.
- Each Subscription Agreement is not inter-conditional with the other Subscription Agreements. The figures in the column are shown for illustrative purpose only.

INFORMATION ON THE SUBSCRIBERS

Easy Flow is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. Its ultimate controlling shareholder is CITIC Group Corporation, a company established in the PRC. CITIC Group Corporation is a state-owned enterprise with a wide range of businesses covering finance, energy and resources, manufacturing, engineering contracting, real estate and others. It holds

LETTER FROM THE BOARD

58% interest in CITIC Limited, the largest conglomerate in the PRC and a company whose shares are listed on the Stock Exchange (Stock Code: 00267). CITIC Limited focuses primarily on financial services, resources and energy, manufacturing, engineering contracting and real estate. Easy Flow is an indirect wholly-owned subsidiary of CITIC Limited and is a substantial shareholder of the Company by virtue of its holding of 237,592,607 Shares, representing approximately 15.84% of the total issued Shares as at the Latest Practicable Date.

Taiping is a company incorporated in Hong Kong with limited liability and is an indirect wholly owned subsidiary of China Taiping. The parent company of China Taiping is China Taiping Insurance Group Limited, a Chinese state-owned financial and insurance group. Taiping is a registered trust company in Hong Kong and holds different investments for Taiping's trust funds. The Group and China Taiping group have been in discussion on potential collaboration in the Group's provision of insurance products and services to its clients.

Trinity Gate is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in securities investment. Trinity Gate is wholly owned by Mr. Teng Rong Song. Save for Trinity Gate holding 66,939,571 Shares, representing approximately 4.46% of the total issued Shares, as at the Latest Practicable Date, Trinity Gate and its owner are Independent Third Parties.

REASONS FOR THE SUBSCRIPTIONS AND USE OF PROCEEDS

The Company is principally engaged in the provision of logistics, security and insurance services (the “**Businesses**”), as well as the provision of online financial market information.

For the Group's logistics business which was commenced in 2013, the Group has expanded from Africa into the Middle East and Asia in order to align itself with and capture the wide opportunities of China's Belt and Road Initiative. The Company expects to grow its clientele throughout Africa, Asia and Middle East regions and the opening of its logistics centre in Shanghai, China will help capture Chinese clients as they go out in support of the Belt and Road Initiative. With senior logistics professionals managing global large-scale programs, the Group is able to provide potential Chinese and international clients with end-to-end worldwide secure logistics solutions. It is the Group's strategy to provide total logistics solutions integrating security and insurance services with its logistics solutions for the frontier markets. The Group's team of international security professionals is based in its global security centre in Dubai. The Company intends to strengthen its security capabilities by establishing training facilities for security personnel and purchasing security equipment and vehicles. In addition, the Group has established regional offices to support

LETTER FROM THE BOARD

its business in Asia, Middle East and Africa. As part of its expansion plan, the Group is in the process of setting up offices in Myanmar, Laos and Pakistan and plans to set up offices in Thailand, Cambodia, Kazakhstan, and Uzbekistan in the future. The Group's insurance division will complement the geographic expansion into important regions under the Belt and Road Initiative. With strategic partnership of reputable Chinese domestic and international insurers, the Group's insurance team develops and fulfills innovative insurance products and services. Leveraging the Group's full-spectrum capabilities in security and logistics, the Group's insurance services form a key component of the Group's integrated risk management solution, which is a new and innovative approach compared to the traditional, reactive practice for companies operating in frontier markets and complex environments.

The gross proceeds from the Subscriptions are expected to be no more than approximately HK\$832 million. The net proceeds from the Subscriptions (after deducting the relevant expenses) are estimated to amount to no more than approximately HK\$830.5 million and the net Subscription Price per Subscription Share is estimated to be approximately HK\$1.30. To finance the continuing development and expansion of the Group's existing Businesses, the Company intends to use the net proceeds from the Subscriptions for the following areas:

- (1) as to approximately HK\$321.5 million for capital investment for the next 24 months, of which (i) HK\$130 million for setting up Businesses in Myanmar, Laos and Cambodia, including establishing joint ventures and training facilities for security personnel and purchasing security equipment and vehicles; (ii) HK\$120.8 million for setting up Businesses in Pakistan and Xinjiang, China, including establishing training facilities, and buying security equipment and vehicles; and (iii) HK\$70.7 million for expansion of Businesses in Africa and the Middle East, including establishing training facilities, purchasing security equipment and replacing existing aircraft and trucks;
- (2) as to approximately HK\$329 million for general working capital (including but not limited to the cost of services provided for the operations, staff costs, general administrative expenses and sales and marketing expenses) for the next 24 months, of which HK\$288 million will be allocated for the working capital for the Group's existing operations, and the remaining HK\$41 million will be allocated for the working capital for the establishment of new offices along the regions under the Belt and Road Initiative for the Businesses; and
- (3) as to approximately HK\$180 million for the repayment of existing bank loans by their due dates in 2018. Such existing bank loans comprise bank loans of principal amounts of (i) HK\$12.2 million due in May 2018; (ii) HK\$24.0 million due in June 2018; (iii) HK\$42.9 million due in July 2018; and (iv) HK\$100.9 million due in August 2018. Such bank loans bear annual interest rates ranging from 2.41% to 4.5%.

LETTER FROM THE BOARD

If only the CP Subscription is completed, while the Other Subscriptions are not completed, the gross proceeds to be raised would be reduced to approximately HK\$391 million and the net proceeds would amount to approximately HK\$389.5 million. In this case, approximately HK\$175 million would be applied to capital investment, approximately HK\$147.5 million to general working capital and approximately HK\$67 million to loan repayment.

Part of the net proceeds from the Subscriptions will be utilised for the Group's expansion of the Businesses setting up offices in various countries including Myanmar, Laos, Pakistan, Thailand, Cambodia, Kazakhstan and Uzbekistan. The Company notes that Myanmar is subject to sanctions imposed by UN, EU, U.S. and Australia. The Group has formed a joint venture with a local partner in Myanmar (the "**Joint Venture**"). However, the Joint Venture has not yet commenced any business operations generating any revenue. The Joint Venture intends to provide safety risk consulting and advisory services, security training, logistics and freight forwarding services, insurance advisory services and general advisory services (the "**Relevant Activities**") in Myanmar targeting clients which are mainly PRC state-owned enterprises and PRC government authorities. Based on the Company's assessment with assistance of legal advisers, the Company has concluded that the scope of activities and services to be offered in regard to the Relevant Activities in Myanmar is not subject to sanctions imposed by UN, EU, U.S. and Australia.

The Company has put in place the following internal control measures to minimise sanction risks:

- to assess and evaluate sanction risks, with consultation with external legal counsel, before the Group carries out new business in any sanctioned countries;
- to perform regular review and assess sanction risks with consultation with external legal counsel on the countries where the Group has business operations and which may be subject to sanctions imposed by other countries;
- to engage external legal counsel to provide regular training programs and information update in relation to trade or economic sanctions to senior management of the Group; and
- if any, to disclose the status of the Group's business in the sanction countries and its business intention relating to the sanction countries in the interim and annual reports, and to issue an announcement as soon as practicable to inform its shareholders if it believes its business in sanction countries will put them at risk.

The Group has established a risk management committee (comprising the chairman of the Board and all three independent non-executive directors and chaired by the chief executive officer of the Company) to take charge of such measures.

LETTER FROM THE BOARD

The Group has not been involved in any incidents of non-compliance of sanctions laws and regulations. The Group will only embark on carrying on operations in any sanctioned countries if such operations, after consultation with external legal counsel, would not be involved in any sanctioned activities and/or would not involve any sanctioned individuals or entities. In case, after consultation with external legal counsel, any new business is subject to sanctions imposed by other countries and/or involves any sanctioned individuals or entities, the Group will not carry out such new business. The Directors consider that the above measures are adequate and effective in detecting any sanction risks of the Group's operations thereby protecting the interests of the Relevant Persons from sanction risks. The Company will disclose the status of the Group's business in the sanctioned countries and its business intention relating to the sanctioned countries in its interim and annual reports.

The Company has considered other fund raising means. The Company considers that a pre-emptive issue such as a rights issue or open offer would incur significant additional costs in particular underwriting commission given the substantial amount to be raised and would involve a relatively longer timeframe for documentation preparation such as the prospectus. As for debt financing, it would incur significant additional interest costs and require loan repayment by the Group.

As shown in the table set out under the section headed "Effects on Shareholding Structure", the shareholding interest of public Shareholders other than the Other Subscribers will be diluted from approximately 58.43% as at the Latest Practicable Date to approximately 40.94% immediately following the Other Completion and the CP Completion. The Directors are of the view that such dilution effect is moderate and acceptable and taking into account the aforesaid costs of other fund raising means, the Subscriptions would be more favourable for raising additional funds to facilitate the future development of the Group as well as broaden the shareholder and capital base of the Group. The Directors consider the Subscriptions to be on normal commercial terms, fair and reasonable and while not in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company conducted the following equity fund raising exercise in the 12 months immediately preceding the announcement of the Company dated 2 March 2018:

Date of announcement	Event	Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
27 February 2017 (with placing completion on 13 March 2017)	Placing of new Shares	HK\$192.5 million	Working capital for the development and expansion of the Group's existing aviation and logistics business	Approximately HK\$147.6 million has been used for the intended purpose of which approximately HK\$33.1 million has been used for aircraft operation, approximately HK\$9.2 million for license fees, approximately HK\$7.5 million for office related deposits, approximately HK\$87.5 million for other operating expenditures such as staff costs, rentals and transportation service fees, and approximately HK\$10.3 million for loan interest payment. The remaining net proceeds will be used as intended

LISTING RULES IMPLICATIONS

Based on (i) the total assets of the Group of approximately HK\$884.2 million according to the consolidated audited accounts of the Group as at 31 December 2017; (ii) the information available to the Company as at the Latest Practicable Date that the Group's audited cash and bank balance consisting of restricted cash, pledged bank deposits and cash and cash amounted to approximately HK\$302.1 million as at 31 December 2017; (iii) the proceeds of HK\$75 million from the exercise of 50,000,000 share options with an exercise price of HK\$1.50 each by Mr. Prince, the chairman and an executive Director, on 9 January 2018; and (iv) the estimated net proceeds to be raised from the Subscriptions of HK\$830.5 million, the Group's cash-to-total assets ratio would amount to 67.48% upon completion of the Subscriptions. Based on the information available to the Company as at the Latest Practicable Date, among the audited total cash balance of HK\$302.1 million as at 31 December 2017, HK\$236.5 million of which was pledged deposits that cannot be freely used by the Group for the further development of the Group's business. They

LETTER FROM THE BOARD

effectively serve as deposits paid to the related banks institutions supporting the provision of banking facilities to the Group. Releasing the pledged deposits from restrictions would require repayment of the relative loans amounting to HK\$180.0 million as at 31 December 2017 and the termination of the relative banking facilities would not be in the interests of the Company.

The Company does not consider that the Subscriptions would render it a cash company whose assets consist of wholly or substantially cash or short-dated securities under Rule 14.82 of the Listing Rules taking into account the following factors with reference to the Stock Exchange's Guidance Letter GL84-15 (the "**Guidance Letter**"):

Purpose of the Subscriptions for the existing principal business

- (a) Completion of all the Subscriptions will raise net proceeds of approximately HK\$830.5 million, representing approximately 35.50% of the Company's market capitalisation of HK\$2,339.54 million as at 27 April 2018 (being the Latest Practicable Date). While such net proceeds would increase the Group's cash-to-total assets ratio, as explained above under the section headed "Reasons for the Subscriptions and use of proceeds", the Subscriptions are primarily to finance the continuing development and expansion of the Group's existing principal of Businesses. The Group does not intend to use any of the proceeds from the Subscriptions to develop any business that is new or unrelated to the Group's existing principal business.

No change in control

- (b) The number of Subscription Shares under all the Subscriptions represents approximately 42.67% of the total number of Shares in issue as at the Latest Practicable Date. Easy Flow is one of the Subscribers. As at the Latest Practicable Date, it held approximately 15.84% of the issued share capital of the Company and was the largest shareholder of the Company. A majority of the Subscription Shares will be issued to Easy Flow. Upon completion of all Subscriptions, Easy Flow's shareholding in the Company will increase to approximately 28.40%. Other than Easy Flow, no other Subscribers will hold more than 20% of the Company as a result of the Subscriptions. The Subscriptions will not result in any new investor gaining control of the Company while Easy Flow will remain to be the largest shareholder of the Company.

As at the Latest Practicable Date, Easy Flow held 237,592,607 Shares, representing approximately 15.84% of the total issued Shares. As such, Easy Flow is a substantial shareholder of the Company and a connected person of the Company. Accordingly, the CP Subscription constitutes a connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

None of the Directors have a material interest in the Subscriptions and accordingly no Directors had abstained from voting on the board resolution approving the Subscriptions.

GENERAL

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the CP Subscription. The Company has appointed Somerley to advise the Independent Board Committee and the Independent Shareholders in regard of the CP Subscription.

The SGM will be convened and held for the purposes of considering and, if thought fit, approving, inter alia, (i) the Subscription Agreements and the transactions contemplated thereunder; and (ii) the granting of the Specific Mandates for the allotment and issue of the Subscription Shares. Easy Flow and its associates who were holding 237,592,607 Shares as at the Latest Practicable Date are required to abstain from voting in respect of the resolutions approving the CP Subscription, the CP Specific Mandate, the Other Subscriptions and the Other Specific Mandates. Trinity Gate and its associates who were holding 66,939,571 Shares as at the Latest Practicable Date are required to abstain from voting in respect of the resolution approving the Subscription by Trinity Gate and the relevant Other Specific Mandate.

Save as mentioned above and to the best knowledge of the Directors, no other Shareholder is required to abstain from voting at the SGM in respect of the resolutions regarding the Subscriptions (including the granting of the Specific Mandates).

A notice convening the SGM to be held at Suite 3902, 39/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong on 18 May 2018 at 10:00 a.m. is set out on pages 53 to 55 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time of the SGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

LETTER FROM THE BOARD

In accordance with Rule 13.39(4) of the Listing Rules, voting on the proposed resolutions at the SGM shall be taken by poll.

RECOMMENDATION

The Directors are of the opinion that the Subscription Agreements and the transactions contemplated thereunder are on normal commercial terms, and together with the granting of the Specific Mandates are all fair and reasonable and while not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM. Further details of the view of independent non-executive Directors on the CP Subscription and the CP Specific Mandate are set out in the letter from the Independent Board Committee in this circular.

Yours faithfully

By order of the Board

Frontier Services Group Limited

Chan Kam Kwan, Jason

Company Secretary



FRONTIER SERVICES GROUP LIMITED

先豐服務集團有限公司 *

(incorporated in Bermuda with limited liability)

(Stock Code: 00500)

2 May 2018

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION INVOLVING SUBSCRIPTION OF SHARES
BY A CONNECTED PERSON UNDER CP SPECIFIC MANDATE**

We refer to the circular of the Company (the “**Circular**”) dated 2 May 2018 of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether, (i) the CP Subscription Agreement and the transactions contemplated thereunder and (ii) the granting of the CP Specific Mandate, are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and Shareholders as a whole and to the voting action that should be taken.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser as set out in the Circular. Having considered the CP Subscription Agreement and the transactions contemplated thereunder and the advice given by the Independent Financial Adviser, we are of the opinion that the CP Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and the CP Subscription Agreement and the transactions contemplated thereunder and the granting of the CP Specific Mandate, though not in the ordinary and usual course of business of the Company, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve (i) the CP Subscription Agreement and the transactions contemplated thereunder and (ii) the granting of the CP Specific Mandate.

Yours faithfully,

For and on behalf of

Independent Board Committee

Yap Fat Suan, Henry
*Independent non-executive
Director*

Professor Lee Hau Leung
*Independent non-executive
Director*

Dr. Harold O. Demuren
*Independent non-executive
Director*

LETTER FROM SOMERLEY CAPITAL LIMITED

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

2 May 2018

To: *the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONNECTED TRANSACTION INVOLVING SUBSCRIPTION OF SHARES BY A CONNECTED PERSON UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the issue of new Shares to Easy Flow pursuant to the relevant Subscription Agreement entered into between the Company and Easy Flow (the “**CP Subscription Agreement**”). Details of the CP Subscription are set out in the circular of the Company dated 2 May 2018 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 2 March 2018, the Company and each of the Subscribers entered into three separate Subscription Agreements, pursuant to which the Company has conditionally agreed to allot and issue to the Subscribers, and the Subscribers have conditionally agreed to subscribe for up to 640,000,000 Subscription Shares at the Subscription Price of HK\$1.30 each, amounting to total gross proceeds of approximately HK\$832 million. The Subscription Agreements are not inter-conditional, i.e. any one such agreement can be completed without the others. In respect of the CP Subscription Agreement, Easy Flow shall subscribe, in any event, not more than 370,000,000 Shares at the Subscription Price of HK\$1.30 per CP Subscription Share. The CP Subscription Shares will be allotted and issued pursuant to the CP Specific Mandate to be sought from the Independent Shareholders at the SGM.

LETTER FROM SOMERLEY CAPITAL LIMITED

As at the Latest Practicable Date, Easy Flow (being a Subscriber) holds 237,592,607 Shares, representing approximately 15.84% of the total issued Shares. As such, Easy Flow is a substantial shareholder of the Company and therefore a connected person of the Company. Accordingly, the CP Subscription by Easy Flow constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to, among others, the Independent Shareholders' approval at the SGM. Easy Flow and its associates are required to abstain from voting in respect of the resolutions approving the CP Subscription, the CP Specific Mandate, the Other Subscriptions and the Other Specific Mandates.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Yap Fat Suan, Henry, Prof Lee Hau Leung and Dr. Harold O. Demuren, has been established to advise the Independent Shareholders in respect of the CP Subscription and on how they should vote at the SGM. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our advice, we have reviewed, among other things, the Subscription Agreements, the annual reports of the Company for each of the three financial years ended 31 December 2017 (the “**Annual Reports**”), and the information contained in the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group, and have assumed that they were true, accurate and complete in all material aspects at the time they were supplied or expressed and will remain so up to the time of the SGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us or to believe that any material information has been omitted or withheld. We consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group and Easy Flow.

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Somerley Capital Limited. In the last two years, there has been no engagement between the Company and Somerley Capital Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as independent financial adviser, no arrangement exists whereby we will receive any fees or benefits from the Company.

LETTER FROM SOMERLEY CAPITAL LIMITED

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons:

1. Background of the Group and the Subscribers

The Group is principally engaged in the provision of logistics, security and insurance services (the “**Businesses**”), as well as, to a minor degree, in the provision of online financial market information. The Group has focused on helping its customers operate more securely and efficiently in frontier markets in recent years. The Belt and Road Initiative concentrates on connectivity, development and cooperation among countries situated primarily between the PRC and Eurasia. The Group has been positioning itself to better serve its customers in these rapidly developing markets by building new offices in these regions, establishing a logistics team based in Shanghai and developing strategic partnerships with local operators.

As disclosed in the Annual Reports, in 2016, the Group launched its insurance division following a strategic framework deal with Ping An Property & Casualty Insurance Company of China, Limited to develop innovative insurance products and services. The Group will continue to partner with leading insurance firms in China to develop customised insurance solutions. As a leading security services and logistics company, with this new partnership, the Group is positioned to assist firms operating in complex environments with comprehensive insurance products.

Easy Flow, a substantial shareholder of the Company, is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. Its ultimate controlling shareholder is CITIC Group Corporation, a company established in the PRC. CITIC Group Corporation is a state-owned enterprise whose main asset is a 58% interest in CITIC Limited, the largest conglomerate in the PRC. CITIC Limited focuses primarily on financial services, resources and energy, manufacturing, engineering contracting and real estate.

Taiping is a company incorporated in Hong Kong with limited liability and is an indirect wholly owned subsidiary of China Taiping. The parent company of China Taiping is China Taiping Insurance Group Limited, a Chinese state-owned financial and insurance group. The Group and China Taiping group have been in discussion on potential collaboration in the Group’s provision of insurance products and services to its clients.

Trinity Gate is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in securities investment. It holds approximately 4.46% of the total issued Shares as at the Latest Practicable Date.

2. Background to and reasons for the Subscription Agreements

As explained in the “Letter from the Board” contained in the Circular, the Group has expanded its logistics business, started in 2013, from Africa into the Middle East and Asia in order to align its activities with and capture the opportunities of the Belt and Road Initiative. The Company expects to continue to grow its clientele in Africa and the Middle East regions and the opening of its logistics centre in Shanghai will help capture Chinese clients as they go out in support of the Belt and Road Initiative. With senior logistics professionals managing global large-scale programs, the Group is positioned to provide Chinese and international clients with comprehensive and secure logistics solutions.

It is the Group’s strategy to provide total solutions by integrating security and insurance services into its logistics solutions for frontier markets. The Group’s team of international security professionals is based in its global security centre in Dubai. The Company intends to strengthen its security capabilities by establishing training facilities for security personnel and purchasing security equipment and vehicles. The Group has already established regional offices to support its business in Asia, the Middle East and Africa. It is in the process of setting up offices in Myanmar, Laos and Pakistan and is developing plans to set up offices in Thailand, Cambodia, Kazakhstan and Uzbekistan.

The Group’s insurance division will play its part in the geographic expansion into important regions under the Belt and Road Initiative. In partnership with reputable Chinese domestic and international insurers, the Group’s insurance team develops innovative insurance products and services. Leveraging on the Group’s wide capabilities in security and logistics, the Group’s insurance services form a key component of the Group’s integrated risk management solution, which the Board believes is a new approach compared to the traditional, more reactive practice for companies operating in frontier markets.

In light of the above, the Group requires substantial funding for expansion and development of its business. The Directors consider that by entering into the Subscription Agreements, not only will the Group be able to secure the necessary funding for expansion, but will also strengthen strategic cooperation between the Group and the Subscribers. The controlling shareholder of Easy Flow, CITIC Group Corporation, is a large state-owned multinational conglomerate with a wide range of businesses covering different industries. China Taiping, the controlling shareholder of Taiping, is a well-established Chinese insurance conglomerate. Such strong business connections and resources will benefit the Group’s development in the long term by attracting further business opportunities and supporting further development of the Group’s insurance division.

LETTER FROM SOMERLEY CAPITAL LIMITED

The gross proceeds and net proceeds (after deducting the relevant expenses) from the Subscriptions are expected to be approximately HK\$832 million and HK\$830.5 million respectively. To finance the continuing development and expansion of the Group's existing Businesses, the Company intends to use the net proceeds from the Subscriptions for the following areas:

- (1) approximately HK\$321.5 million for capital investment for the next 24 months, of which (i) HK\$130 million is estimated for setting up Businesses in Myanmar, Laos and Cambodia, including establishing joint ventures and training facilities for security personnel and purchasing security equipment and vehicles; (ii) HK\$120.8 million for setting up Businesses in Pakistan and Xinjiang, China, including establishing training facilities, and buying security equipment and vehicles; and (iii) HK\$70.7 million for expansion of Businesses in Africa and the Middle East, including establishing training facilities, purchasing security equipment and replacing existing aircraft and trucks;
- (2) approximately HK\$329 million is intended for general working capital (including but not limited to the cost of services provided for operations, staff costs, general administrative expenses and sales and marketing expenses) for the next 24 months, of which HK\$288 million will be allocated as working capital for the Group's existing operations, and the remaining HK\$41 million will be allocated as working capital for the establishment of new offices along the regions under the Belt and Road Initiative for the Businesses; and
- (3) approximately HK\$180 million will be used for the repayment of existing bank loans by their due dates in 2018.

If only the CP Subscription is completed, while the Other Subscriptions are not completed, the gross proceeds to be raised would be reduced to approximately HK\$391 million and the net proceeds would amount to approximately HK\$389.5 million. In this case, approximately HK\$175 million would be applied to capital investment, approximately HK\$147.5 million to general working capital and approximately HK\$67 million to loan repayment.

As disclosed in the "Letter from the Board" contained in the Circular, based on the Company's assessment with assistance of legal advisers, the Company has concluded that the scope of activities and services to be offered in regard to the Group's relevant activities, in relation to the provision of safety risk consulting and advisory services, security training, logistics and freight forwarding services, insurance advisory services and general advisory services in Myanmar, is not subject

LETTER FROM SOMERLEY CAPITAL LIMITED

to sanctions imposed by the UN, the EU, the U.S. and Australia. In addition, the Company has also put in place certain internal control measures, adopted with reference to the listing decision HKEx-LD76-2013 which provides guidance on the Stock Exchange's approach in assessing suitability of listing of an applicant which had conducted businesses in countries subject to trade or economic sanctions, to minimise its sanction risks. The Group has not been involved in any incidents of non-compliance of sanctions laws and regulations, and will only embark on carrying on operations in any sanctioned countries if such operations, after consultation with external legal counsel, would not be involved in any sanctioned activities and/or would not involve any sanctioned individuals or entities. In case, after consultation with external legal counsel, any new business is subject to sanctions imposed by other countries and/or involves any sanctioned individuals or entities, the Group will not carry out such new business.

In view of the above, we are of the view that the Company has taken relevant internal control measures to identify and monitor any material risk relating to sanctions risks.

The management of the Company advised us that they have considered other forms of fund raising methods, such as equity financing (a rights issue or open offer) and debt financing.

In relation to equity financing, as set out in the section headed "3. Financial information of the Group" of this letter, the Group has been loss-making in each of the four years ended 31 December 2017. Also, as set out in the section headed "5. Evaluation of the Subscription Price" in this letter, the Share price and trading volume of the Shares over the last year have been volatile and the net assets per Share of HK\$0.18 as at 31 December 2017 provides limited support. In these circumstances, the Board considered a request for further funding from existing Shareholders would expose Shareholders to risks in terms of the Share price fluctuation and uncertainties on the Group's future business development as the Group expects to (i) expand the business and establish new offices in regions under the Belt and Road Initiative; and (ii) adopt a new and innovative approach in providing insurance products and services, and the necessary commercial underwriting would have been difficult to obtain on acceptable terms. Nor would additional support from well-connected existing and new Shareholders have been introduced, which is one of the purposes of the placing as opposed to a rights issue. In addition, a rights issue or open offer would also (i) incur additional costs, such as underwriting commission, documentation and other professional fees; and (ii) take a relatively longer timeframe as compared to subscription of new Shares.

LETTER FROM SOMERLEY CAPITAL LIMITED

Debt financing would not create the desired increase in the equity capital base of the Group. Bank borrowings would involve an additional interest burden for the Group, and the Group already had interest-bearing borrowings of approximately HK\$254 million as at 31 December 2017 with a debt-to-equity ratio of approximately 1.28. Further borrowings may expose the Group to higher financial risk.

Taking into account the above, the Company entered into the Subscription Agreements with the Subscribers as the most reliable and cost-effective means to provide the Group with the further capital needed to finance its expansion.

3. Financial information of the Group

— *Financial results*

Set out below is certain audited financial information of the Group for the years ended 31 December 2014, 2015, 2016 and 2017 as extracted from the Annual Reports.

	For the year ended 31 December			
	2017	2016	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(audited and restated)	(audited)
Revenue	724,414	576,889	215,337	310,444
Loss attributable to the Shareholders	(223,760)	(209,816)	(142,920)	(130,440)

Revenue

As set out in the Annual Reports, for each of the years ended 31 December 2014, 2015, 2016 and 2017, the Group generated the majority of its revenue from its aviation and logistics business, accounting for approximately 89% to approximately 97% of the Group's total revenue for the respective periods.

LETTER FROM SOMERLEY CAPITAL LIMITED

The Group's revenue was approximately HK\$577 million for the year ended 31 December 2016, representing an increase of approximately 167.9% as compared to that of 2015. The increase in revenue was primarily due to incorporation of full-year results for Transit Freight Forwarding Proprietary Limited ("TFF") and half-year results for Maleth Aero Limited ("Maleth"), which were acquired by the Group in November 2015 and July 2016 respectively. The acquisitions have significantly enhanced the Group's distribution, warehousing and trucking capabilities across different regions. Specifically, TFF and Maleth contributed revenue of approximately HK\$322 million and approximately HK\$55 million respectively for the year ended 31 December 2016, together accounting for approximately 65.3% of total revenue.

The Group's revenue for the year ended 31 December 2017 amounted to approximately HK\$724 million, representing an increase of approximately HK\$148 million as compared to 2016. The increment was mainly attributable to (i) incorporation of the full-year results for Maleth; and (ii) organic growth in revenue of TFF. Maleth and TFF generated revenue of approximately HK\$144 million and approximately HK\$364 million respectively for the year ended 31 December 2017, together accounting for approximately 70.1% of total revenue.

Loss attributable to the Shareholders

The Group has been loss-making in each of the four years ended 31 December 31 December 2017.

The Group recorded a loss of approximately HK\$210 million for the year ended 31 December 2016, representing an increase of approximately 46.8% as compared to 2015. The increase was mainly attributable to the extraordinary income and expenses included in the results for 2015, partly offset by increase in revenue in 2016 as discussed above. The extraordinary income and expenses, such as a significant gain on the disposal of available-for-sale financial assets and substantial impairment charges against goodwill and property, plant and equipment, had a combined positive effect of reducing the operating loss for 2015 by approximately HK\$119 million on a net basis.

The Group incurred a loss of approximately HK\$224 million for the year ended 31 December 2017, representing an increase of approximately 6.6% as compared to that of 2016. As disclosed in the annual report of the Company for the year ended 31 December 2017, the results for 2017 included non-recurring income and expenses, such as a gain on the disposal of

LETTER FROM SOMERLEY CAPITAL LIMITED

available-for-sale financial assets and substantial impairment charges against goodwill, other intangibles, property, plant and equipment and assets held for sale, which had a combined negative effect on the reported operating loss of approximately HK\$44 million on a net basis.

— ***Financial position***

The following is a summary of the audited consolidated financial position of the Group as at 31 December 2015, 2016 and 2017 as extracted from the Annual Reports.

	As at 31 December 2017 <i>HK\$'000</i> (audited)	As at 31 December 2016 <i>HK\$'000</i> (audited)	As at 31 December 2015 <i>HK\$'000</i> (audited)
Total non-current assets	347,038	486,502	735,400
Total current assets	537,139	425,965	614,313
TOTAL ASSETS	884,177	912,467	1,349,713
Total current liabilities	377,010	317,015	323,345
Total non-current liabilities	119,226	196,521	383,373
TOTAL LIABILITIES	496,236	513,536	706,718
NET ASSETS	387,941	398,931	642,995
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS	263,674	275,403	526,745
Net asset value (“NAV”) per Share (HK\$)	0.18	0.22	0.43

As at 31 December 2017, total assets of the Group mainly comprised property, plant and equipment, pledged bank deposits, trade receivables and cash and cash equivalents.

LETTER FROM SOMERLEY CAPITAL LIMITED

Total assets of the Group decreased from approximately HK\$1,350 million as at 31 December 2015 to approximately HK\$912 million as at 31 December 2016, which was primarily due to (i) a decrease in pledged deposits from approximately HK\$460 million to approximately HK\$216 million; and (ii) a decrease in cash and cash equivalents of approximately HK\$155 million, mainly due to the repayment of bank loans of approximately HK\$422 million. The balance further decreased to approximately HK\$884 million as at 31 December 2017 which was mainly due to a decrease in property, plant and equipment by approximately HK\$65 million. As at 31 December 2017, the cash and bank balance, combining restricted cash, pledged bank deposits, short-term bank deposits and cash and cash equivalents, amounted to approximately HK\$302 million, comparable to that as at 31 December 2016 which amounted to approximately HK\$299 million.

Total liabilities of the Group as at 31 December 2017 mainly comprised trade payables, other payables and accruals and borrowings.

Total liabilities of the Group decreased from approximately HK\$707 million as at 31 December 2015 to approximately HK\$514 million as at 31 December 2016, which was primarily attributable to a decrease in borrowings by approximately HK\$227 million. The balance further decreased to approximately HK\$496 million as at 31 December 2017, which was mainly due to a decrease in borrowings by approximately HK\$63 million, partly offset by an increase in trade payables by approximately HK\$37 million. As at 31 December 2017, borrowings amounted to approximately HK\$254 million, representing a decrease of approximately 20.0% as compared to the corresponding period in 2016.

The Group's NAV decreased from approximately HK\$643 million as at 31 December 2015 to approximately HK\$399 million as at 31 December 2016, and further decreased to approximately HK\$388 million as at 31 December 2017. The Company had issued new Shares in early 2017, raising approximately HK\$192 million. Should the issuance of Shares had not happened, the decrease in the Group's NAV as at 31 December 2017 would have been more significant. The NAV per Share as at 31 December 2017, calculated by dividing the NAV of the Group attributable to the Shareholders of approximately HK\$264 million by the 1,449,703,003 Shares in issue as at 31 December 2017, was approximately HK\$0.18.

LETTER FROM SOMERLEY CAPITAL LIMITED

4. Principal terms of the Subscription Agreements

Set out below is a summary of the principal terms of the Subscription Agreements. Further details of the Subscription Agreements are set out in the “Letter from the Board” contained in the Circular.

Date: 2 March 2018

Parties: The Company as the issuer
Easy Flow, Taiping and Trinity Gate as the Subscribers

— *The Subscription Shares*

Pursuant to the Subscription Agreements, the Company conditionally agreed to allot and issue up to 640,000,000 Subscription Shares. In the event that any of the Other Subscriptions are not completed, the number of the CP Subscription Shares shall be reduced so that the aggregate shareholding of Easy Flow in the Company will represent such percentage nearest to 29.9% of the total issued Shares of the Company as enlarged by the allotment and issue of the CP Subscription Shares upon CP Completion, but in any event the number of the CP Subscription Shares shall not exceed 370,000,000. For illustrative purposes, if neither of the Other Completion takes place, based on the number of Shares in issue as at the Latest Practicable Date, the number of CP Subscription Shares would be 300,739,787 new Shares upon CP Completion. The purpose of limiting the number of the CP Subscription Shares is to avoid any possibility of Easy Flow’s percentage interest in the Company equalling or exceeding 30%, triggering the mandatory offer provision of Rule 26.1 of the Code on Takeovers and Mergers of Hong Kong.

— *The Subscription Price*

The Subscription Price is HK\$1.30 per Subscription Share. As stated in the “Letter from the Board” contained in the Circular, the Subscription Price was arrived at after arm’s length negotiations between the Company and each of the Subscribers with reference to the prevailing market price and the recent trading volume of the Shares and the net asset value of the Company.

LETTER FROM SOMERLEY CAPITAL LIMITED

— *The size of the Subscriptions and ranking of the Subscription Shares*

The Subscription Shares represent approximately (i) 42.67% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) 29.91% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. The Subscription Shares will be allotted and issued pursuant to the CP Specific Mandate or the relevant Other Specific Mandate (as the case may be) to be sought at the SGM.

The Subscription Shares, when issued and fully paid, will rank pari passu in all respects among themselves and with the Shares in issue at the time of allotment and issue of the Subscription Shares.

— *Conditions precedent*

Each Subscription Agreement is not inter-conditional with the other Subscription Agreements. The agreements with Taiping and Trinity Gate are not connected transactions for the Company. The CP Subscription, which is a connected transaction for the Company, is conditional upon the fulfilment of the following conditions (the “**Conditions Precedent**”):

- (a) the passing of the resolution at the SGM by the Independent Shareholders to approve the CP Subscription Agreement and the transactions contemplated thereunder, including the granting of the CP Specific Mandate to the Directors to allot and issue the CP Subscription Shares; and
- (b) the granting of approval from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the CP Subscription Shares on the main board of the Stock Exchange and such permission not having been revoked or withdrawn.

If any of the Conditions Precedent in respect of the CP Subscription Agreement is not fulfilled or waived (as applicable) prior to the Long-Stop Date, the CP Subscription Agreement shall cease to be of any effect, save for claims arising out of any antecedent breaches thereof.

LETTER FROM SOMERLEY CAPITAL LIMITED

5. Evaluation of the Subscription Price

The Subscription Price of HK\$1.30 per CP Subscription Share represents:

- (a) a discount of approximately 35.00% to the closing price of the Shares of HK\$2.0 per Share as quoted on the Stock Exchange on the date of the CP Subscription Agreement, i.e. the last trading day prior to the announcement in relation to the Subscriptions dated 2 March 2018 (the “**Announcement**”);
- (b) a discount of approximately 30.70% to the average of the closing prices per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the date of the CP Subscription Agreement of approximately HK\$1.876 per Share;
- (c) a discount of approximately 23.35% to the average of the closing prices per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the date of the CP Subscription Agreement of approximately HK\$1.696 per Share;
- (d) a discount of approximately 20.20% to the average of the closing prices per Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the date of the CP Subscription Agreement of approximately HK\$1.629 per Share;
- (e) a discount of approximately 17.82% to the average of the closing prices per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the date of the CP Subscription Agreement of approximately HK\$1.582 per Share;
- (f) a discount of approximately 13.29% to the average of the closing prices per Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the date of the CP Subscription Agreement of approximately HK\$1.499 per Share;
- (g) a discount of approximately 16.67% to the closing price of the Shares of HK\$1.56 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

LETTER FROM SOMERLEY CAPITAL LIMITED

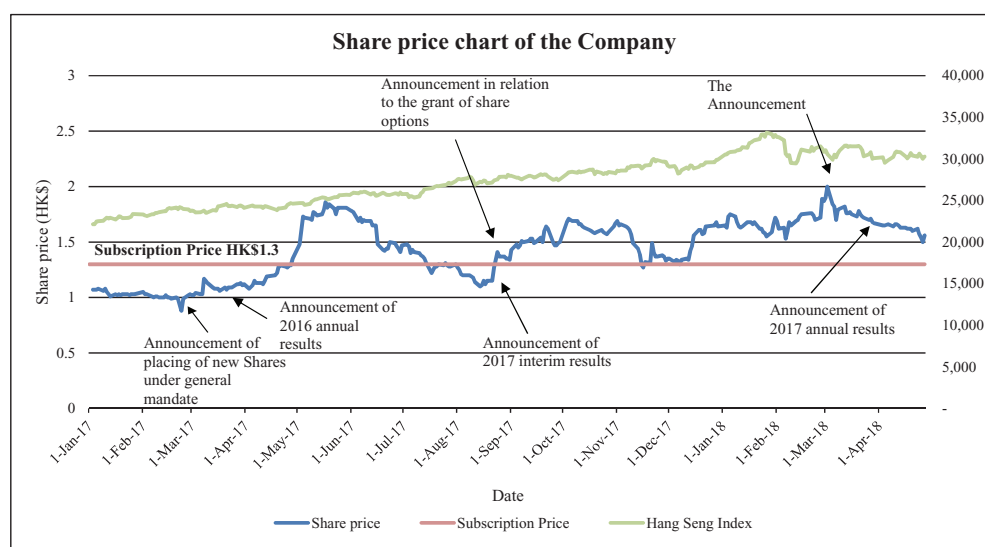
- (h) a premium of approximately 622.22% over the audited NAV per Share attributable to the shareholders of the Company as at 31 December 2017 of approximately HK\$0.18 per Share, calculated based on the consolidated net assets of the Group as at 31 December 2017 attributable to the Shareholders and the number of issued Shares as at 31 December 2017.

The Company entered into the CP Subscription Agreement on the same day as Other Subscriptions, with the same Subscription Price of HK\$1.30 per new Share. As stated in the Announcement, the Taiping and Trinity Gate are third parties independent of the Company and its connected persons and the Subscription Price was arrived at after arm's length negotiations between the Company and each of the Subscribers with reference to the prevailing market price and the recent trading volume of the Shares and the net asset value of the Company. As the price for the CP Subscription is the same as for the other two agreements, we consider the Subscription Price has been arrived at on an arm's length basis.

As part of our assessment on the fairness and reasonableness of the Subscription Price, we have also performed the analyses set out below.

— *Historical Share price performance and trading volume*

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 1 January 2017 up to and including the Latest Practicable Date (the “**Review Period**”), including a comparison to the Hang Seng Index.



Source: website of the Stock Exchange

LETTER FROM SOMERLEY CAPITAL LIMITED

As illustrated in the chart above, the Share price closed in a range between HK\$0.88 and HK\$2.0, with an average of approximately HK\$1.44, during the Review Period.

After the Company published the announcement in relation to a placing of new shares to independent third parties under general mandate on 27 February 2017, the Share price increased slightly by approximately 1.0% on the next trading day from HK\$1.02 to HK\$1.03. On 22 March 2017, the annual results announcement for the year ended 31 December 2016 was released. The Share price remained at HK\$1.09 on the next trading day after the announcement.

There was an upward trend of the Share price from April 2017 to May 2017, with a maximum of HK\$1.86 on 17 May 2017. The Share price exhibited a descending trend starting from June 2017, with a minimum of HK\$1.1 on 14 August 2017, until the date of release of the interim results announcement for the six months ended 30 June 2017 on 22 August 2017, showing a reduced loss as compared to the corresponding period in 2016. The Share price recorded an increase of approximately 11.0% from HK\$1.27 on 22 August 2017 to HK\$1.41 on 24 August 2017, the first trading day after the release of the interim results announcement. On the same day, the Company published an announcement in relation to the grant of share options of the Company to the chief executive officer of the Company. The Share price dropped to HK\$1.37 on the next trading day.

During the period from 28 August 2017 to 26 February 2018, the Share price fluctuated between HK\$1.27 and HK\$1.76. There was a notable increase in the Share price on 27 February 2018 from HK\$1.72 to HK\$1.89, representing an increment of approximately 9.9%. The Share price closed at HK\$1.9 on the Last Trading Day and HK\$2.0 on the date of signing of the Subscription Agreements on 2 March 2018.

After the publication of the Announcement in relation to the Subscriptions on 2 March 2018, the closing price of the Shares decreased from HK\$2.0 on the date of the Subscription Agreements to HK\$1.84 on 5 March 2018 (the first trading day after the publication of the Announcement), representing a decrease of approximately 8.0% over the closing price on the date of signing of the Subscription Agreements.

The Company released the annual results announcement for the year ended 31 December 2017 on 26 March 2018. The Share price went up slightly from HK\$1.70 on 26 March 2018 to HK\$1.71 on 27 March 2018, the first trading day after the announcement. Subsequently, the Share price closed at HK\$1.56 on the Latest Practicable Date.

LETTER FROM SOMERLEY CAPITAL LIMITED

Trading volume

Set out in the table below are the monthly trading volumes of the Shares and the percentages of such monthly trading volumes to the issued share capital of the Company during the period from 1 January 2017 up to and including the Latest Practicable Date:

	Total monthly trading volume of the Shares <i>(Note 1)</i>	Total percentage of the monthly trading volume of Shares to the issued share capital of the Company <i>(Note 2)</i>
2017		
January	9,665,818	0.8%
February	33,838,597	2.7%
March	51,877,340	3.6%
April	41,314,218	2.8%
May	76,776,945	5.3%
June	35,260,441	2.4%
July	21,894,681	1.5%
August	27,543,844	1.9%
September	76,916,750	5.3%
October	35,613,929	2.5%
November	38,555,408	2.7%
December	36,794,201	2.5%
2018		
January	72,054,792	4.8%
February	79,758,043	5.3%
March	69,594,165	4.6%
April (up to the Latest Practicable Date)	11,545,722	0.8%

Notes:

1. *Source: Bloomberg*
2. *The calculation is based on the total monthly trading volume of the Shares divided by the total issued share capital of the Company at the end of each month or as at the Latest Practicable Date.*

LETTER FROM SOMERLEY CAPITAL LIMITED

During the Review Period, the monthly trading volume of the Shares ranged between approximately 9.7 million and approximately 79.8 million, representing approximately 0.8% to approximately 5.3% of the total issued share capital of the Company. The monthly trading of the Shares was not consistently active, being less than 5% of the total issued share capital of the Company, during most of the time in the Review Period. The relatively low liquidity of the Shares may have increased the volatility of the Share price during the Review Period.

It has proved difficult to relate the Share price to the fundamentals of the Company during the Review Period, as in recent years the Group has made losses, paid no dividend and has had NAV per Share much lower than the Share price. We therefore consider that the Share price may have been driven principally by the hope that CITIC Group Corporation, through Easy Flow, would make a strategic proposal for the Company, which has now happened.

— ***Comparable Issues***

We have also performed an analysis of comparable issues by searching the website of the Stock Exchange on a best effort basis for all share issues (the “**Comparable Issues**”) announced since 1 December 2017 and up to the date of the Announcement by companies listed on the Main Board of the Stock Exchange which involve placing/subscription/issue of new shares under specific mandates. We have excluded (i) issues of consideration shares for acquisition of assets; (ii) issues announced by listed companies, which, as at the date of announcement and/or currently, were/are under prolonged suspension; (iii) issues involving only convertible securities; (iv) issues involving whitewash waiver application; (v) issues which have subsequently been terminated; and (vi) open offers or rights issues of new shares, as different pricing considerations apply for these types of issues. We consider the Comparable Issues are a full and exhaustive list of relevant comparable issues based on the stated criteria.

We consider that a review period from 1 December 2017 to the date of the Announcement is appropriate since the Comparable Issues are considered to assess recent market practice in relation to the setting of subscription prices under similar market conditions. Issues further back in time may not be indicative of the current market sentiment. It should be noted that the subject companies involved in the Comparable Issues may have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company. However, as the Comparable Issues can provide examples of the pricing for this type of transaction in Hong Kong under the current market environment, we consider them to be relevant in assessing the fairness and reasonableness of the Subscription Price.

LETTER FROM SOMERLEY CAPITAL LIMITED

For each of the Comparable Issues identified, we compared the premium or discount of its issue/subscription price to (a) the closing price on the last trading day; and (b) the average closing prices for the five trading days, 30 trading days, 60 trading days, 90 trading days and 180 trading days prior to the release of the respective announcement, as summarised in the following table.

Date of announcement	Company and stock code	Independence between issuer and subscriber(s)	Premium/(discount) of placing/subsorption/issue price over/(to)					
			closing share price on the last trading day prior to the announcement	average closing share price for the 5 trading days prior to the announcement	average closing share price for the 30 trading days prior to the announcement	average closing share price for the 60 trading days prior to the announcement	average closing share price for the 90 trading days prior to the announcement	average closing share price for the 180 trading days prior to the announcement
			%	%	%	%	%	%
			<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>
6 December 2017	Brockman Mining Ltd (159)	Independent and connected <i>(Note)</i>	(18.70)	(16.11)	(6.37)	(9.57)	(12.99)	(25.14)
21 December 2017	New focus Auto Tech Holdings Ltd (360)	Independent	(38.24)	(38.05)	(29.65)	(31.84)	(24.12)	(1.48)
3 January 2018	Huiyin Smart Community Co Ltd (1280)	Independent	(30.56)	(29.58)	(25.56)	(30.89)	(34.28)	(27.97)
3 January 2018	Hua Hong Semiconductor Ltd (1347)	Independent	(18.56)	(20.29)	(12.94)	(8.87)	0.00	9.44
10 January 2018	New Sports Group Ltd (299)	Independent and connected <i>(Note)</i>	(21.88)	(27.11)	(29.01)	(34.80)	(31.31)	(37.52)
19 January 2018	China Dongxiang (Group) Co Ltd (3818)	Connected	(9.40)	(9.52)	(7.93)	(6.46)	(5.76)	0.49

LETTER FROM SOMERLEY CAPITAL LIMITED

Date of announcement	Company and stock code	Independence between issuer and subscriber(s)	Premium/(discount) of placing/subscription/issue price over/(to)					
			closing share price on the last trading day prior to the announcement	average closing share price for the 5 trading days prior to the announcement	average closing share price for the 30 trading days prior to the announcement	average closing share price for the 60 trading days prior to the announcement	average closing share price for the 90 trading days prior to the announcement	average closing share price for the 180 trading days prior to the announcement
			%	%	%	%	%	%
			(approximate)	(approximate)	(approximate)	(approximate)	(approximate)	(approximate)
24 January 2018	Beijing Enterprises Water Group Ltd (371)	Independent and connected (Note)	(5.75)	(2.83)	(2.57)	(4.62)	(5.73)	(5.69)
	Mean (simple average)		(20.44)	(20.50)	(16.29)	(18.15)	(16.31)	(12.55)
	Maximum		(38.24)	(38.05)	(29.65)	(34.80)	(34.28)	(37.52)
	Minimum		(5.75)	(2.83)	(2.57)	(4.62)	0.00	9.44
	The CP Subscription		(35.00)	(30.70)	(23.35)	(20.20)	(17.82)	(13.29)

Source: relevant announcements published on the website of the Stock Exchange

Note:

For transactions involving subscribers which include both connected parties and independent third parties, the placing/subscription/issue price offered to connected parties and independent third parties for each Comparable Issue are the same.

The 7 Comparable Issues set out in the table above have generally involved a placing, subscription or issue of new shares at discounts to their respective closing prices on the last trading day and their respective historical trading prices. The discounts of the Subscription Price as set out in the table above are within the range of discounts of the Comparable Issues for the closing share price as at the last trading day prior to the announcement as well as for the average closing share prices for the five, 30, 60, 90 and 180 trading days.

It is noted from the Share price chart in the sub-section above headed “Historical Share price performance and trading volume” that the Share price experienced a general upward trend starting from mid-December 2017, with the highest closing price of HK\$2.0 on the date of the Subscription Agreements. In

LETTER FROM SOMERLEY CAPITAL LIMITED

addition, trading of the Shares has also been more active after December 2017, the total monthly trading volume increased from approximately 36.8 million in December 2017 to over 70 million in both January and February 2018. Such movement on the Share price and trading volume, based on our observation, was not attributable to any particular corporate actions of the Group as no announcement was made in the recent few months. Given the Share price movement before the date of the Subscription Agreements, we are of the view that discounts of the Subscription Price to the Share price for longer period of time, i.e. 60, 90 and 180 trading days prior to the Announcement, form a better basis for comparison and assessment of the fairness of the Subscription Price.

As set out in the table above, the Subscription Price represents discounts of approximately 20.20%, 17.82% and 13.29% to the average closing price for the 60, 90 and 180 trading days immediately prior to and including the date of the CP Subscription Agreement respectively. These discounts are close to the mean of discounts of the Comparable Issues for the average closing share prices for the 60, 90 and 180 trading days prior to the announcement. In light of the above, and given that the Subscription Price represents a substantial premium over the NAV per Share attributable to the Shareholders as at 31 December 2017, we consider the Subscription Price fair and reasonable.

6. Financial effects of the Subscriptions

As set out in the “Letter from the Board” contained in the Circular, the gross and net proceeds of the Subscriptions (assuming all are completed) are estimated to be approximately HK\$832 million and HK\$830.5 million respectively.

Based on the unaudited financial position of the Group set out in the annual report of the Company for the year ended 31 December 2017, the working capital, cash and cash equivalents and consolidated net assets of the Group amounted to approximately HK\$160 million, HK\$65 million and HK\$388 million respectively. Immediately upon the CP Completion and the Other Completion, it is expected that the working capital, cash position and net asset value of the Group will each be enhanced by approximately HK\$830.5 million received by the Company. These are very substantial increases and the Directors consider that the financial position of the Group and its ability to fund its expansion programme will be strengthened after the CP Completion and the Other Completion.

LETTER FROM SOMERLEY CAPITAL LIMITED

7. Effects of the Subscriptions on shareholdings in the Company

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the CP Completion and Other Completion (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares between the Latest Practicable Date and the CP Completion and the Other Completion); and (iii) immediately after the CP Completion only without the Other Completion (assuming there is no change in the issued share capital of the Company other than the issue of the CP Subscription Shares between the Latest Practicable Date and the CP Completion).

Shareholders	As at the Latest Practicable Date		Immediately after the CP Completion and the Other Completion		Immediately after the CP Completion only	
	<i>Number of</i>		<i>Number of</i>		<i>Number of</i>	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
Easy Flow	237,592,607	15.84	607,592,607	28.40	538,332,394	29.90
Shares held by Directors						
Erik D. Prince	80,575,000	5.37	80,575,000	3.77	80,575,000	4.48
Ko Chun Shun, Johnson and his associates	225,817,535	15.06	225,817,535	10.55	225,817,535	12.54
Hu Qinggang	9,814,000	0.65	9,814,000	0.46	9,814,000	0.55
Lee Hau Leung	1,400,000	0.09	1,400,000	0.07	1,400,000	0.08
Harold O. Demuren	1,400,000	0.09	1,400,000	0.07	1,400,000	0.08
<i>Subtotal</i>	319,006,535	21.27	319,006,535	14.91	319,006,535	17.72
Public Shareholders						
Taiping	—	—	160,000,000	7.48	—	—
Trinity Gate	66,939,571	4.46	176,939,571	8.27	66,939,571	3.72
Other public Shareholders	876,164,290	58.43	876,164,290	40.94	876,164,290	48.66
<i>Subtotal</i>	943,103,861	62.89	1,213,103,861	56.69	943,103,861	52.38
Total	1,499,703,003	100.00	2,139,703,003	100.00	1,800,442,790	100.00

LETTER FROM SOMERLEY CAPITAL LIMITED

As shown in the table above, the public Shareholders' shareholdings will be diluted from approximately 62.89% as at the Latest Practicable Date to approximately 56.69% immediately after the CP Completion and the Other Completion and to approximately 52.38% immediately after the CP Completion only. We consider this dilution acceptable in view of the overall benefits of the Subscriptions as described above.

DISCUSSION

The Board considers there are substantial opportunities to expand the Businesses (its major line of business), particularly as regards investments linked to the Belt and Road Initiative. However, as at 31 December 2017, the Group's NAV was only approximately HK\$388 million and cash (net of borrowings) was approximately HK\$48 million. The Directors consider, and we agree, that this is too slight a capital base to take substantial advantage of the Belt and Road Initiative opportunities in overseas countries. Substantial additional capital is required and further support from new and existing well-connected Shareholders is desirable.

The Subscriptions will approximately triple the Group's NAV.

The Group raised a net amount of approximately HK\$190 million through a placing in February 2017, of which approximately HK\$150 million has been spent on developing the Group's existing aviation and logistics business, and the remaining net proceeds are earmarked for related expenses. The present exercise will raise a more substantial sum, approximately HK\$830.5 million net proceeds if all the Subscriptions are completed. Of this amount, just under 40% will be used to set up Businesses in Myanmar, Laos and Cambodia and a further 40% is needed for the Group's general expenses and for working capital for establishment of new offices along regions under the Belt and Road Initiative. The remaining approximately 20% will be used to repay existing bank loans.

The Board considered a rights issue to raise the funds needed. However, the Group has recorded significant losses and paid no dividend in the last four years. The Share price and trading volume of the Shares over the last year have been volatile and the NAV per Share of approximately HK\$0.18 as at 31 December 2017 provides little support to the Share price. In these circumstances, the Board considered a request for further funding from the existing Shareholders would expose the Shareholders to risks in terms of the Share price fluctuation and uncertainties on the Group's future business development as mentioned above, and the necessary commercial underwriting would have been difficult to obtain on acceptable terms. Nor would additional support from well-connected existing and new Shareholders have been obtained, which is one of the main purposes of the placing as opposed to a rights issue.

LETTER FROM SOMERLEY CAPITAL LIMITED

The largest of the three Subscribers, Easy Flow, is ultimately controlled by CITIC Group Corporation, a leading conglomerate in China and an established global player. On the CP Completion, their shareholding will increase to up to 29.9% from about 15.8% as at the Latest Practicable Date. This increased commitment by CITIC Group Corporation should assist the Company in achieving its mission of expanding its role in the Belt and Road Initiative. As Easy Flow is already a substantial shareholder of the Company, the CP Subscription is a connected transaction for the Company. The other two Subscribers are independent third parties. China Taiping, listed in Hong Kong, focuses on insurance and so should be in a position to help the Company develop its insurance services. Trinity Gate is principally engaged in securities investment and already holds an approximately 4.46% interest in the Company. Public shareholding will be diluted from approximately 63% to an approximate range of 52% to 57%. We consider that this is justified in view of the above analysis.

The Subscription Price of HK\$1.30 per Share reflects a discount in the range of approximately 13.3% to 35.0% as compared to recent market prices. We have researched recent placings by specific mandate and note that they reflect discounts with average lower than that of the CP Subscription for short-term share price comparisons, while the discounts of the Subscription Price are close to those of the Comparable Issues when comparing with share prices over longer period of time, which we consider more appropriate in assessing the fairness of the Subscription Price given the recent Share price movement. As the Group has made losses for each of the four years ended 31 December 2017, it is not possible to calculate a price-to-earnings ratio at the Subscription Price. However, the Subscription Price is approximately six times the audited NAV of approximately HK\$0.18 as at 31 December 2017. In the absence of profits and dividends in recent periods and given the large premium over net assets, we consider the comparable discounts to market prices over longer period of time represented by the Subscription Price of HK\$1.30 is justified in this case.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, in particular as summarised in the section headed “Discussion” above, we consider that the terms of the CP Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the CP Subscription Agreement, while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise

LETTER FROM SOMERLEY CAPITAL LIMITED

the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
M. N. Sabine **David Ching**
Chairman *Director*

Mr. M. N. Sabine is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over thirty years of experience in the corporate finance industry.

Mr. David Ching is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over fifteen years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (b) which were recorded in the register (the “**Register**”) maintained by the Company pursuant to Section 352 of the SFO, or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name of director	Number of ordinary shares held				Number of underlying shares held			Grand total	% of the issued share capital of the Company
	Personal interests	Family interests	Corporate interests	Total	Personal interests	Corporate interests	Total		
Mr. Erik D. Prince (“Mr. Prince”)	80,575,000	—	—	80,575,000	205,115,657 <i>(Note (i))</i>	—	205,115,657	285,690,657	19.05%
Mr. Ko Chun Shun, Johnson (“Mr. Ko”)	—	2,040,816 <i>(Note (ii))</i>	223,776,719 <i>(Note (iii))</i>	225,817,535	—	—	—	225,817,535	15.06%

Name of director	Number of ordinary shares held				Number of underlying shares held			Grand total	% of the issued share capital of the Company
	Personal interests	Family interests	Corporate interests	Total	Personal interests	Corporate interests	Total		
	Dr. Hua Dongyi	—	—	—	—	26,834,060 <i>(Note (iv))</i>	—		
Mr. Hu Qinggang	9,814,000	—	—	9,814,000	—	—	—	9,814,000	0.65%
Mr. Yap Fat Suan, Henry	—	—	—	—	1,400,000 <i>(Note (iv))</i>	—	1,400,000	1,400,000	0.09%
Professor Lee Hau Leung	1,400,000	—	—	1,400,000	—	—	—	1,400,000	0.09%
Dr. Harold O. Demuren	1,400,000	—	—	1,400,000	—	—	—	1,400,000	0.09%

Notes:

- (i) This represents Mr. Prince's interest in the option for the rights to subscribe for up to 205,115,657 new Shares.
- (ii) These shares were held by the spouse of Mr. Ko.
- (iii) These interests represent:
- (a) the deemed interests of Mr. Ko in the 48,276,719 Shares held by First Gain International Limited under the SFO by virtue of his interests in First Gain International Limited; and
 - (b) the deemed interests of Mr. Ko in the 175,500,000 Shares held by Rich Hill Capital Limited under the SFO by virtue of his interests in Rich Hill Capital Limited.
- (iv) These interests represent the share options of the Company granted to the respective directors under the Company's share option scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executives of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations, which were notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

(b) Persons who have an interest or short position which is disclosable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors and the chief executive of the Company, the following persons (not being a Director or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or are, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group:

Long Positions in Shares and Underlying Shares of the Company

Name	Number of ordinary shares held			Number of underlying shares held			Grand total	% of the issued share capital of the Company
	Direct beneficially owned	Through controlled corporations	Total	Direct beneficially owned	Through controlled corporations	Total		
Easy Flow Investments Limited	237,592,607	—	237,592,607	—	—	—	237,592,607	15.84%
CITIC Investment (HK) Limited	—	237,592,607 <i>(Note (i))</i>	237,592,607	—	—	—	237,592,607	15.84%
CITIC Corporation Limited	—	237,592,607 <i>(Note (ii))</i>	237,592,607	—	—	—	237,592,607	15.84%
CITIC Limited	—	237,592,607 <i>(Note (iii))</i>	237,592,607	—	—	—	237,592,607	15.84%
CITIC Group Corporation	—	237,592,607 <i>(Note (iv))</i>	237,592,607	—	—	—	237,592,607	15.84%
Rich Hill Capital Limited	175,500,000	—	175,500,000	—	—	—	175,500,000 <i>(Note (v))</i>	11.70%

Notes:

- (i) CITIC Investment (HK) Limited is deemed to be interested in the 237,592,607 Shares held by Easy Flow Investments Limited under the SFO by virtue of its interests in Easy Flow Investments Limited.
- (ii) CITIC Corporation Limited is deemed to be interested in the 237,592,607 Shares held by Easy Flow Investments Limited under the SFO by virtue of its interests in CITIC Investment (HK) Limited.
- (iii) CITIC Limited is deemed to be interested in the 237,592,607 Shares held by Easy Flow Investments Limited under the SFO by virtue of its interests in CITIC Corporation Limited.
- (iv) CITIC Group Corporation is deemed to be interested in the 237,592,607 Shares held by Easy Flow Investments Limited under the SFO by virtue of its interests in CITIC Limited. Mr. Luo Ning and Mr. Hu Qinggang, the executive directors of the Company, are employees of CITIC Group Corporation.
- (v) Mr. Ko is deemed to be interested in the Shares held by Rich Hill Capital Limited under the SFO by virtue of his interests in Rich Hill Capital Limited. Such interests form a part of the corporate interests in the Shares interested by Mr. Ko as set out in the section titled “Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations” above. Mr. Ko is a director of Rich Hill Capital Limited.

Save as disclosed above, as at the Latest Practicable Date, (i) the Directors and the chief executive of the Company were not aware of any person (other than a Director or the chief executive of the Company or his associates or a member of the Group) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group; and (ii) no Director was also a director or employee of a company which had an interest or short position in the Shares which would fall to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any other member of the Group which would not expire or was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE COMPANY

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group.

None of the Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or any of their respective close associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice which are contained or referred to in this circular:

Name	Qualification
Somerley Capital Limited	Independent Financial Adviser

As at the Latest Practicable Date, Somerley did not have any shareholding interest in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group, nor did it have any direct or indirect interests in any assets which had been, since 31 December 2017 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Somerley has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of its reports and reference to its name, as the case may be, in the form and context in which they respectively appear.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any material litigations or claims and no litigations or claims of material importance were pending or threatened against the Company or any member of the Group.

8. MATERIAL ADVERSE CHANGE

The Directors are of the opinion that there had been no material adverse changes in the financial or trading position of the Group since 31 December 2017 (being the date to which the latest published audited accounts of the Company were made up) up to and including the Latest Practicable Date.

9. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Chan Kam Kwan, Jason, who holds a certificate of Certified Public Accountant issued by the Washington State Board of Accountancy in the United States of America.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and the principal place of business is at Suite 3902, 39/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Suite 3902, 39/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including 18 May 2018, being the date of the SGM:

- (a) the Subscription Agreements;
- (b) the written consent referred to in the paragraph headed “Qualification and consent of expert” in this appendix;
- (c) the letter of recommendation from the Independent Board Committee;
- (d) the letter of advice from Somerley; and
- (e) this circular.

NOTICE OF THE SGM



FRONTIER SERVICES GROUP LIMITED

先豐服務集團有限公司 *

(incorporated in Bermuda with limited liability)

(Stock Code: 00500)

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Frontier Services Group Limited (the “Company”) will be held at 10:00 a.m. on 18 May 2018, Friday at Suite 3902, 39/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing the following ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the subscription agreement dated 2 March 2018 (the “**CP Subscription Agreement**”) (a copy of which has been produced to the SGM and marked “A” and initialled by the chairman of the SGM for the purpose of identification) entered into between the Company as issuer and Easy Flow Investments Limited as subscriber in respect of the issue of up to 370,000,000 new ordinary shares of HK\$0.10 each (the “**Shares**”) in the capital of the Company (the “**CP Subscription Shares**”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfilment of the conditions precedent set out in the CP Subscription Agreement, the allotment and issue of the CP Subscription Shares in accordance with the terms and conditions of the CP Subscription Agreement be and is hereby approved;
- (c) any director of the Company be and is hereby authorised to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two directors of the Company or any director of the Company together with the secretary of the Company) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the CP Subscription Agreement or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

* *For identification purposes only*

NOTICE OF THE SGM

2. “**THAT:**

- (a) the subscription agreement dated 2 March 2018 (the “**Taiping Subscription Agreement**”) (a copy of which has been produced to the SGM and marked “**B**” and initialled by the chairman of the meeting for the purpose of identification) entered into between the Company as issuer and Taiping Trustees Limited as subscriber in respect of the issue of a total of 160,000,000 new Shares (the “**Taiping Subscription Shares**”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfilment of the conditions precedent set out in the Taiping Subscription Agreement, the allotment and issue of the Taiping Subscription Shares in accordance with the terms and conditions of the Taiping Subscription Agreement be and is hereby approved; and
- (c) any director of the Company be and is hereby authorised to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two directors of the Company or any director of the Company together with the secretary of the Company) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Taiping Subscription Agreement or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

3. “**THAT:**

- (a) the subscription dated 2 March 2018 (the “**Trinity Gate Subscription Agreement**”) (a copy of which has been produced to the SGM and marked “**C**” and initialled by the chairman of the meeting for the purpose of identification) entered into between the Company as issuer and Trinity Gate Limited as subscriber in respect of the issue of a total of 110,000,000 new Shares (the “**Trinity Gate Subscription Shares**”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfilment of the conditions precedent set out in the Trinity Gate Subscription Agreement, the allotment and issue of the Trinity Gate Subscription Shares in accordance with the terms and conditions of the Trinity Gate Subscription Agreement be and is hereby approved; and

NOTICE OF THE SGM

- (c) any director of the Company be and is hereby authorised to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two directors of the Company or any director of the Company together with the secretary of the Company) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Trinity Gate Subscription Agreement or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

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

Hong Kong, 2 May 2018

Notes:

1. Any shareholder entitled to attend and vote at the SGM is entitled to appoint another person as his/her proxy to attend and vote in his/her stead. A shareholder who is the holder of two or more Shares may appoint more than one proxy to attend and vote in his/her stead. A proxy need not be a shareholder of the Company. Completion and return of the form of proxy will not preclude a shareholder from attending the SGM and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.
2. Where there are joint holders of any Share, any one of such joint holders may vote at the SGM, either personally or by proxy, in respect of such Share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the SGM, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.
3. To be valid, the completed and signed proxy form and the relevant notarised power of attorney (if any) and other relevant document of authorisation (if any), must be deposited at the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof.