THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

This Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

FSE SERVICES GROUP LIMITED
豐盛服務集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 331)

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET ENTITIES ENGAGED IN THE PROVISION OF PROPERTY MANAGEMENT SERVICES AND ISSUE OF CONVERTIBLE SECURITIES; (2) ENTRY INTO A TERM LOAN FACILITY AGREEMENT; (3) PROPOSED RE-DESIGNATION OF AUTHORISED SHARE CAPITAL; AND (4) NOTICE OF EXTRAORDINARY GENERAL MEETING

Sole Financial Adviser

BNP PARIBAS

All capitalised terms used in this Circular shall have the meanings ascribed to them in the section headed ''Definitions'' of this Circular.

A letter from the Board is set out on pages 8 to 38 of this Circular. A letter from the Independent Board Committee is set out on pages 39 to 40 of this Circular. A notice convening the EGM to be held at 17/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 6 December 2019 at 11:30 a.m. (or so soon thereafter as the annual general meeting convened to be held at 11:00 a.m. on the same day shall have been concluded or adjourned) is set out on pages EGM-1 to EGM-3 in this Circular. A form of proxy for use at the EGM is enclosed with this Circular. Whether or not you are able to attend the EGM in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the EGM should you so wish.

15 November 2019

CONTENTS

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

"2019 Master Property Services Agreements"	has the meaning ascribed to it in the Announcement
"30%-controlled company"	has the meaning ascribed to it under the Listing Rules
"Announcement"	the announcement of the Company dated 18 October 2019 in relation to, among other things, the Proposed Acquisition, the proposed re-designation of the authorised share capital, the 2019 Master Property Services Agreements, the Services Transactions contemplated thereunder and the Annual Cap
"Annual Cap(s)"	has the meaning ascribed to it in the Announcement
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Days"	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are open for the transaction of normal business
"Business Valuation"	a business valuation of the Target Group performed by an independent professional valuer, Vigers Appraisal & Consulting Limited, as at 30 June 2019, amounting to HK$742 million
"Buyer Co"	FSE Property Management Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"CAGR"	compound annual growth rate
"Company"	FSE Services Group Limited (豐盛服務集團有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 331)
"Completion"	the completion of the Proposed Acquisition in accordance with the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed)

"Completion Date"	the date which is 10 Business Days, or such other date as the Company and the Seller may agree, after the date (not being later than the Longstop Date) on which the last of the Conditions to be satisfied or waived is satisfied or waived (as applicable)
"Conditions"	the conditions for Completion set forth in the paragraph headed "Conditions precedent to Completion" in the Letter from the Board in this Circular
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the Initial Consideration, as adjusted in accordance with the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed)
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Conversion Shares"	new Ordinary Shares to be allotted and issued to the holder(s) of the Convertible Securities upon conversion of the Convertible Securities
"Convertible Securities"	the new non-voting redeemable convertible preference shares of HK$0.10 each to be created as a new class of shares in the share capital of the Company upon Completion
"CTFE"	Chow Tai Fook Enterprises Limited (周大福企業有限公司), a company incorporated in Hong Kong with limited liability
"CTFE Group"	CTFE and its subsidiaries from time to time
"CTFJ"	Chow Tai Fook Jewellery Group Limited (周大福珠寶集團有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 1929)
"CTFJ Group"	CTFJ and its subsidiaries from time to time
"Directors"	the directors of the Company
"Doo's Associates Group"	Mr. Doo and companies, other than members of the Enlarged Group, which are the 30%-controlled companies of Mr. Doo, his "immediate family members" and/or "family members" (as defined in the Listing Rules), individually or together, and the subsidiaries of such companies

"Dr. Cheng"	Dr. Cheng Kar Shun, Henry, the chairman and a non-executive Director of the Company
"EGM"	an extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the EGM Matters
"EGM Matters"	the Proposed Acquisition, the grant of the Specific Mandate, and the re-designation of the authorised share capital of the Company
"Enlarged Group"	the Group as enlarged by the Target Group upon Completion
"EV/EBITDA"	enterprise value divided by the earnings before interest, tax, depreciation and amortisation
"Facility Agreement"	the term loan facility agreement entered into between Buyer Co (as the borrower), two of the Company's direct subsidiaries, FSE Engineering Group Limited and FSE Facility Services Group Limited (as the guarantors) and a bank dated 18 October 2019
"FSE Holdings"	FSE Holdings Limited (豐盛創建控股有限公司), a company incorporated in the Cayman Islands with limited liability and a controlling shareholder of the Company holding 75% of the Ordinary Shares in issue of the Company as at the Latest Practicable Date
"FY" or "financial year"	financial year of the Company ended or ending 30 June
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent committee of the Board, which comprises all of the independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung, Eddie and Dr. Tong Yuk Lun, Paul, established to advise the Independent Shareholders on, among other matters, the fairness and reasonableness of the Proposed Acquisition

"Independent Financial Adviser"	Ballas Capital Limited, a corporation licensed to carry out Types 1 and 6 regulated activities as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the Proposed Acquisition
"Independent Shareholders"	the Shareholders, other than FSE Holdings, who do not have any material interest in the Proposed Acquisition
"Initial Consideration"	the initial consideration for the sale and purchase of the Sale Share, the initial sum of which being HK$704,900,000, comprising (i) a cash consideration of HK$564,000,000 payable in cash; and (ii) a non-cash consideration of HK$140,900,000 settled through the issue of Convertible Securities by the Company
"Issue Date"	in relation to any Convertible Security, the date on which it was issued
"Issue Price"	HK$3.2260 (calculated based on the average of the closing prices for one Ordinary Share for the 5 trading days prior to the date of the Announcement) per Convertible Security, to be credited as fully paid
"Joint Venture Target Entities"	Harbour Place Management Services Limited (海濱南岸管理服務有限公司), Urban-Wellborn Property Management Limited (富邦物業管理有限公司) and 廣州市富城物業管理有限公司
"Kiu Lok Group"	Flash Star International Limited, KLPS Group Limited (僑樂房產服務集團有限公司), Kiu Lok Service Management Company Limited (僑樂服務管理有限公司), Kiu Lok International Realty Limited (僑樂國際物業代理有限公司) and KL Property Management Limited
"Latest Practicable Date"	13 November 2019, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Longstop Date"	30 June 2020 or such other date as the Company and the Seller may agree in writing
"Mr. Doo"	Mr. Doo Wai Hoi, William, one of the controlling shareholders of the Company

"NTAV"	the net tangible assets value of the Target Group
"NWD"	New World Development Company Limited (新世界發展有限公司), a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 17)
"NWD Group"	NWD and its subsidiaries from time to time but excluding the NWDS Group and the NWS Group
"NWDS"	New World Department Store China Limited (新世界百貨中國有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 825)
"NWDS Group"	NWDS and its subsidiaries from time to time
"NWS"	NWS Holdings Limited (新創建集團有限公司), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 659)
"NWS Group"	NWS and its subsidiaries from time to time
"Ordinary Share(s)"	ordinary share of par value of HK$0.10 per share in the share capital of the Company
"P/E"	price divided by earnings
"Percentage Ratios"	the applicable percentage ratios under Rule 14.07 of the Listing Rules
"PRC"	the People's Republic of China
"Preferred Distribution Rate"	6.0% per annum
"Proposed Acquisition"	the proposed acquisition of the Sale Share by the Company from the Seller on and subject to the terms and conditions of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) and the performance of the transactions contemplated thereunder
"Reorganisation"	the series of transactions required in order for each member of the Urban Group and the Kiu Lok Group to become subsidiaries of (or, in the case of the Joint Venture Target Entities, to become joint ventures under) the Target Company

"Sale and Purchase Agreement"	the conditional deed for the sale and purchase of the Sale Share entered into between the Seller, the Buyer Co and the Company dated 18 October 2019
"Sale Share"	1 fully paid ordinary share of par value of US$1.00 in the share capital of the Target Company legally and beneficially owned by the Seller, representing the entire issued share capital of the Target Company
"Seller"	FSE Management Company Limited (豐盛創建管理有限公司), a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of FSE Holdings
"Services"	has the meaning ascribed to it in the Announcement
"Services Transactions"	has the meaning ascribed to it in the Announcement
"SFO"	the Securities and Futures Ordinance (Cap. 571)
"Shareholder(s)"	the holder(s) of any Ordinary Share and Convertible Security (if any)
"Specific Mandate"	the specific mandate to be granted by the Independent Shareholders to the Board to allot and issue 43,676,379 Convertible Securities and Conversion Shares pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed)
"Supplemental Deed"	the supplemental deed entered into between the Seller, the Buyer Co and the Company dated 14 November 2019 to amend the Sale and Purchase Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Legend Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability and, as at the date of this Circular, a direct wholly-owned subsidiary of the Seller
"Target Entity"	each member of the Target Group
"Target Group"	the Target Company, and members of each of (i) the Urban Group, and (ii) the Kiu Lok Group, which will at or before Completion become subsidiaries of the Target Company

"Urban Group"	Urban Management Limited, International Property Management Limited (國際物業管理有限公司), Urban Property Management Limited (富城物業管理有限公司), Espora Company Limited, FSE Facility Management Limited (豐盛創建設施管理有限公司), i-Urban Limited (富城網有限公司), KOHO Facility Management Limited, Paramatta Estate Management Limited (百得物業管理有限公司), Park Vale (Management) Limited (柏蕙苑物業管理有限公司), Sunningdale (Management) Limited (蕙逸居(管理)有限公司), Turning Technical Services Limited (通力技術服務有限公司), Urban Management Services Limited (富城管理服務有限公司), Urban Technical Services Limited (富城技術服務有限公司) and the Joint Venture Target Entities
"%"	per cent

FSE SERVICES GROUP LIMITED
豐盛服務集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 331)

Non-executive Directors:
Dr. Cheng Kar Shun, Henry *(Chairman)*
Mr. Wong Kwok Kin, Andrew

Executive Directors:
Mr. Lam Wai Hon, Patrick *(Vice-Chairman)*
Mr. Poon Lock Kee, Rocky
(Chief Executive Officer)
Mr. Doo William Junior Guilherme
Mr. Lee Kwok Bong
Mr. Soon Kweong Wah
Mr. Wong Shu Hung
(Dr. Cheng Chun Fai as his alternate)

Independent Non-executive Directors:
Mr. Kwong Che Keung, Gordon
Mr. Hui Chiu Chung, Stephen
Mr. Lee Kwan Hung, Eddie
Dr. Tong Yuk Lun, Paul

Registered office:
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Units 801–810
8th Floor, Chevalier Commercial Centre
8 Wang Hoi Road, Kowloon Bay
Kowloon, Hong Kong

15 November 2019

Dear Shareholders,

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET ENTITIES ENGAGED IN THE PROVISION OF PROPERTY MANAGEMENT SERVICES AND ISSUE OF CONVERTIBLE SECURITIES;
(2) ENTRY INTO A TERM LOAN FACILITY AGREEMENT;
(3) PROPOSED RE-DESIGNATION OF AUTHORISED SHARE CAPITAL; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Proposed Acquisition, the proposed re-designation of authorised share capital and the 2019 Master Property Services Agreements.

The Company announced that on 18 October 2019 (after trading hours of the Stock Exchange), the Company, the Buyer Co and the Seller entered into a Sale and Purchase Agreement for the Company to acquire (or to procure the Buyer Co to acquire), and the Seller to sell the Sale Share at a consideration of HK$704,900,000 (subject to adjustments, if any), comprising (i) a cash consideration of HK$564,000,000 payable in cash; and (ii) a non-cash consideration of HK$140,900,000 settled through the issue of Convertible Securities by the Company.

On 14 November 2019, the Company further announced that the Company, the Buyer Co and the Seller entered into the Supplemental Deed to amend, among other matters, the terms governing the conversion period and the rights to redemption, preferred distribution and dividends of the Convertible Securities under the Sale and Purchase Agreement.

The Target Group is principally engaged in the provision of property management services.

Completion is subject to the fulfilment of the Conditions. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

THE PROPOSED ACQUISITION

The Sale and Purchase Agreement

Date : 18 October 2019

Parties

- Seller : FSE Management Company Limited
- Buyer : the Company
- Buyer Co : FSE Property Management Group Limited

The Buyer Co is a wholly-owned subsidiary of the Company. FSE Holdings, which holds 75% of the Ordinary Shares of the Company in issue, is a substantial shareholder of the Company. The Seller, being a wholly-owned subsidiary of FSE Holdings, is an associate of FSE Holdings, and therefore a connected person of the Company.

The Supplemental Deed

Upon further negotiations between the parties under the Sale and Purchase Agreement, the Company, the Buyer Co and the Seller entered into a Supplemental Deed on 14 November 2019 to amend, among other matters, the terms governing the conversion period and the rights to redemption, preferred distribution and dividends of the Convertible Security under the Sale and Purchase Agreement. The amended terms of the Convertible Securities are set out in the paragraph headed "Summary of the principal terms of the Convertible Securities". Save for the amendments made under the Supplemental Deed, the principal terms of the Sale and Purchase Agreement remain the same.

Assets to be acquired by the Group under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed)

Pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), the Company has conditionally agreed to acquire (or procure the Buyer Co to acquire) from the Seller the Sale Share, representing the entire issued share capital of the Target Company.

The section below headed "INFORMATION ON THE TARGET GROUP" provides further information on the Target Group.

The Initial Consideration, its payment term and adjustment

The Initial Consideration for the Proposed Acquisition is HK$704,900,000, subject to adjustment, if any, by reference to the NTAV as at the date of Completion as mentioned below. Such Initial Consideration implies a P/E of approximately 10.19x.

At Completion, the Initial Consideration shall be satisfied by the Company through (i) payment of HK$564,000,000 in cash to the Seller (or as the Seller may direct in writing) on the Completion Date; and (ii) a non-cash consideration of HK$140,900,000 settled through the issuance and allotment by the Company of 43,676,379 Convertible Securities to the Seller (or as the Seller may direct in writing) at the Issue Price of HK$3.2260 per Convertible Security, credited as fully paid. The Issue Price was calculated based on the average of the closing prices for one Ordinary Share for the 5 trading days prior to the date of the Announcement.

The Initial Consideration was agreed after arm's length negotiations between the Seller and the Company having taken into consideration various factors, including but not limited to:

(1) the audited financials of the Target Group for the financial year ended 30 June 2019;

(2) the adjustment on net profit attributable to the equity holder of the Target Group for FY2019 conducted by an independent business valuer;

(3) the Business Valuation based on historical financial performance of the Target Group; and

(4) the NTAV of the Target Group as at 30 June 2019.

According to the Business Valuation, the Target Group is valued at HK$742 million as at 30 June 2019. The Business Valuation was arrived at after following certain adjustments on EBITDA and net profit attributable to equity holders of the Target Group made by the independent valuer, including the reversal of or adjustment for:

(1) the management fee charged by the Seller to the Target Group of approximately HK$9.5 million for the financial year ended 30 June 2019. After Completion, the existing management functions provided by the Seller in consideration of the management fee will be performed by the senior management team of the Company;

(2) the donation made by the Target Group of approximately HK$2.7 million for the financial year ended 30 June 2019;

(3) the write-off on other payables made by the Target Group of approximately HK$0.6 million for the financial year ended 30 June 2019;

(4) the gain on disposal of property, plant and equipment of approximately HK$0.4 million for the financial year ended 30 June 2019; and

(5) the tax effect of the adjustments (a) to (d) above, which amounts to approximately HK$1.8 million for the financial year ended 30 June 2019.

The Board considers that it is appropriate to make each of the adjustments on EBITDA and the net profit attributable to equity holders of the Target Group for the following reasons:

(1) the management fee was charged by the Seller to the Target Group for FY2019 in consideration of certain management services provided by the senior management team of the Seller. Such arrangement is expired without renewal. The existing management functions will be performed by the senior management team of the Company;

(2) the donation made by the Target Group for FY2019 was a one-off donation which is not expected to recur after Completion; and

(3) the write-off on other payables and the gain on disposal of property, plant and equipment were non-recurring gains.

Based on the adjustments stated above, the adjusted EBITDA and net profit attributable to equity holders are approximately HK$86.8 million and HK$69.2 million, respectively, for the financial year ended 30 June 2019.

In determining the Initial Consideration for the Proposed Acquisition:

(1) firstly, the Company considered the net worth of the Target Group based on the NTAV of the Target Group as of 30 June 2019;

(2) secondly, the Company took into account the Target Group's adjusted net profit attributable to equity holders in FY2019 of HK$69.2 million provided in the Business Valuation report;

(3) thirdly, the Company applied a P/E of approximately 10.19x on the Target Group's adjusted net profit attributable to equity holders in FY2019 to arrive at the Initial Consideration;

(4) fourthly, the Company made reference to the Business Valuation report, in which the independent business valuer valued the Target Group at a Business Valuation of HK$742 million; and

(5) lastly, based on arm's length negotiations between the Company and the Seller, the parties agreed to adopt the Initial Consideration, which represents a discount of approximately 5% to the Business Valuation.

According to the Business Valuation report, the valuation of businesses is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. While the valuer considers the Business Valuation to be both reasonable and defensible based on the information available to the valuer, others may place a different value on the Target Group.

The Directors believe that the Consideration is fair and reasonable.

The Buyer shall at its own costs and expenses deliver to the Seller a completion balance sheet (the "**Completion Balance Sheet**") showing the NTAV of the Target Group as at the Completion Date, which shall either be (i) (if the financial statements can be agreed to by the Seller and the Buyer) an unaudited combined balance sheet of the Target Company as at the Completion Date, which shall be delivered within 60 days after the Completion Date; or (ii) (failing agreement between the Seller and the Buyer) an audited combined balance sheet of the Target Company as at the Completion Date.

Based on the Completion Balance Sheet:

(1) if the NTAV of the Target Group as at the Completion Date is greater than the NTAV of the Target Group as at 30 June 2019, 100% of the difference shall be added to the Initial Consideration for the Sale Share; or

(2) if the NTAV of the Target Group as at the Completion Date is smaller than the NTAV of the Target Group as at 30 June 2019, 100% of the difference shall be deducted from the Initial Consideration for the Sale Share.

After the adjustment, if any, any excess in the Initial Consideration shall be refunded by the Seller to the Buyer, and any shortfall in the Initial Consideration shall be paid by the Buyer to the Seller, in each case wholly in cash (and not partly in cash and partly in Convertible Securities) within 7 Business Days following the delivery of the Completion Balance Sheet by the Buyer to the Seller.

Conditions precedent to Completion

Pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), Completion is conditional upon:

(1) all regulatory and corporate approvals of the Company and the Buyer Co as are necessary for the completion of the transaction contemplated under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) having been obtained, including:

(a) the approval by the Independent Shareholders at a general meeting of the Proposed Acquisition, the grant of the Specific Mandate and the approval of the relevant 2019 Master Property Services Agreement by the Board; and

(b) the approval by the Shareholders at a general meeting of the re-designation of the authorised share capital of the Company to HK$100,000,000 divided into 900,000,000 Ordinary Shares of par value of HK$0.10 each, and 100,000,000 Convertible Securities of par value of HK$0.10 each;

(2) the Reorganisation having been duly and validly completed in all respects and implemented in accordance with the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed);

(3) the grant by the Listing Committee (or, where applicable, the Listing Review Committee) of the Stock Exchange of the listing of, and permission to deal in, the Conversion Shares;

(4) the Seller's warranties in the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) remaining true and accurate in all respects and not misleading in any respect as at Completion;

(5) all consents, approvals, permits, authorisations or clearances (including those required under relevant banking facilities) that the Seller reasonably considers necessary for the execution, implementation and completion of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) and consents from counterparties of the relevant agreements having been obtained and not having been revoked or withdrawn at any time before Completion; and

(6) all consents, approvals, permits, authorisations or clearances that the Company reasonably considers necessary for the execution, implementation and completion of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) having been obtained and not having been revoked or withdrawn at any time before Completion.

The Company shall use its reasonable endeavours to convene a general meeting of the Company to enable to the satisfaction of Condition (1), and use its reasonable endeavours to achieve satisfaction of Conditions (3) and (6), not later than 5:00 p.m. on the Longstop Date.

The Seller shall use its reasonable endeavours to achieve satisfaction of Conditions (2) and (5) not later than the Latest Practicable Date (or such other date (not being later than 5:00 p.m. on the Longstop Date) as the Company may permit), and Condition (4) not later than 5:00 p.m. on the Longstop Date.

The Company may at any time on or before 5:00 p.m. on the Longstop Date by notice in writing to the Seller waive the above Conditions (2), (4) and (5) in whole or in part.

If the Conditions shall not be fulfilled (or, as the case may be, waived) by the prescribed date and time, either the Seller or the Company may by notice to the other elect that the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) shall terminate with immediate effect.

Pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), the Reorganisation comprises the following transactions required in order for the Target Entities to become members of the Target Group:

(1) FSE P & M Limited transfers the entire issued share capital in Flash Star International Limited to the Target Company for a cash consideration of US$1; and

(2) Elite Master Holdings Limited transfers the entire issued share capital in Urban Management Limited to the Target Company for a cash consideration of HK$1.

As at the Latest Practicable Date, all of the transactions involved in the Reorganisation have been completed.

Completion

Subject to the fulfilment (or, as the case may be, waiver) of the Conditions, Completion shall take place on the Completion Date.

Upon Completion taking place, the Seller will hold 43,676,379 Convertible Securities to be issued and allotted by the Company. The Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated in the financial statements of the Company.

The 2019 Master Property Services Agreements

Members of the Target Group, in their ordinary course of business, regularly entered into continuing transactions in relation to:

(1) the provision and receipt of the Services to and from members of each of the Doo's Associates Group, the NWD Group and the NWS Group; and

(2) the provision of the Property Management Services to members of each of the CTFE Group and the CTFJ Group.

It is expected that the above continuing transactions will continue after Completion. As the Target Company will become an indirect wholly-owned subsidiary of the Company upon completion of the Proposed Acquisition, the continuing transactions entered into or to be entered into between the Urban Group or the Kiu Lok Group on one side, and the Doo's Associates Group, the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group on the other will become continuing connected transactions of the Company under the Listing Rules.

In order to streamline these continuing connected transactions in relation to the provision and receipt of the Services and facilitate the compliance with the relevant requirements under the Listing Rules, the Company proposes to enter into the 2019 Master Property Services Agreements upon completion of the Proposed Acquisition, the principal terms and conditions of which are set out in the Announcement.

Upon Completion, to the extent that the existing service contracts of the Target Group relate to the provision and/or receipt of the Services, such existing service contracts will continue to be performed in accordance with its respective terms.

Corporate guarantees and counter-indemnity

Prior to the execution of the Sale and Purchase Agreement, the Seller has provided certain corporate guarantees and undertaking for the performance of some obligations by certain members of the Target Group in favour of certain lending banks and contract counterparties of the Target Group. In order to allow time for the Company to replace the credit support required for the operation of the Target Group after Completion, pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), the existing corporate guarantees and undertaking provided by the Seller that are subsisting as at the Completion Date are to remain in place for a period of no longer than one year thereafter (or such other period as may be agreed between the Seller and the Company).

The Company shall use its reasonable endeavours to procure such existing corporate guarantees provided by the Seller to be released and replaced by such new corporate guarantees and undertaking provided by the Group as soon as practicable and not later than the expiration of the aforesaid one-year period or such other period as the Company and the Seller may agree.

At Completion, the Company and the Seller will enter into deeds of counter-indemnity, pursuant to which the Company is to agree to counter-indemnify the Seller from and against any actions, claims, liabilities, damages, costs and expenses of whatever nature which may result or which the Seller may suffer, incur or sustain as a result of the enforcement of any of such existing corporate guarantees and undertaking after Completion until the earlier of (i) the expiry or release of the same; and (ii) the date which is one year from the date of the deed of counter-indemnity.

INFORMATION ON THE CONVERTIBLE SECURITIES AND THE CONVERSION SHARES

Convertible Securities not to be listed

Upon Completion taking place, 43,676,379 Convertible Securities will be issued by the Company in satisfaction and settlement of part of the Consideration.

No listing of the Convertible Securities will be sought on the Stock Exchange or any other stock exchanges.

Summary of the principal terms of the Convertible Securities

Par value	:	HK$0.10 each
Issue Price	:	HK$3.2260 per Convertible Security, to be credited as fully paid
Conversion period	:	Each Convertible Security shall entitle the holder to convert within the period of 10 years after the Issue Date, provided that any conversion shall not result in the Company failing to comply with any public float requirement under the Listing Rules For the avoidance of doubt, no conversion right could be exercised upon the expiry of the conversion period and the Convertible Security will retain all other rights as set out in the terms of the Convertible Security (apart from the conversion right)
Conversion ratio	:	Each Convertible Security is convertible into such number of Ordinary Share(s) being one (1) multiplied by the conversion rate. The conversion rate is determined by dividing the Issue Price of Convertible Security by the conversion price
Conversion price	:	The conversion price is the Issue Price, subject to adjustment upon the occurrence of certain prescribed events (including consolidation, subdivision or reclassification of shares in the capital of the Company, capitalisation of profits or reserves, issue of Ordinary Shares in lieu of cash dividend, rights issues of Ordinary Shares or options over Ordinary Shares, in each case if not also made available to holder(s) of Convertible Securities), but provided that the conversion price is not less than the then subsisting nominal value of an Ordinary Share into which such Convertible Security is converted. If an adjustment is required to be made to the conversion price, a further announcement will be made by the Company
Preferred distribution	:	Each Convertible Security shall confer on the holder the right to receive a preferred distribution from the date of the issue of the Convertible Security at a rate of 6.0% per annum on the Issue Price, payable annually in arrears. Each preferred distribution is cumulative

Deferral or non-payment of preferred distribution	:	The Board may, in its sole discretion, elect to defer or not to pay a preferred distribution. No interest accrues on any unpaid Preferred Distribution. If the Board elect to defer or not to pay a preferred distribution, the Company shall not (i) pay any dividends, distributions or make any other payment on any Ordinary Shares or (ii) redeem, cancel, repurchase or acquire for any consideration any Ordinary Shares, unless at the same time it pays to the holder(s) of the Convertible Securities any deferred or unpaid preferred distribution which was scheduled to be paid on a day falling in the same financial year in respect of which payment of such dividends, distributions or other payments is made or during which such redemption, cancellation, repurchase or acquisition occurs
Dividends	:	The Convertible Securities shall not confer on the holder any right to receive any dividend or distribution other than the preferred distribution
Voting rights	:	The holder(s) of the Convertible Securities shall not have the right to attend or vote at any general meeting of the Company (except a general meeting for winding up of the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of such holder(s))
Ranking	:	On a distribution of assets on liquidation, winding up or dissolution of the Company or otherwise, the assets and funds of the Company available for distribution among the members of the Company shall, subject to applicable laws, be applied in the following priority: (1) firstly, an amount equal to the aggregate of the Issue Price of all of the Convertible Securities held by the holder(s) of the Convertible Securities shall be distributed on a *pari passu* basis among the holder(s) of the Convertible Securities, by reference to the aggregate nominal amounts of the Convertible Securities held by them respectively; (2) secondly, the balance of such assets shall be distributed on a *pari passu* basis among the holders of any class of shares in the capital of the Company other than the Convertible Securities and other than any shares which are not entitled to participate in the distribution of such assets, by reference to the aggregate nominal amounts of shares in the Company held by them respectively and to the extent of an amount equal to the Issue Price for every HK$0.10 in nominal amount of the shares so held; and

		(3) the remaining balance of such assets shall belong to and be distributed on a *pari passu* basis among the holders of any class of shares of the Company including the Convertible Securities, other than any other shares not entitled to participate in the distribution of such assets, by reference to the aggregate nominal amounts of shares in the Company held by them respectively
Transferability	:	The Convertible Securities shall be freely transferable
Redemption	:	At any time after 10 years following the Issue Date, the Company may at its sole discretion serve at least ten (10) days' prior written notice to the holders of the Convertible Securities to redeem either in whole or in part of the Convertible Securities for the time being outstanding, at a redemption price equal to the Issue Price together with all outstanding preferred distribution accrued to the date fixed for redemption For the avoidance of doubt, no holder of the Convertible Security is entitled to request for redemption of any Convertible Securities
Listing	:	No listing will be sought for the Convertible Securities on the Stock Exchange or any other stock exchange. An application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares

The Conversion Shares

The allotment and issue of the Conversion Shares are subject to Independent Shareholders granting the Specific Mandate at the EGM.

The Conversion Shares to be issued upon conversion of the Convertible Securities will be issued as fully paid and will rank *pari passu* in all respects with the Ordinary Shares in issue as at the date of conversion.

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The Issue Price

The Issue Price of HK$3.2260 per Convertible Security (the aggregate amount of such Issue Price being the portion of the Consideration to be satisfied by the issue of 43,676,379 Convertible Securities) to be credited as fully paid represents:

(1) a discount of approximately 0.12% to the closing price of the Ordinary Shares of HK$3.23 per Ordinary Share as quoted on the Stock Exchange on 17 October 2019;

(2) a discount of approximately 3.70% to the closing price of the Ordinary Shares of HK$3.35 per Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(3) a premium of approximately 87.56% to the audited net asset value per Ordinary Share of the Company as at 30 June 2019 of HK$1.72.

The Issue Price is calculated based on the average of the closing prices for one Ordinary Share for the 5 trading days prior to the date of the Announcement.

The Preferred Distribution Rate

The Preferred Distribution Rate of 6% per annum was agreed after arm's length negotiations between the Seller and the Company and the Company having considered the following factors:

(1) the Directors consider that it is crucial for the Group to maintain a strong financial capability, including a strong net asset value position. This is particularly important when the Group participates in tendering or other competitive processes for business contracts, including government procurement contracts;

(2) it would be relatively difficult for the Company to obtain a further commercial loan of a comparable size from a financial institution without compromising the financial ratios which the Company would like to maintain;

(3) it would be inappropriate to equate (or directly compare) the position of a holder of Convertible Securities with the lending banks that are providing facilities to the Group, taking into account the difference in priority between the lender of a loan and the holder of the Convertible Securities; and

(4) the Preferred Distribution Rate is close to the low-end of the range of the dividend yield[1] of the Ordinary Shares for the four financial years ended 30 June 2019, which was approximately 6.30% to 8.17%.

The Directors consider that the allotment and issue of 43,676,379 Convertible Securities as part of the consideration for the Proposed Acquisition, and the Issue Price, are fair and reasonable and that the Proposed Acquisition is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

[1] The dividend yield of the Company is calculated by the dividend per Ordinary Share divided by the price per Ordinary Share which is the average closing price of the Ordinary Shares as quoted on the Stock Exchange for the period of 12 months on and before the annual result announcement date of the Company for each financial year.

EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Details of the shareholding structure of the Company as at the Latest Practicable Date and immediately after Completion and immediately upon conversion of all Convertible Securities held by the Seller are set out below (assuming that there are no other changes in the number of shares in issue and in the holding of shares in the Company):

	As at the Latest Practicable Date			Immediately after completion of the Proposed Acquisition			Immediately after completion of the Proposed Acquisition, assuming the Convertible Securities are converted in full *(Note 1)*		
	Number of Ordinary Shares	%	Number of Convertible Securities	Number of Ordinary Shares	%	Number of Convertible Securities	Number of Ordinary Shares	%	Number of Convertible Securities
FSE Holdings *(Note 2)*	337,500,000	75	—	337,500,000	75	—	337,500,000	68.4	—
Seller *(Note 3)*	—	—	—	—	—	43,676,379	43,676,379	8.8	—
Sub-total	337,500,000	75	—	337,500,000	75	43,676,379	381,176,379	77.2	—
Public	112,500,000	25	—	112,500,000	25	—	112,500,000	22.8	—
Total	450,000,000	100	—	450,000,000	100	43,676,379	493,676,379	100	—

Note 1: The figures are provided for illustrative purposes only. The terms of the Convertible Securities will not permit conversion if immediately after such conversion, the public float of the Ordinary Shares will fall below the minimum requirements of the Listing Rules.

Note 2: FSE Holdings is beneficially owned as to:

(a) 63% by Sino Spring Global Limited ("**Sino Spring**"). Sino Spring is an investment holding company wholly-owned by Mr. Doo. By virtue of Part XV of the SFO, Mr. Doo is deemed to be interested in all shares in which Sino Spring is interested. In addition, Mrs. Doo Cheng Sau Ha, Amy is the spouse of Mr. Doo and is therefore taken to be interested in all shares in which Mr. Doo is interested by virtue of Part XV of the SFO;

(b) 18% by Dr. Cheng (through Chow Tai Fook Nominee Limited);

(c) 7% by Frontier Star Limited ("**Frontier Star**"). The entire issued share capital of Frontier Star is solely and beneficially owned by Mr. Wong Kwok Kin, Andrew, a non-executive Director of the Company;

(d) 5% by Master Empire Group Limited ("**Master Empire**") and 4% by Supreme Win Enterprises Limited ("**Supreme Win Enterprises**"). The entire issued share capital of Master Empire and Supreme Win Enterprises are solely and beneficially owned by Mr. Doo William Junior Guilherme, an executive Director of the Company;

(e) 2% by Equal Merit Holdings Limited ("**Equal Merit**"). The entire issued share capital of Equal Merit is solely and beneficially owned by Mr. Lam Wai Hon, Patrick, the vice chairman and an executive Director of the Company; and

(f) 1% by Lagoon Treasure Limited ("**Lagoon Treasure**"). The entire issued share capital of Lagoon Treasure is solely and beneficially owned by Mr. Lee Kwok Bong, an executive Director of the Company.

Note 3: The Seller is a wholly-owned subsidiary of FSE Holdings. By virtue of Part XV of the SFO, FSE Holdings is deemed to be interested in all shares in which the Seller is interested.

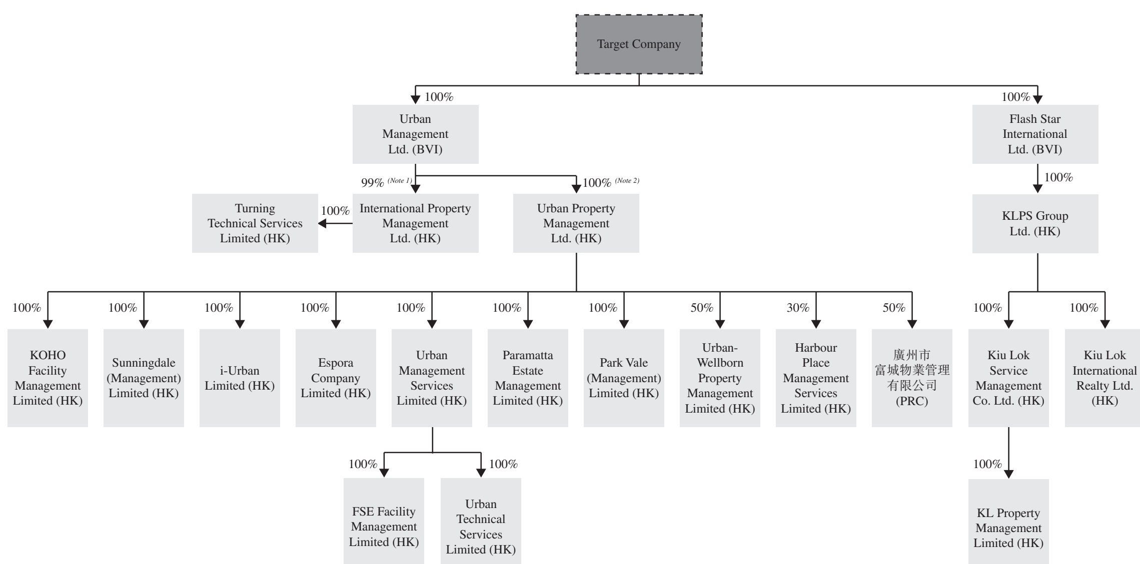
TERM LOAN FACILITY AGREEMENT

On 18 October 2019 (after trading hours of the Stock Exchange), the Buyer Co (as borrower) and two of the Company's direct subsidiaries, FSE Engineering Group Limited and FSE Facility Services Group Limited (as guarantors), entered into a term loan facility agreement with a bank. The Facility Agreement provides for up to the lesser of HK$600 million or 80% of the total Consideration of the Proposed Acquisition for the financing for the Proposed Acquisition. The term loan is repayable on the date that is two years from the drawdown date. Interest will be charged at 0.7% per annum over Hong Kong Interbank Offered Rate (HIBOR).

The Facility Agreement contains a provision which gives rise to an announcement obligation pursuant to Rule 13.18 of the Listing Rules. Under the Facility Agreement, each of the Buyer Co (as borrower) and two of the Company's direct subsidiaries, FSE Engineering Group Limited and FSE Facility Services Group Limited (as guarantors) (collectively, the "**Obligors**") undertakes to procure that Mr. Doo and Mr. Doo William Junior Guilherme shall maintain not less than 51% direct or indirect shareholding of each of the Obligors.

INFORMATION ON THE TARGET GROUP

The following is a simplified group structure chart of the Target Group (including the Urban Group and the Kiu Lok Group), immediately after the completion of the Reorganisation:



Notes:

1. Certain non-voting deferred shares (representing approximately 2.9% of the total number of issued shares) are held by other parties.

2. Certain non-voting deferred shares (representing approximately 0.003% of the total number of issued shares) are held by other parties.

3. The non-voting deferred shares referred to in Notes 1 and 2 do not have any other rights other than a preferential right on a return of assets on liquidation or otherwise.

The Target Company is a limited company incorporated in the British Virgin Islands in 2019. The principal business of the Target Company is investment holding, and does not carry on any business other than its investment in the Target Entities as its sole investment upon completion of the Reorganisation.

Upon completion of the Reorganisation, the Target Group will operate through the Urban Group and the Kiu Lok Group, and will be principally engaged in the provision of property management services mainly in Hong Kong. The Target Group is the No. 2 property management services company in terms of number of units of residential property, area of non-residential property (excluding car park) and number of units of car park spaces under management according to Frost & Sullivan. Property management services generally include overseeing the cleaning, security, repair and maintenance of the residential[2] and non-residential properties[3], including office buildings, shopping arcades, hotels, government institutions, airport, ecopark, academic institutions and car parks. The Target Group currently provides property management services to many well-known properties, including City One Shatin, Cyberport, EcoPark, Hong Kong Science Park, Convention Plaza, K11, and Riviera Gardens. For the three financial years ended 30 June 2017, 30 June 2018 and 30 June 2019, the Target Group is able to achieve a high retention rate[4] of more than 90%[5] on the existing clients, and enter into property management agreements with new clients to maintain its stable and growing business.

Financial information of the Target Group

Set out below is a summary of key combined financial information of the Target Group for the three financial years ended 30 June 2017, 30 June 2018 and 30 June 2019, which has been prepared in accordance with the accounting policies in compliance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants.

	For the financial year ended		
	30 June 2017	**30 June 2018**	**30 June 2019**
	(audited)	(audited)	(audited)
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Revenue	498,696	508,684	527,323
Profit before income tax for the year	69,624	66,737	71,009
Profit for the year	58,263	56,306	59,936

As of 30 June 2019, the audited and combined net asset value of the Target Group was approximately HK$82.3 million. The fair value of the Target Group as at 30 June 2019 was HK$742 million according to the Business Valuation based on historical financial performance of the Target Group.

2 Residential properties might include portion of non-residential properties such as car parks and shops within the same residential development property management contracts.

3 Non-residential properties might include portion of government staff quarters under the same property management contracts with the Government Property Agency.

4 Retention rate is calculated as one minus (number of expired contracts divided by the total number of existing contracts for the respective year).

5 Based on unaudited financial data provided by the Target Group.

INFORMATION ON THE SELLER

The Seller is a limited liability company incorporated in Hong Kong, and a wholly-owned subsidiary of FSE Holdings. To the best knowledge of the Directors, the principal business of the Seller is investment holding.

FSE Holdings, which holds 75% of Ordinary Shares in issue in the Company, is a substantial shareholder of the Company. The Seller, being a wholly-owned subsidiary of FSE Holdings, is an associate of FSE Holdings, and therefore a connected person of the Company.

REASONS FOR AND THE BENEFITS OF THE PROPOSED ACQUISITION

The Group is a leading diversified city services provider in Hong Kong, which has competencies in electrical and mechanical (E&M) engineering, environmental management, cleaning and waste management as well as professional laundry services. With its professionalism and expertise, together with the extensive synergies generated among the companies under the Group, the Group has built up a strong network and offers a full range of professional services to renowned clients and main contractors who are often engaged in property developments, public infrastructures, education and transportation facilities as well as entertainment and travel industries in Hong Kong, Macau and the Mainland China. The Group has been exploring opportunities to expand its services scope in order to add momentum to the growth of the Group and the Directors believe that the Proposed Acquisition can offer the following key benefits to the Group:

Expand business scale and reduce cyclical risks with diversification of revenue stream and client bases

- As a leading diversified city services provider in Hong Kong, the Group has over 40 years of operating history and a strong customer network with leading companies, which provides a stable revenue source to the Group. The Group has been consistently seeking opportunities to further expand its business scale and diversify its revenue stream. The Directors believe that the Proposed Acquisition could bring a positive financial impact to the Group and an important step for its development.

- The Directors also believe that the Proposed Acquisition could enable the Group to further diversify its revenue stream and mitigate cyclical risks typically associated with the E&M engineering segment. Moreover, the Target Group has a diversified client base and stable cash flow, which is not easily affected by changing market conditions and could potentially improve the stability of operation of the Enlarged Group.

- The Target Group recorded a revenue of approximately HK$527.3 million and a net profit attributable to equity holders of approximately HK$59.9 million for the year ended 30 June 2019. According to the business valuer, the Target Group's adjusted net profit attributable to equity holders was HK$69.2 million for the year ended 30 June 2019.

- With the integration of the Target Group into the Group, the Directors believe that the Proposed Acquisition would bring greater diversity to the business portfolio and potentially improve the profitability and dividend pay-out of the Enlarged Group.

Potentially achieve cross-selling synergies, higher customer loyalty by providing integrated services as well as better deployment of human resources

- By diversifying the range of services of the Group, the Directors believe that there will be more cross-selling synergies, and thus potential expansion of the business scale through the Proposed Acquisition. Property management services can be highly complementary to some of our existing businesses such as cleaning and E&M maintenance, as they serve the same customers in the same project site, hence it allows the Enlarged Group to have better insights of the customer needs and potentially offer more integrated services.

- After Completion, the Enlarged Group will have a larger client base shared by the E&M engineering business, environmental management services, facility services and property management business. For example, customers which are main contractors in a construction project may need to engage facility services and property management services after construction has been completed; as the Enlarged Group will have experience and expertise in all of these areas, its tender submission may be considered more competitive than other services providers.

- The Enlarged Group would have staff members exceeding 13,000. The Directors believe that the Enlarged Group could optimize the deployment of manpower across various business segments to improve operation efficiency and cost control. In addition, the staff could have more opportunities for self-development. For example, the staff of the Enlarged Group would have the opportunity to apply his/her skills in other jobs which were not available to him/her before Completion. While our staff would potentially enjoy better work exposure and financial gains from the enlarged and more diversified business portfolio, the customer would also receive integrated one-stop value-added city services from the Enlarged Group as a services provider.

Enhance the Group's leading position in Hong Kong by adding another market leader in the city services sector

- The Target Group is one of the top players in the property management services market in Hong Kong, which would add value to the Group's overall diversified city services business by bringing various additional leading positions. According to Frost & Sullivan, the Target Group has achieved the following rankings:

  o No. 1 among all independent players[6] and No. 2 among all players in the residential property management market in Hong Kong in terms of units under management as at 30 June 2019

  o No. 1 among all independent players[6] and No. 2 among all players in the non-residential (excluding car park) property management market in Hong Kong in terms of area under management as at 30 June 2019

  o No. 1 among all independent players[6] and No. 2 among all players in the car park property management market in Hong Kong in terms of units under management as at 30 June 2019

[6] Property management players excluding companies with direct shareholding by a property developer.

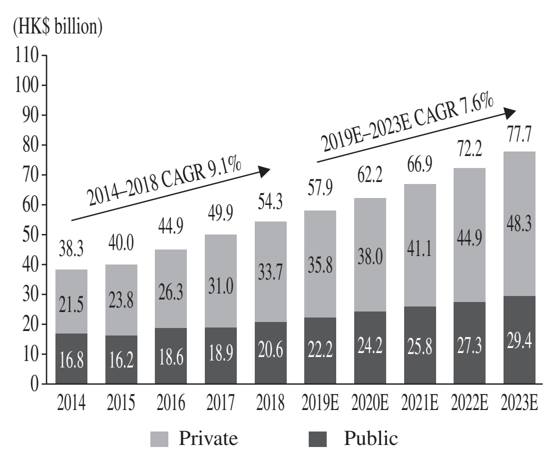
- The combination of the Group's existing business operations and the Target Group's business operations will allow the Enlarged Group to enhance its position as a leading diversified city services provider player in Hong Kong, covering E&M engineering services, environmental management services, facility services (including cleaning and laundry services) and property management services, with industry leading positions in its respective areas. Below sets forth the industry development and ranking positions in relevant markets of the Group and the Target Group.

- Excluding property management companies with direct shareholding by a property developer, the Target Group is the largest and leading player in the property management services market in Hong Kong. Such independence from developers can endear the Group to those customers and developers without a property management arm.

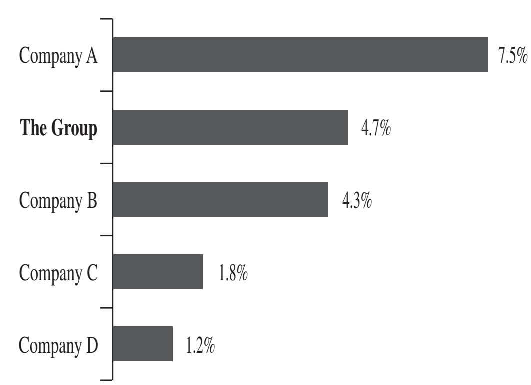
E&M engineering market

The Group's E&M engineering business is the No. 2 player in the Hong Kong market in terms of revenue with an estimated market share of approximately 4.7% for the year ended 30 June 2019 according to Frost & Sullivan. The Group has a long operating history and has been recognized as one of the reputable leaders in the industry. Frost & Sullivan also estimates that the market size will continue to grow at a CAGR of approximately 7.6% from 2019 to 2023, reaching HK$77.7 billion in 2023. The E&M engineering market in Hong Kong is relatively fragmented with the top five players contributing to about 19.5% in terms of revenue for the year ended 30 June 2019.

Market Size in Terms of Output Value of E&M Engineering Market (Hong Kong), 2014–2023E



Ranking of E&M Engineering Services Providers by Revenue (Hong Kong), 2019



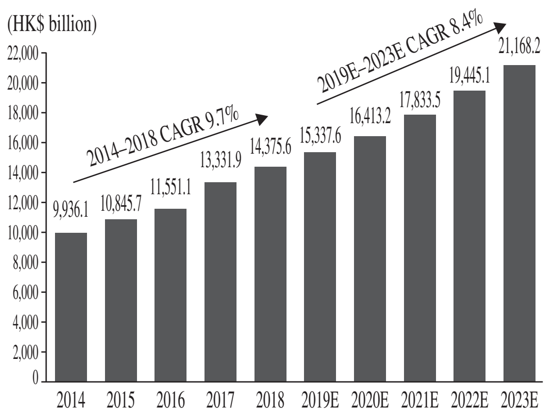
Note: For the year ended 30 June

Source: *Frost & Sullivan*

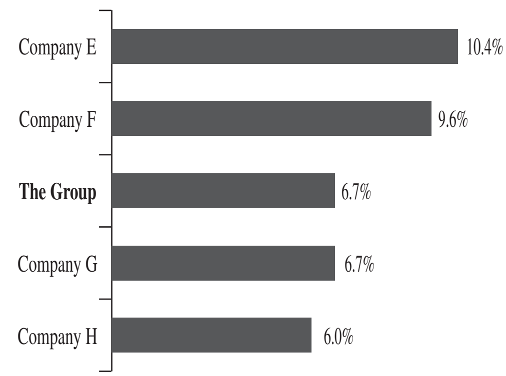
Environmental Hygiene Service Market and Laundry Service Market

The Group's cleaning service business is the No. 3 player in the Hong Kong market in terms of revenue with an estimated market share of approximately 6.7% for the year ended 30 June 2019 according to Frost & Sullivan. Frost & Sullivan also estimates that the market size will continue to grow at a CAGR of approximately 8.4% from 2019 to 2023, reaching HK$21.2 billion in 2023. For the year ended 30 June 2019, the top five market players accounted for about 39.4% of the total market size which is relatively more concentrated.

Market Size of Environmental Hygiene Service (Hong Kong), 2014–2023E



Ranking of Environmental Hygiene Service Providers by Revenues (Hong Kong), 2019



Notes:

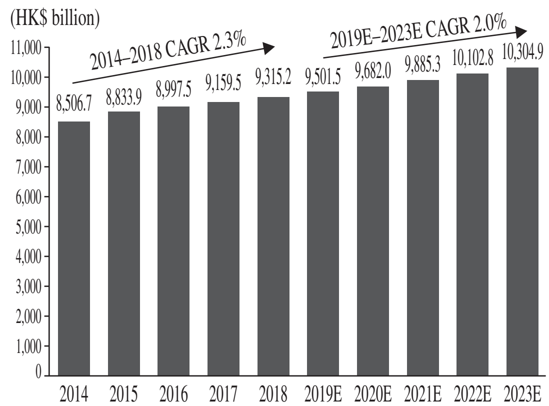
1. For the year ended 30 June

2. Market size refers to revenue generated from general cleaning services excluding waste management and landscaping services.

Source: Frost & Sullivan

The laundry services market is highly fragmented with no dominant players in Hong Kong. The Group's laundry services business is the No. 2 player in Hong Kong market in terms of revenue with an estimated market share of approximately 1.8% for the year ended 30 June 2019 according to Frost & Sullivan. Frost & Sullivan also estimates that the market size will continue to grow stably at a CAGR of approximately 2.0% from 2019 to 2023, reaching HK$10.3 billion in 2023.

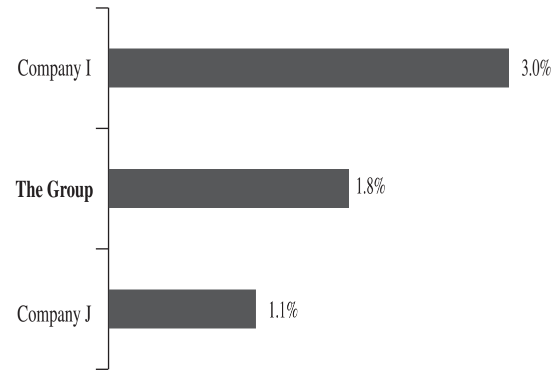
Market Size of Laundry Services (Hong Kong), 2014–2023E



Note: For the year ended 30 June

Source: *Frost & Sullivan*

Ranking of Laundry Services Providers by Revenue (Hong Kong), 2019



Property Management Services Market

According to Frost & Sullivan, the Target Group has achieved the following rankings in the Hong Kong property management services market:

- No. 1 among all independent players[7] and No. 2 among all players in the residential property management services market in Hong Kong in terms of units under management with an estimated market share of approximately 5.3% for the year ended 30 June 2019

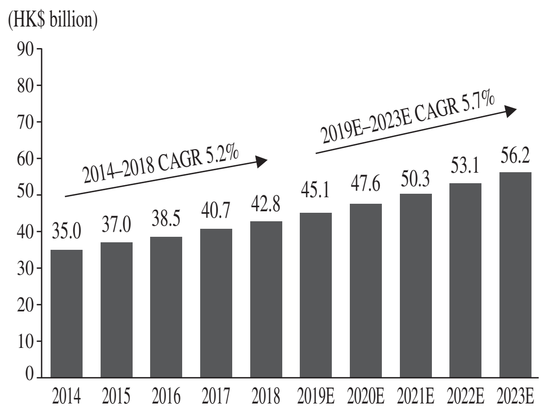
- No. 1 among all independent players[7] and No. 2 among all players in the non-residential (excluding car park) property management services market in Hong Kong in terms of area under management with an estimated market share of approximately 7.2% for the year ended 30 June 2019

- No. 1 among all independent players[7] and No. 2 among all players in the car park property management services market in Hong Kong in terms of units under management with an estimated market share of approximately 6.5% for the year ended 30 June 2019

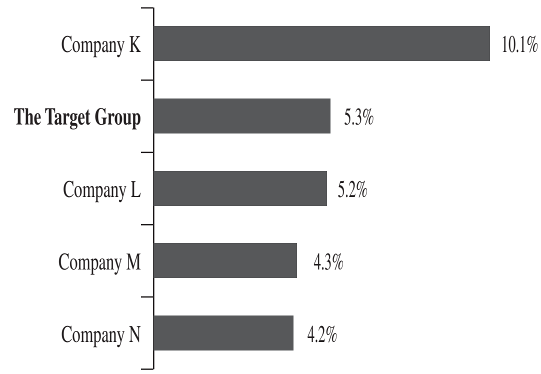
[7] Property management players excluding companies with direct shareholding by a property developer.

Frost & Sullivan also estimates that the market size of Hong Kong property management services will continue to grow at a CAGR of approximately 5.7% from 2019 to 2023, reaching HK$56.2 billion in 2023.

Market Size of Property Management Services (Hong Kong), 2014–2023E



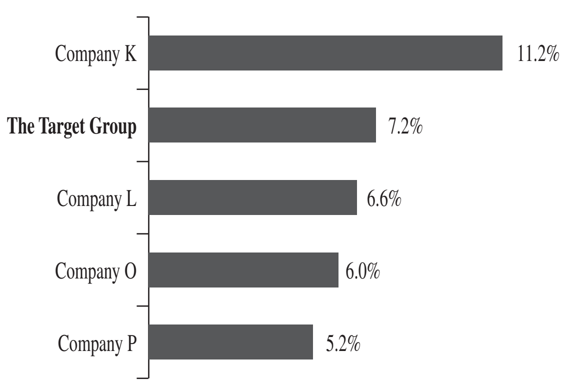
Ranking Residential Property Management Services Providers by Units (Hong Kong), 2019



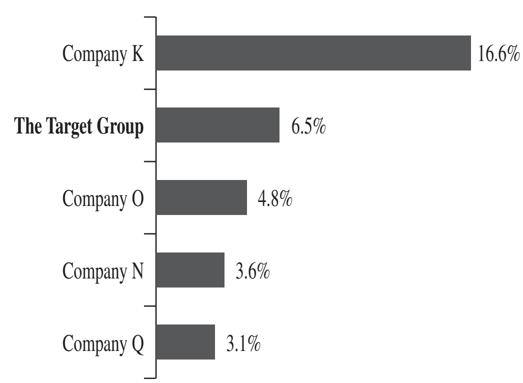
Note: For the year ended 30 June

Source: *Frost & Sullivan*

Ranking of Non-residential Property (excluding car park) Management Services Providers by Area (Hong Kong), 2019



Ranking of Car Park Property Management Services Providers by Units (Hong Kong, 2019)



Note: For the year ended 30 June

Source: *Frost & Sullivan*

After careful consideration and discussion between the Seller and the Company (as the Buyer), the parties have reached an agreement on the Company's settlement of 20% of the Initial Consideration through the Company's issuance of Convertible Securities. This demonstrates that FSE Holdings, being the immediate holding company of the Seller, is committed and supportive of the Proposed Acquisition.

It is a commercial decision of the Company and the outcome of arm's length negotiations between the Company, the Buyer Co and the Seller to enter into the Proposed Acquisition. Having conducted due diligence on the Target Group and considered the implications of the Proposed Acquisition on the Group (including the matters disclosed in this Circular), the Company is not aware of any material adverse factor brought by the Proposed Acquisition, which may affect the interests of the Company and the Shareholders.

The Directors (excluding the independent non-executive Directors (whose views are set out in the Letter from the Independent Board Committee in this Circular) and those who are considered to have a material interest in the Proposed Acquisition as set out in the paragraph headed "Approval by the Board") consider the Proposed Acquisition (including the Consideration) on terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Risk factors associated with the business of the Target Group

The business of the Target Group is subject to a number of risks, including the following:

(1) Many of the service contracts of the Target Group are awarded through competitive tendering. There is no guarantee that the existing service contracts will be extended upon expiry or new service contracts will be awarded to the Target Group

Many of the service contracts of the Target Group are awarded through competitive tendering. Extension of the existing service contracts is also subject to a set of criteria including the Target Group's performance and the quality of services which they provide. There is no guarantee that new service contracts will be awarded to the Target Group or that their existing service contracts will be extended upon expiry.

Some established customers evaluate tenders based on different financial and non-financial consideration. Other customers such as incorporated owners of private properties usually maintain an evaluation system to ensure that the service providers meet certain standards of management, industrial expertise, financial capability, reputation and regulatory compliance which may change from time to time. There is no assurance that the Target Group will meet the tendering requirements or that their overall score under the customers' evaluation system can be maintained. In such events, the Target Group may not be awarded the tender.

Even if the Target Group is invited by potential customers to submit a tender, there is no assurance that (i) their tenders would be selected by the customers or (ii) the terms and conditions of the new service contracts would be comparable to the existing service contracts. In the competitive tendering process, the Target Group may have to lower their service charges or offer more favourable terms to the customers in order to increase the competitiveness of their tenders, and if they are unable to reduce their costs accordingly, their financial results and profitability would be adversely affected.

(2) Provision of property management services on a lump sum basis could subject the Target Group to losses

The Target Group generate a significant proportion of its business from lump sum contracts. Under contracts which the Target Group charges on a lump sum basis, subject to an annual fee adjustment mechanism, the Target Group generally relies on their costs assessment when they decide to submit tender for service contract. The Target Group has experienced an increment in various costs, including labour costs and cleaning materials costs. In the event that the amount of fees they collected is insufficient to cover all of the Target Group's costs incurred for the provision of management services, it is not entitled to collect the shortfall from the customers. If the Target Group fails to project the costs increment when they submit a tender for service contract or fail to implement its cost control measures to avoid cost overrun or the increase in costs outpaces the upward adjustment of its fee, the Target Group may suffer losses which could result in a material adverse effect on its profitability, financial position and results of operations.

(3) Any failure to deal with complaints from residents and occupiers or adverse publicity about the Target Group could impact the Target Group's reputation, business and/or results of operations

The Target Group receives complaints from residents or occupiers from time to time in its operation. There is no assurance that all residents' and occupiers' feedback or complaint would be handled and resolved in a manner satisfying them. The Target Group can also be subject to negative publicity or news reports or allegations in printed and online media. Any such negative publicity may potentially affect customers' and the public's confidence in the Target Group and perception of its business, which could materially harm the Target Group's business, brand and results of operations. Significant numbers of complaints or claims against the Target Group could force them to divert management and other resources from other business concerns and could cause residents to lose confidence in the Target Group, which may adversely affect its business and operations.

(4) The Target Group's insurance policies may not be sufficient to cover all liabilities and its insurance premium may increase from time to time

The Target Group has taken out insurance policies in line with the terms of its service contract and as required by law to cover certain aspects of its business operations. However, certain types of risks are generally not insured because they are either uninsurable or it is not justifiable to insure against such risks. In the event that an uninsured liability arises, the Target Group may suffer losses which may adversely affect the Target Group's financial position. Even if the Target Group has taken out insurance policies, the Target Group can never be sure that the insurance coverage is sufficient to its business. The insurers may not fully compensate the Target Group for all potential losses, damages or liabilities relating to its business operations. Also, the Target Group cannot control if there is any reduction or limitation of insurance coverage by insurers upon the expiry of the current insurance policies. The Target Group cannot guarantee that the insurance premiums will not rise. Any significant increase in insurance costs (such as an increase in insurance premiums) or reduction in coverage in the future may materially and adversely affect the Target Group's business operations and financial results.

(5) *New licencing requirements for property management companies will come into force*

As at the Latest Practicable Date, there was no licencing requirement for property management companies and practitioners for providing property management services. The Property Management Services Ordinance, which aims to regulate property management service companies and practitioners, was enacted by the Legislative Council of Hong Kong in May 2016. Some of the key provisions of the Ordinance have not yet come in force and are expected to become effective in 2020. When all the provisions of the Ordinance come into force, the Target Group and some of their employees will be required to obtain licences to provide property management services.

There is no assurance that the Target Group and its employees would be able to obtain the necessary licences immediately upon those provisions come into force. If there is any delay in the application for licences, the Target Group may need to suspend or terminate its existing property management services.

(6) *Economic, social and political environment*

The state of the economy, social and political environment in Hong Kong may affect the operations of some contracts. If the Target Group fails to manage the site properly, its reputation and chance for renewing the contract may be adversely affected.

Management expertise and experience of the Company

The directors and senior management of the Company have sufficient expertise and relevant experience in the property management services industry and are competent in managing and operating the Target Group after Completion of the Proposed Acquisition. In particular:

(1) Mr. Doo William Junior Guilherme, an executive Director of the Company, has served as a director of Urban Property Management Limited, International Property Management Limited and Kiu Lok Service Management Company Limited, the major operating companies of the Target Group, since June 2014, and is responsible for overall strategic planning, overseeing business development, and major management decisions of each company.

(2) Mr. Lam Wai Hon, Patrick, an executive Director of the Company, has served as a director of Urban Property Management Limited, International Property Management Limited and Kiu Lok Service Management Company Limited, the major operating

companies of the Target Group, since January 2016, and is responsible for overall strategic planning, overseeing business development and operational management, and major management decisions of each company.

(3) Mr. Lee Kwok Bong, an executive Director of the Company, has served as a director of Urban Property Management Limited and International Property Management Limited since June 2011, and Kiu Lok Service Management Company Limited since July 2010, all of which are major operating companies of the Target Group, and is responsible for overall finance operation, financial reporting management and overseeing business development and operational management of each company.

PROPOSED RE-DESIGNATION OF AUTHORISED SHARE CAPITAL

As at the date of this Circular, the authorised share capital of the Company is HK$100,000,000 divided into 1,000,000,000 Ordinary Shares.

In order to allot and issue the Convertible Securities upon Completion, the Board proposes to re-designate the authorised share capital of the Company to HK$100,000,000 divided into 900,000,000 Ordinary Shares of par value of HK$0.10 each, and 100,000,000 Convertible Securities of par value of HK$0.10 each.

LISTING RULES IMPLICATIONS

The Proposed Acquisition

FSE Holdings, which holds 75% of the Ordinary Shares in issue in the Company as at the Latest Practicable Date, is a substantial shareholder of the Company under the Listing Rules. The Seller, being a wholly-owned subsidiary of FSE Holdings, is an associate of FSE Holdings, and therefore a connected person of the Company. The Proposed Acquisition thus constitutes a connected transaction for the Company. As all of the applicable Percentage Ratios for the Proposed Acquisition exceed 5%, the Proposed Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Further, as some of the applicable Percentage Ratios in respect of the Proposed Acquisition are 25% or more but all of those ratios are below 100%, the Proposed Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules, and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The 2019 Master Property Services Agreements

Upon Completion, each Target Entity (other than the Joint Venture Target Entities, International Property Management Limited and Turning Technical Services Limited) will become an indirect wholly-owned subsidiary of the Company.

Mr. Doo is a connected person of the Company. Each of the members of the Doo's Associates Group is an associate of Mr. Doo and hence a connected person of the Company.

As such, the continuing transactions entered into between the Urban Group or the Kiu Lok Group on one side, and the Doo's Associates Group on the other will become continuing connected transactions of the Company.

Dr. Cheng is a connected person of the Company. Dr. Cheng is also the brother-in-law of Mr. Doo, the uncle of Mr. Doo William Junior Guilherme (an executive Director) and is also the cousin of the spouse of Mr. Poon Lock Kee, Rocky (an executive Director and Chief Executive Officer). Dr. Cheng is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group. As such, members of each of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group are therefore treated as connected persons of the Company.

Upon Completion, the continuing transactions entered into between the Urban Group or the Kiu Lok Group on one side, and the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group on the other will also become continuing connected transactions of the Company.

As the highest of the applicable Percentage Ratios in respect of the Annual Cap of each of the 2019 FSE Master Property Services Agreement and the 2019 NWD Master Property Services Agreement exceeds 0.1% but is below 5%, the transactions contemplated under these agreements and the Annual Caps for the same are subject to the reporting, annual review and announcement requirements and exempt from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the highest of the applicable Percentage Ratios in respect of the Annual Cap of each of the 2019 NWS Master Property Services Agreement, the 2019 CTFE Master Property Services Agreement and the 2019 CTFJ Master Property Services Agreement is below 0.1%, the transactions thereunder and the Annual Caps for the same are exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Approval by the Board

Each of the Directors whose names are set out opposite to the Proposed Acquisition and each of the 2019 Master Property Services Agreements in the table below is or may be regarded as having a material interest or potential conflict of interest in the corresponding Proposed Acquisition or the relevant 2019 Master Property Services Agreement and the transactions thereunder.

Proposed Acquisition or Services Transactions contemplated under:	Director who is regarded as having a material interest or potential conflict of interest in the Proposed Acquisition or the relevant 2019 Master Property Services Agreement	Basis upon which the Director is regarded as having a material interest or potential conflict of interest
Proposed Acquisition	Dr. Cheng	• He has interest in some members of the Doo's Associates Group
	Mr. Doo William Junior Guilherme	• He has interest in some members of the Doo's Associates Group
		• He is a director of some members of the Doo's Associates Group
	Mr. Lam Wai Hon, Patrick	• He has interest in some members of the Doo's Associates Group
		• He is a director of some members of the Doo's Associates Group
	Mr. Wong Kwok Kin, Andrew	• He has interest in some members of the Doo's Associates Group
		• He is a director of FSE Holdings
	Mr. Lee Kwok Bong	• He has interest in some members of the Doo's Associates Group
		• He is a director of some members of the Doo's Associates Group

Proposed Acquisition or Services Transactions contemplated under:	Director who is regarded as having a material interest or potential conflict of interest in the Proposed Acquisition or the relevant 2019 Master Property Services Agreement	Basis upon which the Director is regarded as having a material interest or potential conflict of interest
2019 FSE Master Property Services Agreement	Dr. Cheng	• He has interest in some members of the Doo's Associates Group
	Mr. Doo William Junior Guilherme	• He has interest in some members of the Doo's Associates Group • He is a director of some members of the Doo's Associates Group
	Mr. Lam Wai Hon, Patrick	• He has interest in some members of the Doo's Associates Group • He is a director of some members of the Doo's Associates Group
	Mr. Wong Kwok Kin, Andrew	• He has interest in some members of the Doo's Associates Group • He is a director of FSE Holdings
	Mr. Lee Kwok Bong	• He has interest in some members of the Doo's Associates Group • He is a director of some members of the Doo's Associates Group
2019 NWD Master Property Services Agreement	Dr. Cheng	• He is a director of NWD • He is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group

Proposed Acquisition or Services Transactions contemplated under:	**Director who is regarded as having a material interest or potential conflict of interest in the Proposed Acquisition or the relevant 2019 Master Property Services Agreement**	**Basis upon which the Director is regarded as having a material interest or potential conflict of interest**
2019 NWS Master Property Services Agreement	Dr. Cheng	• He is a director of NWS • He is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group
	Mr. Doo William Junior Guilherme	• He is a non-executive director of NWS
	Mr. Lam Wai Hon, Patrick	• He is a non-executive director of NWS
	Mr. Kwong Che Keung, Gordon	• He is an independent non-executive director of NWS
2019 CTFE Master Property Services Agreement	Dr. Cheng	• He is a director of CTFE • He is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group
2019 CTFJ Master Property Services Agreement	Dr. Cheng	• He is a director of CTFJ • He is a member of the Cheng family which holds or controls each of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group
	Mr. Kwong Che Keung, Gordon	• He is an independent non-executive director of CTFJ

Each of the directors named above who was present at the Board meeting approving the Proposed Acquisition and the 2019 Master Property Services Agreements had abstained from voting on the resolutions approving the Proposed Acquisition, the 2019 Master Property Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same in respect of which he is regarded as having a material interest (or as the case may be, a potential conflict of interest) as indicated in the table above. For good corporate governance, Mr. Doo William Junior Guilherme had voluntarily abstained from voting at the Board meeting on other resolutions abovementioned, though he does not have (nor his associate has) a material interest in the relevant transactions.

RECOMMENDATION

Your attention is drawn to (i) the advice of the Independent Board Committee set out in its letter on pages 39 to 40 of this Circular, and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 41 to 78 of this Circular in respect of the Proposed Acquisition.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Proposed Acquisition (including the Consideration) on terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the EGM Matters.

CLOSURE OF REGISTER OF MEMBERS

The record date for determining the entitlement of the Shareholders to attend and vote at the EGM will be 6 December 2019. The Company's branch register of members will be closed from 3 December 2019 to 6 December 2019 (both days inclusive) during which period no transfer of Ordinary Shares will be effected. In order to be eligible to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on 2 December 2019.

EGM

The EGM will be held at 17/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 6 December 2019 at 11:30 a.m. (or as soon thereafter as the annual general meeting convened to be held at 11:00 a.m. on the same day shall have been concluded or adjourned), to consider and, if thought fit, to approve the EGM Matters. A notice of the EGM is set out on pages EGM-1 to EGM-3 of this Circular.

The voting at the EGM will be taken by poll.

At the EGM, any Shareholders with a material interest in the Proposed Acquisition are required to abstain from voting on the resolution approving the same at the EGM. As at the Latest Practicable Date, among these persons who are required to abstain from voting at the EGM, FSE Holdings holds 75% of Ordinary Shares in issues in the Company. FSE Holdings will therefore abstain from voting at the EGM.

To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, apart from FSE Holdings, no other Shareholders are materially interested in the Proposed Acquisition who are required to abstain from voting on the resolutions approving the same at the EGM as aforesaid.

A form of proxy for use in connection with the EGM is also enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

GENERAL

Completion of the Proposed Acquisition is subject to the fulfilment (or, as the case may be, waiver) of the conditions precedent under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), respectively. As the Proposed Acquisition may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Ordinary Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Circular.

Yours faithfully
By order of the Board
FSE Services Group Limited
Dr. Cheng Kar Shun, Henry
Chairman

The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this Circular.

FSE SERVICES GROUP LIMITED
豐盛服務集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 331)

15 November 2019

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET ENTITIES ENGAGED IN THE PROVISION OF PROPERTY MANAGEMENT SERVICES AND ISSUE OF CONVERTIBLE SECURITIES;
(2) ENTRY INTO A TERM LOAN FACILITY AGREEMENT;
(3) PROPOSED RE-DESIGNATION OF AUTHORISED SHARE CAPITAL; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular dated 15 November 2019 (the "**Circular**") of which this letter forms part. Terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the Proposed Acquisition and to advise the Independent Shareholders as to whether, in our opinion, the Proposed Acquisition (including the Consideration) is on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable in so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Ballas Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the EGM Matters and whether the Proposed Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Group, in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote. We wish to draw your attention to the letter from the Board as set out on pages 8 to 38 of the Circular as well as the letter from the Independent Financial Adviser as set out on pages 41 to 78 of the Circular.

Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung, Eddie and Dr. Tong Yuk Lun, Paul, being the independent non-executive Directors who do not have a material interest in the Proposed Acquisition consider that:

(1) the Proposed Acquisition (including the Consideration) and issuance of 43,676,379 Convertible Securities to the Seller (or its nominees) are not in the ordinary and usual course of business of the Group;

(2) having taken into account the advice of the Independent Financial Adviser, the Proposed Acquisition (including the Consideration) and issuance of 43,676,379 Convertible Securities to the Seller (or its nominees) are:

i. on normal and commercial terms;

ii. fair and reasonable so far as the Company and the Independent Shareholders are concerned; and

iii. in the interests of the Company and the Shareholders as a whole; and

(3) accordingly, it is recommended that the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM in relation to the Proposed Acquisition and issuance of 43,676,379 Convertible Securities.

Yours faithfully
Independent Board Committee

Mr. Kwong Che Keung, Gordon	**Mr. Hui Chiu Chung, Stephen**	**Mr. Lee Kwan Hung, Eddie**	**Dr. Tong Yuk Lun, Paul**

BALLAS
CAPITAL

Unit 1802, 18/F
1 Duddell Street
Central
Hong Kong

15 November 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET ENTITIES ENGAGED IN THE PROVISION OF PROPERTY MANAGEMENT SERVICES AND ISSUE OF CONVERTIBLE SECURITIES

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company (the "**Circular**") to the Shareholders dated 15 November 2019, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 18 October 2019 (after trading hours of the Stock Exchange), the Company announced that the Company, the Buyer Co and the Seller entered into the Sale and Purchase Agreement for the Company to acquire (or procure the Buyer Co to acquire) and the Seller to sell the Sale Share at the Consideration (subject to adjustments, if any). On 14 November 2019, the Company further announced that the Company, the Buyer Co and the Seller entered into the Supplemental Deed to amend, among other matters, the terms governing the conversion period and the rights to redemption, preferred distribution and dividends of the Convertible Securities under the Sale and Purchase Agreement.

FSE Holdings, which held 75% of the Ordinary Shares in issue in the Company as at the Latest Practicable Date, is a substantial shareholder of the Company under the Listing Rules. The Seller, being a wholly-owned subsidiary of FSE Holdings, is an associate of FSE Holdings, and therefore a connected person of the Company. The Proposed Acquisition thus constitutes a connected transaction for the Company. As all of the applicable Percentage Ratios for the Proposed Acquisition exceed 5%, the Proposed Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Further, as some of the applicable Percentage Ratios in respect of the Proposed Acquisition are 25% or more but all of those ratios are below 100%, the Proposed Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules, and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

At the EGM, any Shareholders with a material interest in the Proposed Acquisition and the Specific Mandate are required to abstain from voting on the resolution approving the same at the EGM. As such, each of FSE Holdings and their respective associates is required to abstain from voting on the resolutions approving the same at the EGM. As at the Latest Practicable Date, among these persons who are required to abstain from voting at the EGM, FSE Holdings held 75% of the Ordinary Shares in issues in the Company. FSE Holdings will therefore abstain from voting at the EGM. To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, apart from FSE Holdings, no other Shareholders are materially interested in the Proposed Acquisition who are required to abstain from voting on the resolutions to be proposed for approving the same at the EGM as aforesaid.

The Independent Board Committee comprising all of the independent non-executive Directors, being Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung, Eddie and Dr. Tong Yuk Lun, Paul, has been established to advise the Independent Shareholders in relation to the Proposed Acquisition.

INDEPENDENCE DECLARATION

We are not associated or connected with the Company, the Target Group, the Seller or their respective core connected persons or associates. As at the Latest Practicable Date, save for this appointment as the Independent Financial Adviser in relation to the Proposed Acquisition and our roles as the independent financial adviser in relation to (i) the revision of the annual caps for provision of cleaning and laundry services by the Group as disclosed in the Company's circular dated 8 November 2019; (ii) the Company's acquisition of the entire issued share capital of the target entities carrying out facility services and the continuing connected transactions regarding rental and related services, IT support services and cleaning and laundry services as disclosed in the Company's circular dated 20 March 2018; and (iii) the Company's continuing connected transactions regarding the building services in June 2019 and property services in October 2019 (which transactions were exempt from the Independent Shareholders' approval requirement under the Listing Rules), we did not have any other relationship with or interests in the Company, the Target Group, the Seller or their respective core connected persons or associates in the last two years. We consider that the aforesaid services we provided to the Company would not affect our independence. Accordingly, we consider we are eligible to give independent advice on the Proposed Acquisition.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company.

The Directors have declared in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or the Target Group or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

A. Background information of the Group

(i) Background and financial results of the Group

The Group is principally engaged in the electrical and mechanical engineering ("**E&M**"), environmental management services and facility services (including cleaning and laundry) with majority of its operation focus in servicing the Hong Kong market. The E&M business mainly includes the provision of engineering services and trading of building materials; the environmental management services mainly includes the trading of environmental products and the provision of related engineering and consultancy services; and the facility services mainly includes the management of cleaning and waste disposal services, recycling and environmental disposal services and provision of laundry services. For FY2017, FY2018 and FY2019, over 70% of the Group's revenue was derived from its E&M business.

Set out below is a summary of the Group's financial performance for the three years ended 30 June 2019 as extracted from the Company's annual reports for the years ended 30 June 2017, 2018 and 2019 (the "**Annual Reports**").

	For the year ended 30 June		
	2017*	**2018**	**2019**
	("FY2017")	**("FY2018")**	**("FY2019")**
HK$'millions	(audited)	(audited)	(audited)
Revenue	4,829.6	4,926.5	4,930.5
— *Electrical & mechanical engineering*	3,645.4	3,694.2	3,665.8
— *Environmental management services*	54.0	61.8	71.1
— *Facility services*	1,130.2	1,170.5	1,193.6
Cost of services and sales	(4,274.0)	(4,335.5)	(4,330.7)
Gross profit	**555.6**	**591.0**	**599.8**
Other income/gains, net	4.6	3.3	3.9
General and administrative expenses	(296.6)	(323.2)	(311.4)
Operating profit	**263.6**	**271.2**	**292.3**
Finance income	14.6	18.2	5.2
Finance cost	(0.4)	(1.1)	—
Profit before income tax	**277.9**	**288.3**	**297.5**
Income tax expenses	(52.5)	(51.5)	(50.0)
Profit attributable to the equity holders	**225.4**	**236.8**	**247.5**

Notes:

* The Group has completed the acquisition of the target entities carrying out facility services in April 2018 where the acquisition was considered as a business combination under common control. Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control, as if the acquisition had been completed on the earliest date being presented, i.e. 1 July 2016.

Any discrepancies in the table above between totals and sums of amounts listed herein are due to rounding.

Comparison of historical results between years for material items

FY2017 vs FY2018

As shown in the table above, revenue generated from the Group's E&M business has been the main source of income, which represented approximately 75.5% and 75.0% of the Group's revenue for FY2017 and FY2018, respectively.

Revenue of the Group for FY2018 was approximately HK$4,926.5 million, which represented an increase of approximately 2.0% as compared to that of approximately HK$4,829.6 million for FY2017. As noted from the Annual Reports, such increase was mainly derived from the increase in revenue from (i) E&M segment which in turn was attributable to the increased revenue contribution from a number of E&M projects in Mainland China which had significant progress and (ii) facility services segment which in turn was attributable to the revenue contribution from a number of new cleaning service contracts.

Gross profit of the Group for FY2018 was approximately HK$591.0 million, which represented an increase of approximately 6.4% as compared to that of approximately HK$555.6 million for FY2017, whereas overall gross profit margin remained relatively stable at approximately 11.5% and 12.0% for FY2017 and FY2018, respectively. As noted from the Annual Reports, such increase in gross profit was driven by the E&M engineering business recording an increase in gross profit during the year with segment gross profit margin improved from approximately 10.7% for FY2017 to approximately 11.4% for FY2018. The gross profit margin of the environmental management service remained stable with gross profit rose by approximately 16.3% from approximately HK$15.3 million for FY2017 to approximately HK$17.8 million for FY2018. Such increase was mainly contributed from the biological deodorizing system installation and maintenance works. The gross profit margin of the facility services segment decreased slightly from approximately 13.2% for FY2017 to approximately 12.9% for FY2018, which was mainly resulted from the increase in fuel costs for provision of laundry service.

General and administrative expenses of the Group for FY2018 was approximately HK$323.2 million, which represented an increase of approximately 9.0% as compared to that of approximately HK$296.6 million for FY2017. As noted from the Annual Reports, the increase was mainly attributable to the staff costs from annual salary increment and employment of additional staff to cope with business expansion, higher rental expenses for the laundry plant in Fanling for the new lease contracted upon completion of the acquisition of the facility services business and the one-off legal and professional fees for the acquisition of the facility services segment. There was also an additional one-off non-recurring write-back of bonus provision in FY2017.

Finance income of the Group for FY2018 was approximately HK$18.2 million, which represented an increase of approximately 24.7% as compared to that of approximately HK$14.6 million in FY2017. As noted from the Annual Reports, such increase was mainly due to the interest income from investment in available-for-sale financial assets and financial assets at fair value through profit or loss.

As a result of the above fluctuations, in particular the higher gross profit contribution mostly from the E&M segment during the year, the Group recorded profit attributable to the equity holders of approximately HK$236.8 million for FY2018, which represented an increase of approximately 5.1% as compared to that of approximately HK$225.4 million for FY2017.

FY2018 vs FY2019

As shown in the table above, revenue generated from the Group's E&M business has been the main source of income, which represented approximately 75.0% and 74.4% of the Group's revenue for FY2018 and FY2019, respectively.

Revenue of the Group for FY2019 was approximately HK$4,930.5 million, which was similar to that of approximately HK$4,926.5 million for FY2018. As noted from the Annual Reports, the revenue for FY2019 reflected the higher revenue from the (i) facility services segment which in turn was mainly attributable to the revenue contribution from a number of new cleaning service contracts and (ii) environmental management services segment which in turn was mainly attributable to the increase in revenue from its environmentally-related contracting and maintenance services, partly offset by lower revenue derived from the E&M segment. As mentioned above, a number of E&M projects in Mainland China made significant progress in FY2018 which resulted in comparatively higher E&M segment revenue for FY2018.

Gross profit of the Group for FY2019 was approximately HK$599.8 million, which represented an increase of approximately 1.5% as compared to that of approximately HK$591.0 million for FY2018, whereas the overall gross profit margin remained relatively stable at approximately 12.0% and 12.2% for FY2018 and FY2019, respectively. As noted from the Annual Reports, the increase in gross profit was driven by the E&M engineering business recording an increase in gross profit margin from approximately 11.4% for FY2018 to approximately 12.1% for FY2019. The gross profit margin of the environmental management service remained stable with gross profit rising by approximately 7.9% from approximately HK$17.8 million for FY2018 to approximately HK$19.2 million for FY2019. Such increase was mainly contributed from the biological deodorizing system maintenance services. The gross profit margin of the facility services segment decreased from approximately 12.9% for FY2018 to approximately 11.5% for FY2019, which was mainly resulted from an escalation of labour costs due to labour shortage.

General and administrative expenses of the Group for FY2019 was approximately HK$311.4 million, which represented a decrease of approximately 3.7% as compared to that of approximately HK$323.2 million for FY2018. As noted from the Annual Reports, the decrease was mainly attributable to the successful cost saving campaign during FY2019 and the relatively higher one-off expenses during FY2018 as mentioned above, partly offset by the higher market rental of the Fanling laundry plant from April 2018 onwards.

Finance income of the Group for FY2019 was approximately HK$5.2 million, which represented a decrease of approximately HK$13.0 million as compared to that of approximately HK$18.2 million in FY2018. As noted from the Annual Reports, such decrease was mainly due to lower interest income with a lower bank balance after acquiring the cleaning and laundry services businesses in April 2018

As a result of the above fluctuations, in particular the higher gross profit contribution mostly from the E&M segment and the decrease in general and administrative expenses during the year, the Group recorded profit attributable to the equity holders of approximately HK$247.5 million for FY2019, which represented an increase of approximately 4.5% as compared to that of approximately HK$236.8 million for FY2018.

Financial position of the Group

Set out below is a summary of the financial position of the Group as at 30 June 2019 as extracted from the Annual Reports.

HK$'millions	**As at 30 June 2019** (audited)	**% of total assets**
Non-current assets		
Property, plant and equipment	393.9	14.7%
Investment property	11.2	0.4%
Land use rights	20.4	0.8%
Other Intangible assets	51.9	1.9%
Deferred income tax assets	9.3	0.3%
	486.9	**18.1%**
Current assets		
Inventories	40.2	1.5%
Contract assets	290.8	10.8%
Trade and other receivables	1,422.9	52.9%
Cash and bank balances	447.0	16.6%
	2,201.0	**81.9%**
Total assets	**2,687.9**	**100.0%**

		% of total liabilities
Current liabilities		
Contract liabilities	224.1	11.7%
Trade and other payables	1,590.1	83.0%
Taxation payable	53.8	2.8%
	1,868.0	**97.5%**
Non-current liabilities		
Deferred income tax liabilities	26.8	1.4%
Long service payment liabilities	21.1	1.1%
	47.8	**2.5%**
Total liabilities	**1,915.9**	**100.0%**
Net current assets	**333.0**	
Net assets	**772.0**	
Equity		
Share capital	45.0	
Reserves	727.0	
	772.0	

Note: Any discrepancies in the table above between totals and sums of amounts listed herein are due to rounding.

As at 30 June 2019, the Group's total assets amounted to approximately HK$2,687.9 million, which mainly comprised (i) trade and other receivables of approximately 52.9%; (ii) cash and bank balances of approximately 16.6%; and (iii) property, plant and equipment of approximately 14.7%, of total assets.

As at 30 June 2019, the Group's total liabilities amounted to approximately HK$1,915.9 million, which mainly comprised (i) trade and other payables of approximately 83.0%; and (ii) contract liabilities of approximately 11.7%, of total liabilities.

As at 30 June 2019, the Group recorded net assets attributable to the equity holders of approximately HK$772.0 million.

B. Background information of the Target Group

(i) Business of the Target Group

The Target Group is principally engaged in the provision of property management services mainly in Hong Kong. The Target Group's property management services are operated through the Urban Group and the Kiu Lok Group, which are principally engaged in the provision of property management services in Hong Kong. The Target Group is the top 2 property management services company in Hong Kong in terms of number of units of residential property, area of non-residential (excluding car park) property and number of units of car park spaces under management for the year ended 30 June 2019 according to Frost & Sullivan. Property management services generally includes overseeing the cleaning, security, repair and maintenance of residential[1] and non-residential[2] properties.

(ii) Financial results

Set out below is a summary of the Target Group's financial performance for the three years ended 30 June 2017, 2018 and 2019 as extracted from (i) the accountant's report on the Target Group set out in Appendix II to this circular; and (ii) the management discussion and analysis of the Target Group set out in Appendix III to this circular.

	For the year ended 30 June		
	2017	**2018**	**2019**
HK$'millions	(audited)	(audited)	(audited)
Revenue	498.7	508.7	527.3
— *Revenue from residential properties*	176.7	190.2	215.2
— *Revenue from non-residential properties*	322.0	318.5	312.1
Cost of operations	(345.0)	(346.2)	(357.7)
Gross profit	**153.7**	**162.5**	**169.7**
Other income, net	0.5	0.5	1.4
Administrative expenses	(85.0)	(96.8)	(100.3)

1 Residential properties might include portion of non-residential properties such as car parks and shops within the same residential development property management contracts.

2 Non-residential properties might include portion of government staff quarters under the same property management contracts with the Government Property Agency.

	For the year ended 30 June		
	2017	**2018**	**2019**
HK$'millions	(audited)	(audited)	(audited)
Operating profit	**69.1**	**66.2**	**70.8**
Finance cost	(0.6)	(0.4)	(0.4)
Share of result of			
An associate	1.1	0.9	0.9
Joint ventures	0.0	0.0	(0.2)
Profit before income tax	**69.6**	**66.7**	**71.1**
Income tax expenses	(11.4)	(10.4)	(11.2)
Profit for the year	**58.3**	**56.3**	**59.9**
Attributable to:			
Equity holders	58.2	56.3	59.9
Non-controlling interests	0.0	0.0	0.1

Notes:

a. The balances shown in the table above as zero due to rounding less than HK$1,000.

b. Any discrepancies in the table above between totals and sums of amounts listed herein are due to rounding.

For the purpose of evaluating the financial performance of the Target Group, we have excluded the non-recurring items to arrive at the adjusted net profit of the Target Group as set out below.

	For the year ended 30 June		
	2017	**2018**	**2019**
HK$'millions			
Net profit for the year attributable to the equity holders (audited)	**58.2**	**56.3**	**59.9**
Add/(deduct):			
Management fee *(Note a)*	8.3	8.9	9.5
Donation *(Note b)*	2.6	2.6	2.7
Write-off on other payables *(Note c)*	—	—	(0.6)
Gain on disposal of property, plant and equipment *(Note d)*	—	(0.0)	(0.4)
	10.9	11.5	11.2
Net tax effects:			
Net tax effects as a result of the above adjustments using a tax rate of 16.5%	(1.8)	(1.9)	(1.8)
Adjusted net profit for the year attributable to the equity holders	67.4	65.9	69.2

Notes:

a. During FY2017 to FY2019, the Seller charged the Target Group a management fee. After Completion, the existing management functions provided by the Seller in consideration of the management fee will be performed by the senior management team of the Company.

b. Being donation made by the Target Group during FY2017 to FY2019, which is non-recurring.

c. Being the write-off on other payables made by the Target Group in FY2019, which is non-recurring.

d. Being the gain on disposal of property, plant and equipment in FY2018 and FY2019, which is non-recurring.

e. The balances shown in the table above as zero due to rounding less than HK$1,000.

f. Any discrepancies in the table above between totals and sums of amounts listed herein are due to rounding.

Comparison of historical results between years for material items

FY2017 vs FY2018

As shown in the table above, revenue generated from non-residential properties accounted for approximately 64.6% and 62.6% of the Target Group's revenue in FY2017 and FY2018, whereas revenue generated from residential properties accounted for approximately 35.4% and 37.4% of the Target Group's revenue in FY2017 and FY2018, respectively.

Revenue of the Target Group was approximately HK$508.7 million in FY2018, which remained relatively stable as compared to that of approximately HK$498.7 million in FY2017 with a small increase of approximately 2.0% attributable to the increase in revenue from residential properties, which in turn was mainly attributable to price increment of existing contracts. Cost of operations of the Target Group increased by approximately 0.3% from approximately HK$345.0 million for FY2017 to approximately HK$346.2 million in FY2018, mainly attributable to increase in sub-contracting fees in relation to labour costs.

Gross profit margin for the Target Group increased from approximately 30.8% for FY2017 to approximately 31.9% for FY2018. As discussed with and understood from the management of the Target Group, such increase was driven by residential properties segment recording an increase in gross profit margin for FY2018. Gross profit of the Target Group amounted to approximately HK$162.5 million for FY2018, which represented an increase of approximately 5.7% as compared to that of approximately HK$153.7 million for FY2017.

Other income, net of the Target Group remained relatively stable at approximately HK$0.5 million for each of FY2017 and FY2018, respectively.

Administrative expenses of the Target Group was approximately HK$96.8 million in FY2018, which represented an increase of approximately 13.9% as compared to approximately HK$85.0 million of FY2017. As discussed with and understood from the management of the Target Group, such increase was mainly attributable to higher staff costs due to addition of staff and salary increment, and increase in advertising and promotion for brand building.

As a result of the above fluctuations, the Target Group recorded profit attributable to the equity holders of approximately HK$56.3 million in FY2018, which represented a decrease of approximately 3.4% as compared to that of approximately HK$58.2 million in FY2017. Excluding the effect of non-recurring/one-off items, the Target Group recorded an adjusted profit attributable to the equity holders of approximately HK$65.9 million in FY2018, which represented a decrease of approximately 2.2% as compared to that of approximately HK$67.4 million in FY2017.

FY2018 vs FY2019

As shown in the table above, revenue generated from non-residential properties accounted for approximately 62.6% and 59.2% of the Target Group's revenue in FY2018 and FY2019, whereas revenue generated from residential properties accounted for approximately 37.4% and 40.8% of the Target Group's revenue in FY2018 and FY2019, respectively.

Revenue of the Target Group for FY2019 was approximately HK$527.3 million, which represented an increase of approximately 3.7% as compared to that of approximately HK$508.7 million for FY2018, mainly driven by increase in revenue from residential properties, which in turn was mainly attributable to new contracts and price increment of existing contracts. In line with the increase in revenue, cost of operations of the Target Group also increased by approximately 3.3% from approximately HK$346.2 million for FY2018 to approximately HK$357.7 million for FY2019.

Gross profit margin of the Target Group was approximately 32.2% for FY2019, which remained relatively stable as compared to approximately 31.9% in FY2018. Gross profit of the Target Group for FY2019 was approximately HK$169.7 million, which represented an increase of approximately 4.4% as compared to that of approximately HK$162.5 million in FY2018.

Other income, net of the Target Group for FY2019 was approximately HK$1.4 million as compared to other income, net of the Target Group of approximately HK$0.5 million for FY2018. As discussed with and understood from the management of the Target Group, such increase was mainly attributable to increase in write-off on other payables and gain on disposal of property, plant and equipment.

Administrative expenses of the Target Group for FY2019 was approximately HK$100.3 million, which represented an increase of approximately 3.6% as compared to that of approximately HK$96.8 million in FY2018. As discussed with and understood from the management of the Target Group, such increase was mainly attributable to increase in depreciation and service costs for upgrading computerised systems; and operating leases in respect of land and buildings.

As a result of the above fluctuations, the Target Group recorded profit attributable to the equity holders of approximately HK$59.9 million in FY2019, which represented an increase of approximately 6.4% as compared to that of approximately HK$56.3 million in FY2018. Excluding the effect of non-recurring/one-off items, the Target Group recorded an adjusted profit attributable to the equity holders of approximately HK$69.2 million in FY2019, which represented an increase of approximately 5.0% as compared to that of approximately HK$65.9 million in FY2018.

Financial position

Set out below is a summary of the financial position of the Target Group as at 30 June 2019 as extracted from the accountant's report on the Target Group set out in Appendix II to this circular.

HK$'millions	**As at 30 June 2019** (audited)	**% of total assets**
Non-current asset		
Property, plant and equipment	13.0	4.8%
Intangible assets	26.2	9.6%
Interest in an associate	0.1	0.0%
Interest in joint ventures	0.9	0.3%
Pension asset	2.8	1.0%
	43.1	**15.8%**
Current assets		
Trade and other receivables	90.4	33.1%
Amount due from FSE Management Company Limited	12.2	4.5%
Amounts due from related companies	12.6	4.6%
Cash and cash equivalents	115.2	42.1%
	230.3	**84.2%**
Total assets	**273.4**	**100.0%**

		% of total liabilities
Current liabilities		
Trade and other payables	109.2	57.1%
Amount due to FSE Management Company Limited	24.3	12.7%
Amounts due to related companies	3.4	1.8%
Borrowings	30.0	15.7%
Income tax payable	10.7	5.6%
	177.7	**93.0%**
Non-current liabilities		
Deferred income tax liabilities	2.6	1.4%
Long service payment liabilities	10.8	5.6%
	13.4	**7.0%**
Total liabilities	**191.1**	**100.0%**
Net current assets	**52.7**	
Net assets	**82.3**	
EQUITY		
Combined share capital	—	
Reserves	82.2	
Shareholder's funds	82.2	
Non-controlling interests	0.1	
	82.3	

Note: Any discrepancies in the table above between totals and sums of amounts listed herein are due to rounding.

As at 30 June 2019, the Target Group's total assets amounted to approximately HK$273.4 million, which mainly comprised (i) cash and cash equivalents of approximately 42.1%; (ii) trade and other receivables of approximately 33.1%; and (iii) intangible assets of approximately 9.6%.

As at 30 June 2019, the Target Group's total liabilities amounted to approximately HK$191.1 million, which mainly comprised (i) trade and other payables of approximately 57.1%; (ii) borrowings of approximately 15.7%; and (iii) amount due to FSE Management Company Limited of approximately12.7%.

With regards to the amount due from/to FSE Management Company Limited of approximately HK$24.3 million as at 30 June 2019, as disclosed in the '34. Subsequent Event' section of the notes to the accountant's report of the Target Group set out in Appendix II to this circular, the Target Group has settled the amount due from/to FSE Management Company Limited in October 2019.

As at 30 June 2019, the Target Group recorded net assets attributable to the equity holders of approximately HK$82.2 million.

(iii) Major customers of the Target Group

The Target Group has a diversified portfolio of customers comprising over 250 customers for FY2019. Top customers of the Target Group include government authority, non-residential properties, residential properties, university staff quarters and car parks in Hong Kong. The top five customers of the Target Group accounted for an aggregate of 40.7% and the top customer accounted for 18.6% of its revenue for FY2019. The contracts with three out of the top five customers will expire during the period from 31 December 2019 to 31 March 2020 and the remaining two contracts will expire in October 2020 and October 2022. The top five customers have been customers of the Target Group for a period of approximately three to over ten years. We understand from the management of the Target Group that most contracts of the Target Group are of a term of two to four years and are subject to renewal and re-tender, and the historical contract retention rate[3] during FY2017 to FY2019 was high at over 90%.

The Target Group has maintained long-term relationships with a majority of its other existing major customers with years of relationship of over ten years. During FY2017, FY2018 and FY2019, the Target Group were able to secure 17, 14 and 23 new contracts.

[3] Retention rate is calculated as one minus (number of expired contracts divided by the total number of existing contracts for the respective year)

C. Industry overview

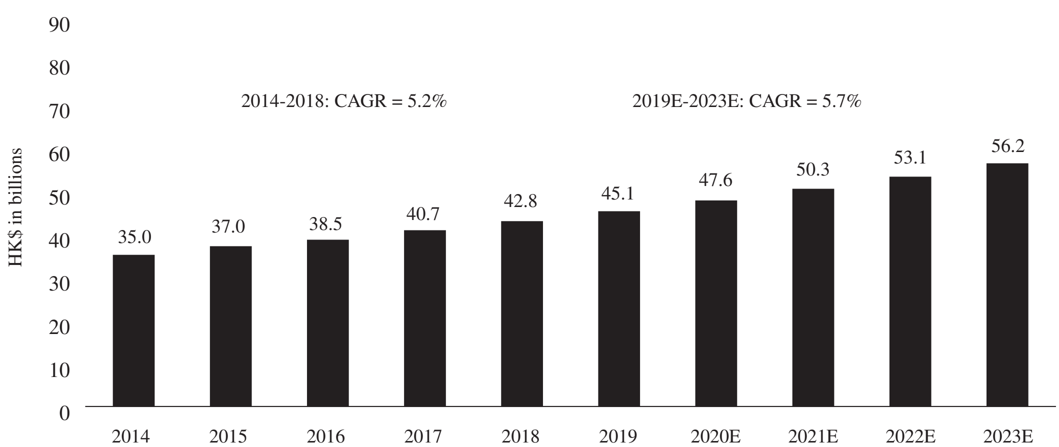
The Target Group is principally engaged in the provision of property management services in Hong Kong. Set out below is a summary of the industry overview of such market based on an industry report from Frost & Sullivan.

Market size

The total revenue of the property management services industry in Hong Kong was approximately HK$35.0 billion in 2014 and experienced a compound annual growth rate ("**CAGR**") of approximately 5.2% to HK$42.8 billion in 2018. The market size is projected to further expand and reach HK$56.2 billion by 2023, representing a CAGR of approximately 5.7% from 2019 to 2023.

Set out below is the chart showing the market size of the property management services market in Hong Kong by revenue from 2014 to 2023:

Market Size of Property Management Services (Hong Kong), 2014–2023E



Source: Frost & Sullivan

Note: Market size above is aligned with the financial year ended 30 June.

Major Opportunities

1. Supply in residential properties

The demand for property management services in Hong Kong is expected to increase due to the expected rising supply of residential properties. According to the 2018 Policy Address, the government aims to implement several housing policies to increase the residential supplies in order to meet the demand. With the potential sites identified by the government and the ongoing urban development projects, it is expected that there will be more than 110,000 residential units available in early 2020s.

2. Standardised and enhanced service offerings

The implementation of Property Management Services Ordinance (Cap. 626) (PMSO) in 2016, under which the regulatory authority, Property Management Services Authority ("**PMSA**"), is empowered to set up codes of conduct and to regulate the provision of property management services, is expected to strengthen the property management service quality. In addition, it is proposed that entities and individuals who conduct property management services should obtain a qualified license from PMSA. It is expected that these measures will promote the professionalism and quality of property management services in Hong Kong.

3. Urban renewal development

The ongoing urban redevelopment is expected to increase the demand for property management services in Hong Kong. According to the Urban Renewal Authority, a total of 61 projects have been implemented and 6 redevelopment projects associated with Hong Kong Housing Society have been completed by mid 2018, which will provide approximately 19,400 residential flats, approximately 412,000 sq.m. of commercial spaces, including offices, shops and hotels.

Competitive Landscape

According to Frost & Sullivan, the Target Group's rankings in the Hong Kong property management services market and the respective market concentration level is as follows:

- Ranked second in the residential property management services market in Hong Kong in terms of units under management with an estimated market share of approximately 5.3% for the year ended 30 June 2019. Top 5 players in 2019 in aggregate accounted for approximately 29.1% of the market share;

- Ranked second in the non-residential (excluding car park) property management services market in Hong Kong in terms of non-residential (excluding car park) area under management with an estimated market share of approximately 7.2% for the year ended 30 June 2019. Top 5 players in 2019 in aggregate accounted for approximately 36.3% of the market share; and

- Ranked second in the car park property management services market in Hong Kong in terms of units under management with an estimated market share of approximately 6.5% for the year ended 30 June 2019. Top 5 players in 2019 in aggregate accounted for approximately 34.6% of the market share.

Based on the information above, we consider the property management services market in Hong Kong to have considerable growth potential as a result of increasing demand for housing and stable property development and land supply in Hong Kong. The Target Group, being one of the top ranked players in the industry by revenue, is therefore well-positioned to benefit from the anticipated industry growth in the years to come.

D. Reasons for and benefits of the Proposed Acquisition

The Group is principally engaged in the E&M, environmental management and facility services (including cleaning and laundry) with majority of its operations focus in servicing the Hong Kong market. As stated in the Letter from the Board, the Group has been exploring opportunities to expand its services scope in order to add momentum to the growth of the Group and the Directors believe that the Proposed Acquisition can offer the following key benefits to the Group:

Diversify income stream

The Group has over 40 years of operating history and a strong customer network with leading companies, which provides the Group a stable source of revenue. The Group has been consistently seeking opportunities that can further expand its business scale and diversify its revenue stream. The Proposed Acquisition is therefore expected to bring a positive financial impact to the Group and achieve diversification of its current business.

The Target Group recorded total revenue of approximately HK$527.3 million for the year ended 30 June 2019, which represents approximately 9.7% of the total revenue of the Enlarged Group during the same period on a combined basis. As such, it is expected that the Target Group will have a significant contribution to the income stream of the Enlarged Group after Completion.

Re-allocate resources to achieve synergies and better deployment of resources

The Directors believe that the Proposed Acquisition could bring potential cross-selling opportunities among the client bases of the Group and the Target Group. The Directors also believe that the Group could optimise the deployment of manpower across various business segments to improve operation efficiency and cost control.

In terms of cross-selling opportunities, after Completion, the Enlarged Group will have a larger client base shared by the E&M business, environmental management services, facility services and property management business. For example, customers which are main contractors in a construction project may need to engage facility services and property management services after construction has been completed; as the Enlarged Group will have experience and expertise in all of these areas, its tender submission may be considered more competitive than other services providers.

In terms of better use of manpower across various business segments, after Completion, staff of the Enlarged Group will be able to have the opportunity to apply his/her skills in other jobs (that requires little additional training or qualification) which were not available to him/her before Completion. The customers would also receive integrated one-stop value-added city services from the Enlarged Group as a services provider.

Re-position the Group into a leading diversified services player in Hong Kong with market leadership position

The combination of the Group's existing business operations and the Target Group's business operations will allow the Group to re-position itself into a diversified city services provider in Hong Kong, covering E&M services, environmental management services, facility services (including cleaning and laundry services) and property management services, with industry leading positions in respective areas. The Target Group's property management services business is the top two player in the Hong Kong market for FY2019 in terms of residential units, non-residential (excluding car park) area and car park spaces under management according to Frost & Sullivan. Please refer to the section headed ''C. Industry overview'' above for more information on the industry of the Target Group.

Our view

Having considered the above, although the Proposed Acquisition does not fall within the ordinary and usual course of business of the Group, given the aforesaid benefits expected to be accrued to the Group and the market leading position of the Target Group, we concur with the view of the Directors that the Proposed Acquisition is beneficial and in the interests of the Company and the Shareholders as a whole.

E. Key terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed)

For details of the terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), please refer to the paragraph headed "THE PROPOSED ACQUISITION" in the Letter from the Board. Principal terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) are summarised as follows:

(1) Assets to be acquired

Pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), the Company has conditionally agreed to acquire (or procure the Buyer Co to acquire) from the Seller the Sale Share, representing the entire issued share capital of the Target Company. Please refer to the paragraph headed "B. Background information of the Target Group" for description of the principal business of the Target Group, the industry landscape in which the Target Group operates and the analysis of the historical financial performance of the Target Group.

(2) The Consideration

The Consideration for the Proposed Acquisition is HK$704.9 million (subject to NTAV adjustment, if any, as mentioned below) and was agreed after arm's length negotiations between the Seller and the Company having taken into consideration various factors, including but not limited to:

(i) the audited financials of the Target Group for FY2019;

(ii) the adjustments to arrive at the adjusted net profit attributable to the equity holders of the Target Group for FY2019 (as explained in further details under the section headed "B. Background information of the Target Group" above);

(iii) the Business Valuation based on historical financial performance of the Target Group; and

(iv) the NTAV of the Target Group as at 30 June 2019.

Pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), if the NTAV of the Target Group as at the Completion Date is greater than the NTAV of the Target Group as at 30 June 2019, 100% of the difference shall be added to the Initial Consideration, or if the NTAV of the Target Group as at the Completion Date is less than the NTAV of the Target Group as at 30 June 2019, 100% of the difference shall be deducted from the Initial Consideration (the "**NTAV Adjustment**").

(3) Terms of payment

The Consideration of the Proposed Acquisition is HK$704.9 million, as adjusted by the NTAV Adjustment, and shall be satisfied by the Company, on the Completion Date, through:

(i) the payment of HK$564.0 million, as adjusted by the NTAV Adjustment, in cash to the Seller (or as the Seller may direct in writing); and

(ii) a non-cash consideration of HK$140.9 million settled through the issuance and allotment by the Company of 43,676,379 Convertible Securities to the Seller (or as the Seller may direct in writing) at the Issue Price of HK$3.2260 per Convertible Security, credited as fully paid.

(4) Conditions precedent

Please refer to the sub-section headed "Conditions precedent to Completion" in the Letter from the Board for details of the conditions of the Proposed Acquisition.

If the Conditions shall not be fulfilled (or, as the case may be, waived) by the prescribed date and time, either the Seller or the Company may by notice to the other elect that the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) shall terminate with immediate effect.

(5) Completion

Subject to the fulfillment (or, as the case may be, waived) of the Conditions, completion of the Proposed Acquisition shall take place on the Completion Date.

(6) Corporate guarantees and counter-indemnity

Prior to the execution of the Sale and Purchase Agreement, the Seller has provided certain corporate guarantees and undertaking for the performance of some obligations by certain members of the Target Group in favour of certain lending banks and contract counterparties of the Target Group. In order to allow time for the Company to replace the credit support required for the operation of the Target Group after Completion, pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), the existing corporate guarantees and undertaking provided by the Seller that are subsisting as at the Completion Date (the "**Seller Guarantees**") are to remain in place for a period of no longer than one year thereafter (or such other period as may be agreed between the Seller and the Company).

The Company shall use its reasonable endeavours to procure such existing corporate guarantees provided by the Seller to be released and replaced by such new corporate guarantees and undertakings provided by the Group as soon as practicable and not later than the expiration of the aforesaid one-year period or such other period as the Company and the Seller may agree.

At Completion, the Company and the Seller will enter into deeds of counter indemnity, pursuant to which the Company is to agree to counter-indemnify the Seller from and against any actions, claims, liabilities, damages, costs and expenses in relation to the Seller Guarantees.

We consider the above term to be beneficial to the Group as the Seller will continue to support the Target Group within a reasonable timeframe after Completion, and this gives time to the Company to replace the credit support required for the operations of the Target Group after Completion to ensure smooth transition.

F. Fairness and reasonableness of the Consideration and the settlement term

(i) The Consideration

The Consideration of HK$704.9 million, as adjusted by the NTAV Adjustment, was agreed after arm's length negotiations between the Seller and the Company having taken into consideration of, among other factors, the latest available financial performance and financial position of the Target Group, details of which are set out in Appendix II and III to this circular.

As the Target Group's historical financial performance and financial position had been relatively stable from FY2017 to FY2019, we consider the latest available financial information of the Target Group (i.e. financial information for FY2019) to be a good indicator of the earning power of the Target Group and therefore is a fair and reasonable point of reference to use when the Company and the Seller determined the valuation (i.e. the Initial Consideration) of the Target Group.

We also understand that the Seller and the Company made reference to the business valuation of the Target Group conducted by the Valuer, which is prepared by adopting the market approach. In particular, the Valuer has adopted the EV/ EBITDA (enterprise value ("**EV**") to earnings before interest, tax, depreciation and amortization ("**EBITDA**")) multiple method to arrive at their opinion on the fair value of the 100% equity value of the Target Group. The details of the Business Valuation, such as, among other things, the valuation methodologies, valuation amount (as disclosed in the Letter from the Board, the fair value of the Target Group as at 30 June 2019 was HK$742 million), assumptions and comparable companies used are set out in Appendix V to this circular. While we did not rely on the Business Valuation report when forming our opinion on whether the Consideration is fair and reasonable, as part of our independent work performed, we discussed with management of the Company to understand, among other things, the methodologies and assumptions used by the independent valuer to derive the fair value of the Target Group as at 30 June 2019. From such discussion, we did not have any disagreements on the methodologies and assumptions used in the Business Valuation report.

The Target Group is principally engaged in the provision of property management services in Hong Kong and is the top 2 property management services company in terms of residential units, non-residential (excluding car park) area and car park spaces under management for the year ended 30 June 2019 according to Frost & Sullivan. The Target Group has recorded stable growth in revenue and net profit in the past three years. In assessing the fairness and reasonableness of the Consideration, we have primarily adopted the price-to-earnings ("**P/E Ratio**") approach which is an appropriate and commonly adopted approach for analysing companies with a track record of generating profits. To cross-check the result of our P/E Ratio analysis, we have also compared the EV/EBITDA multiple of the Target Group against those of the Comparables (as defined below).

We have conducted research on comparable companies which (i) are listed on the Stock Exchange; (ii) are principally engaged in the provision of property management services in Hong Kong (which at least 50% of the total revenue is attributable to such business based on the latest published results announcement); and (iii) were profit making in their most recent financial year. Based on the relevant criteria above, we have identified 3 comparable companies (the "**Comparables**") with details set out below. We consider that the Comparables represent the exhaustive list of comparable companies under the relevant criteria above.

Company name	**Stock exchange**	**Stock code**	**Principal business**	**Market capitalisation**	**Net profit**	**P/E Ratio**	**EV/EBITDA**
				HK$'million (Note 1)	*HK$'million (Note 2)*	*(approximately times) (Note 3)*	*(approximately times) (Note 4)*
Creative Enterprise Holdings Limited	Main Board of the Stock Exchange	3992	principally engaged in the provision of property management services in Hong Kong	475.0	24.8 *(Note 5)*	19.2	11.3 *(Note 5)*
Shi Shi Services Limited	GEM of the Stock Exchange	8181	principally engaged in the provision of property management services in Hong Kong with a primary focus on residential properties	374.6	30.4 *(Note 6)*	12.3	6.5 *(Note 6)*
Modern Living Investments Holdings Limited	GEM of the Stock Exchange	8426	principally engaged in the provision of property management services, with a primary focus on public housing in Hong Kong	108.8	12.1	9.0	5.3
					Mean	13.5	7.7
					High	19.2	11.3
					Low	9.0	5.3
				The Initial Consideration	**FY2019 Adjusted Net Profit (defined below)**	**Implied P/E ratio of the Proposed Acquisition**	**Implied EV/ EBITDA of the Proposed Acquisition**
				HK$'million	*HK$'million*	*(approximately times)*	*(approximately times)*
			Implied multiple of the Proposed Acquisition	704.9	69.2 *(Note 7)*	10.2 *(Notes 7, 8)*	8.1 *(Note 9)*

Source: Bloomberg and the website of the Stock Exchange

Notes:

(1) Data regarding the market capitalisations are extracted from Bloomberg as at 13 November 2019, being the Latest Practicable Date.

(2) The respective net profit attributable to owners of the Comparables are based on their latest published full-year results announcements.

(3) The P/E Ratio of the Comparables are calculated by dividing their market capitalisation as at the Latest Practicable Date by their net profit based on their latest published results announcement.

(4) The EV/EBITDA of the Comparables are calculated by dividing the EV as at the Latest Practicable Date by their EBITDA based on their latest published results announcement.

(5) This excludes the non-recurring listing expense of approximately HK$12.3 million, donation of approximately HK$1.2 million, loss on disposal of property, plant and equipment of approximately HK$0.1 million incurred by Creative Enterprise Holdings Limited and the tax effect of the aforesaid adjustments during the latest financial year ended 31 March 2019.

(6) This excludes the compensation income of HK$26.0 million received as a result of the shortfall of net profit against the profit guarantee pursuant to a subscription and shareholders' agreement and gain on disposal of property, plant and equipment of approximately HK$0.1 million recognised by Shi Shi Services Limited and the tax effect of the aforesaid adjustments during the latest financial year ended 31 March 2019.

(7) Being the adjusted net profit attributable to the equity holders of the Target Group for FY2019 as set out in the section headed "B. Background information of the Target Group — (ii) Financial Results" above.

(8) The implied P/E Ratio of the Proposed Acquisition is calculated by dividing the Initial Consideration of HK$704.9 million by the FY2019 Adjusted Net Profit of the Target Group.

(9) The implied EV/EBITDA ratio of the Proposed Acquisition is calculated by dividing the Initial Consideration of HK$704.9 million by the FY2019 adjusted EBITDA of the Target Group.

With reference to the above table, (i) the implied P/E Ratio of the Proposed Acquisition is approximately 10.2 times, which is close to the low end of the range of the P/E Ratio of the Comparables of approximately 9.0 to 19.2 times and is lower than the average ratio of 13.5 times of the Comparables; and (ii) the implied EV/EBITDA multiple of the Proposed Acquisition is approximately 8.1 times, which is within the range of the EV/EBITDA of the Comparables of approximately 5.3 to 11.3 times and is comparable to average multiple of 7.7 times of the Comparables. Having considered that the implied P/E Ratio of the Proposed Acquisition is lower than the average ratio of the Comparables and the implied EV/EBITDA multiple of the Proposed Acquisition is comparable to the average multiple of the Comparables, we consider that the Consideration is fair and reasonable so far as the Company and the Shareholders are concerned.

With regards to the NTAV adjustment mechanism, we consider it fair as the Initial Consideration will be adjusted dollar-for-dollar according to the difference in the Target Group's NTAV between 30 June 2019 (i.e. the date of reference of the NTAV used by the Seller and the Company to determine the Initial Consideration) and Completion Date.

(ii) The settlement term

Of the Initial Consideration of HK$709.4 million, HK$564 million (representing approximately 80% of the Initial Consideration) will be settled by cash (the "**Cash Consideration**") and the remaining HK$140.9 million (representing approximately 20% of the Initial Consideration) will be settled by the issue of the Convertible Securities. As stated in the Letter from the Board, the Cash Consideration will be financed by a bank loan.

Generally speaking, financing an acquisition with internal cash or bank loans is cheaper than equity financing. As a high proportion of the Consideration (i.e. 80%) will be settled by cash (which in turn will be financed by a bank loan), we consider such settlement term to be in the interests of the Company. Furthermore, as stated in the Letter from the Board, the maximum amount of the bank loan that can be utilized to finance the Consideration is up to 80% of the Consideration. We consider settling the remaining 20% of the Consideration by issuance of the Convertible Securities (which will be accounted for as "equity") has the benefits of strengthening the Company's financial position by increasing its equity and lowering its gearing.

G. Analysis of the fairness of the terms of Convertible Securities

On Completion, the Company will issue 43,676,379 Convertible Securities to the Seller in satisfaction and settlement of part of the Consideration. The Convertible Securities, which are transferrable, are convertible into Ordinary Shares at the conversion price of HK$3.2260 per Ordinary Share at any time within the period of 10 years after the Issue Date, subject to customary adjustment upon the occurrence of certain prescribed events. For the avoidance of doubt, no conversion right could be exercised upon the expiry of the conversion period and the Convertible Securities will retain all other rights as set out in the terms of the Convertible Securities (apart from the conversion right). At any time after 10 years following the Issue Date, the Company may at its sole discretion serve at least ten (10) days' prior written notice to the holders of the Convertible Securities to redeem either in whole or in part of the Convertible Securities for the time being outstanding, at a redemption price equal to the Issue Price together with all outstanding preferred distribution accrued to the date fixed for redemption. For the avoidance of doubt, no holder of the Convertible Security is entitled to request for redemption of any Convertible Securities. Holders of the Convertible Securities are entitled to a preferred distribution at the rate of 6.0%, per annum, do not have voting rights, except in respect of resolution(s) for the winding-up of the Company or the abrogation or variation of the rights and restrictions of the Convertible Securities and have priority over the holders of the Ordinary Shares on distribution of assets on liquidation, winding up or dissolution. Please refer to the section headed "Summary of the principal terms of the Convertible Securities" in the Letter from the Board for further details.

(1) Analysis of the conversion price

Pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), 43,676,379 Convertible Securities at the Issue Price of HK$3.2260 each will be issued by the Company to settle part of the Consideration upon Completion.

The Company may at its sole discretion (but not obligation) to redeem any Convertible Securities outstanding after the end of the 10th year from their issue date. No listing of the Convertible Securities will be sought for. The holders of the Convertible Securities are entitled to receive a preferred distribution at the rate of 6.0% per annum for each Convertible Security held by such holder. Each preferred distribution is cumulative. We understand that the Convertible Securities will be accounted for as "equity" instead of "liabilities" of the Company in its financial statements.

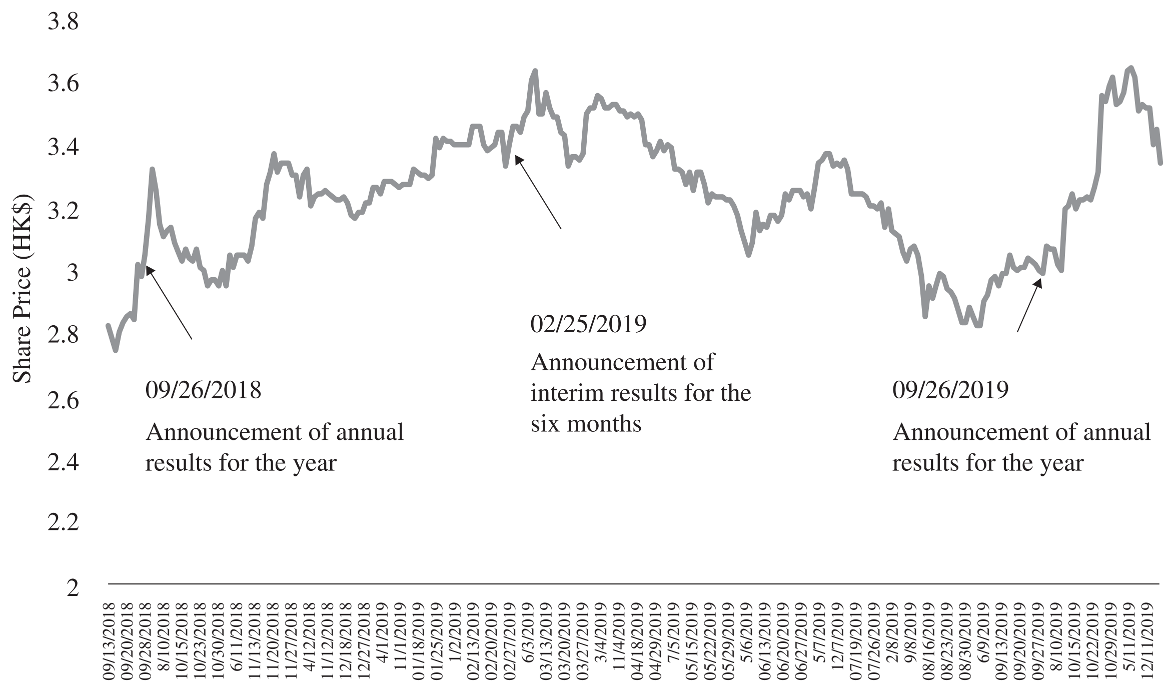
Based on our discussion with management of the Company, while the Company may issue Ordinary Shares to settle part of the Consideration, as FSE Holdings, which is the holding company of the Seller, currently is already holding 75% of the Company's issued Shares, any issue of the Shares to the Seller would result in the Shares held by the public Shareholders to fall below the minimum requirement of 25% under the Listing Rules. As such, the Company and the Seller agreed to issue the Convertible Securities to settle part of the Consideration.

Subject to compliance with the public float requirement under the Listing Rules, the Convertible Securities may be converted into Ordinary Shares at any time within the period of 10 years after the Issue Date at the conversion price of HK$3.2260 (being the Issue Price) at the ratio of one Convertible Security for one Ordinary Share, subject to customary adjustment upon the occurrence of certain prescribed events.

Given that the Convertible Securities will be accounted for as "equity" in the financial statements of the Company upon Completion, we set out below our analysis of the fairness of the conversion price (which is the same as the Issue Price) of the Convertible Securities with reference to the share price of the Ordinary Shares.

(i) Historical Share Performance

Set out below is a chart illustrating the movements in the closing prices of the Shares from 24 September 2018, being approximately 12 months before the date of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), up to and including the Latest Practicable Date (the "**Review Period**"). We consider the Review Period represents a sufficient period to provide an overview on the market performance of the Shares.



Source: Bloomberg

From the chart above, we can see that the Shares traded within a fairly narrow range between HK$2.82 and HK$3.66 per Ordinary Share during the Review Period and closed at HK$3.35 per Ordinary Share on the Latest Practicable Date.

Save for the interim and annual results announcements, the Company had not published other non-routine announcements during the Review Period.

As disclosed in the Letter from the Board, the Issue Price of HK$3.2260 per Convertible Security represents:

(a) a discount of approximately 0.12% to the closing price per Ordinary Share of HK$3.2300 as quoted on the Stock Exchange on 17 October 2019, being the last day of trading of the Shares on the Stock Exchange prior to the signing of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) (the "**Last Trading Day**");

(b) a premium of approximately 1.41% over the average closing price per Ordinary Share of HK$3.1810 as quoted on the Stock Exchange for the last 10 consecutive trading days immediately preceding the Last Trading Day;

(c) a premium of approximately 5.32% over the average closing price per Ordinary Share of HK$3.0630 as quoted on the Stock Exchange for the last 30 consecutive trading days immediately preceding the Last Trading Day;

(d) a discount of approximately 3.70% to the closing price per Ordinary Share of HK$3.35 as quoted on the Stock Exchange on the Latest Practicable Date; and

(e) a premium of approximately 88.04% over the equity attributable to owners of the Company per Ordinary Share of approximately HK$1.7156 as at 30 June 2019.

Based on our review, we did not note any unusual fluctuations in or events affecting the movement of the Company's Shares in the Review Period. We consider that the near term price of the Company's Shares is relevant when assessing the fairness of the Issue Price of the Convertible Securities.

(ii) Comparison with recent issues of consideration shares

To assess the fairness of the Issue Price, we have conducted a research to identify companies listed on the Stock Exchange which announced issues of consideration shares to connected persons for acquisitions during the Review Period (the "**Comparable Share Issues**"), except for those transactions involving takeover, prolong suspension or restructuring. A total of 24 Comparable Share Issues were identified. The table below set out the comparison between the issue price of the Comparable Share Issues compared to their respective recent share prices.

Announcement Date	Stock Code	Listed Company	Issue Price	Premium/ (discount) of the issue price over/(to) closing price prior to/on last trading day	Premium/ (discount) of the issue price over/to the average closing price over the last 5 consecutive trading days prior to/up to and including the last trading day	Premium/ (discount) of the issue price over/to the average closing price over the last 30 consecutive trading days prior to/up to and including the last trading day	Premium/ (discount) of the issue price over/to the average closing price over the last 60 consecutive trading days prior to/up to and including the last trading day	Premium/ (discount) of the issue price over/to the average closing price over the last 90 consecutive trading days prior to/up to and including the last trading day
			(HK$)	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*
27-Sep-19	1818	Zhaojin Mining Industry Company Limited	8.96	(1.21)	(5.19)	(8.21)	(6.03)	(0.31)
27-Sep-19	2183	Sansheng Holdings (Group) Co. Ltd.	10.50	(0.94)	(0.08)	(1.83)	(4.35)	(5.66)
8-Jul-19	474	Hao Tian Development Group Limited	0.25	11.61	11.21	12.51	13.05	13.08
10-Jul-19	1011	China NT Pharma Group	0.73	(2.67)	(2.41)	(6.49)	(6.31)	(5.64)
3-Jun-19	8037	China Biotech Services Holdings Limited	2.00	51.52	53.61	38.73	27.97	21.84
26-Apr-19	2768	Jiayuan International Group Limited	3.51	(3.75)	(3.96)	(10.68)	(7.98)	(46.50)

Announcement Date	Stock Code	Listed Company	Issue Price *(HK$)*	Premium/(discount) of the issue price over/(to) closing price prior to/on last trading day *(%)*	Premium/(discount) of the issue price over/to the average closing price over the last 5 consecutive trading days prior to/up to and including the last trading day *(%)*	Premium/(discount) of the issue price over/to the average closing price over the last 30 consecutive trading days prior to/up to and including the last trading day *(%)*	Premium/(discount) of the issue price over/to the average closing price over the last 60 consecutive trading days prior to/up to and including the last trading day *(%)*	Premium/(discount) of the issue price over/to the average closing price over the last 90 consecutive trading days prior to/up to and including the last trading day *(%)*
2-Apr-19	1022	Feiyu Technology International Company Ltd.	0.35	18.64	4.48	(2.28)	(0.94)	0.82
25-Mar-19	3709	Koradior Holdings Limited	9.50	2.15	3.22	0.73	(0.23)	(1.04)
3-Mar-19	526	Lisi Group (Holdings) Limited	1.00	14.94	17.92	12.32	8.62	6.93
27-Feb-19	123	Yuexiu Property Company Limited	2.00	20.48	23.00	29.00	34.56	40.27
19-Feb-19	377	Huajun International Group Limited	13.60	26.16	29.67	1.99	(21.31)	(34.45)
18-Feb-19	456	New City Development Group Limited	0.82	0.99	(0.00)	(8.94)	(13.68)	(15.91)
31-Dec-18	1632	Minshang Creative Technology Holdings Limited	1.10	(17.29)	(13.52)	(24.67)	(24.53)	(25.13)
21-Dec-18	1432	China Shengmu Organic Milk Limited	0.33	10.00	(0.60)	1.02	(1.61)	(5.11)
17-Dec-18	1341	Hao Tian International Construction investment Group Limited	0.36	0.00	(1.37)	16.50	31.23	39.32
6-Dec-18	377	Huajun International Group Limited	10.78	0.00	2.78	(19.15)	(37.62)	(48.04)
29-Nov-18	1933	OneForce Holdings Limited	0.68	21.43	21.86	28.58	15.63	5.34
20-Nov-18	8057	Madison Holdings Group Limited	0.55	(15.38)	7.00	13.64	(46.34)	(55.34)
13-Nov-18	8062	EFT Solutions Holdings Limited	0.39	(0.51)	0.00	7.82	3.76	3.57
7-Nov-18	6878	Differ Group Holding Company Limited	0.55	3.77	5.36	3.77	0.36	(2.90)
1-Nov-18	697	Shougang Concord International Enterprises Company Limited	0.25	42.05	44.51	39.07	34.02	31.67
1-Nov-18	3608	Yongsheng Advanced Materials Company Limited	2.48	0.00	0.81	1.29	(0.13)	(4.06)
21-Sep-18	910	China Sandi Holdings Limited	0.41	(9.45)	(9.85)	(8.65)	(8.65)	(9.52)
19-Sep-18	2768	Jiayuan International Group Limited	13.73	(5.31)	(4.65)	(6.22)	(5.34)	(5.86)
			Average	6.97	7.66	4.58	(0.66)	(4.28)
			Minimum	(17.29)	(13.52)	(24.67)	(46.34)	(55.34)
			Maximum	51.52	53.61	39.07	34.56	40.27
The Convertible Securities			3.2260	(0.12)	0.00	5.32	6.47	3.82

As illustrated in the table above, the range of discount/premium of the issue price of the Comparable Share Issues is wide, ranging from a discount of approximately 55.34% to a premium of approximately 53.61%. Given that the subject companies of the Comparable Share Issues may be very different in terms of principal activities, financial position and performance and market capitalisation, their relative share price performance over the same period may vary. This may lead to a high variance of the discount or premium of the issue price in some of the cases. Notwithstanding the wide range of discount/premium of the issue price of the Comparable Share Issues, in view of the large number of reviewed cases (i.e. 24 Comparable Share Issues), we consider that the average of discount/premium of all the Comparable Share Issues to be a good indication of the general market trend for similar transactions and a good reference for assessing the fairness of the Issue Price.

On further analysis, we note that of the 24 Comparable Share Issues, the issue price for 10 cases (representing over 40% of the cases) were close to their respective recent share price with a discount/premium of not more than 10% and another 4 cases were with a discount/premium of not more than 20%. This shows that the discount/premium of a majority cases was within a much narrower range of less than 20%.

Having considered that the Issue Price of HK$3.2260 per Convertible Security represents:

- an insignificant discount of approximately 0.12% to the closing price of the Ordinary Shares on the Last Trading Date;
- a slight premium of between approximately 3.82% to 6.47% over the average closing price of the Ordinary Shares for the last 30, 60 and 90 days up to and including the Last Trading Day, which range is comparable to the range of an average discount of approximately 4.28% to an average premium of approximately 4.58% of the Comparable Share Issues; and
- a premium of approximately 88.04% over the audited net asset value per Ordinary Share of approximately HK$1.7156 as at 30 June 2019,

we are of the view that the Issue Price is on normal commercial terms, fair and reasonable.

(2) Analysis of other major terms of the Convertible Securities

(i) Conversion period and redemption of the Convertible Securities

At any time within the period of 10 years after the Issue Date, the Convertible Securities are convertible into Ordinary Shares. During the same period, neither the holders of the Convertible Securities nor the Company can redeem the Convertible Securities (the ''no redemption'' period). Any Convertible Securities not being converted into Ordinary Shares by the holders at the end of the 10th year following the Issue Date may be redeemed in whole or in part by the Company at its option. The conversion period and the ''no redemption'' period of 10 years were determined after arm's length negotiation between the Company and the Seller. We consider a long conversion period coupled with a ''no redemption'' right to the Seller is beneficial to the Company as it increases the likelihood of the Convertible Securities being converted to Ordinary Shares. We also consider that the Company's option (but not obligation) to redeem the Convertible Securities, in whole or in part, after the 10th year following the Issue Date provides extra flexibility to the Company as it allows the Company to redeem any outstanding Convertible Securities if it wishes.

(ii) Preferred distribution

The holders of the Convertible Securities are entitled to receive a preferred distribution at the rate of 6.0% per annum for each Convertible Security held by such holder. Each preferred distribution is cumulative. Based on the analysis provided by the Company, we note that the preferred distribution rate of 6.0% is close to the low-end of the range of the dividend yield of the Company's Ordinary Shares for the four financial years ended 30 June 2019 of approximately 6.30% to 8.17%. We have also conducted a research of the interest rates for the recent issue of corporate debts based on the following criteria: (i) such corporate debts are issued by companies listed on the Main Board, (ii) the market capitalisation of the companies is between HK$500 million and HK$3.0 billion as at the Latest Practicable Date, (iii) the country of risk of such corporate debts is in Hong Kong, and (iv) such corporate debts are issued since 1 January 2015 and are still active as at the Latest Practicable Date. Based on our review, we have identified 36 issues of corporate debts by 13 companies, the results of which show that the interest rate of such debt instruments ranges from 4.8% to 13.0% per annum with an average of 6.1% per annum (the "**Referenced Interest Rates**"). Taking into consideration that (i) the preferred distribution rate of the Convertible Securities of 6.0% per annum is comparable to the average of the Referenced Interest Rates; (ii) the identified debts are with a maturity of one to eight years which is shorter than the conversion period or "no redemption" period of 10 years of the Convertible Securities, and (iii) the holders of the Convertible Securities do not have the right to request redemption, we consider the preferred distribution rate of the Convertible Securities of 6.0% per annum is reasonable.

Company name	Stock code	Market capitalisation	Issue Date	Tenor	Coupon rate per annum
		HK$'million		*Years*	*%*
Chinlink International Holdings Ltd	997	1,315.45	6-Sep-19	1	6.5
Chinlink International Holdings Ltd	997	1,315.45	19-Aug-19	1	6.5
Chinlink International Holdings Ltd	997	1,315.45	16-Aug-19	2	13.0
Chinlink International Holdings Ltd	997	1,315.45	8-Aug-19	1	6.5
Chinlink International Holdings Ltd	997	1,315.45	7-Aug-19	1	6.5
Emperor Capital Group Ltd	717	1,469.50	12-Jul-19	3	5.3
Emperor Capital Group Ltd	717	1,469.50	10-Jun-19	3	5.3
China Water Industry Group Ltd	1129	758.36	30-May-19	3	6.0
Emperor Capital Group Ltd	717	1,469.50	6-May-19	3	5.3
Emperor Capital Group Ltd	717	1,469.50	23-Apr-19	3	5.3
Emperor Capital Group Ltd	717	1,469.50	12-Apr-19	3	5.3
Emperor Capital Group Ltd	717	1,469.50	22-Feb-19	3	5.3

Company name	Stock code	Market capitalisation	Issue Date	Tenor	Coupon rate per annum
		HK$'million		*Years*	*%*
Emperor Capital Group Ltd	717	1,469.50	18-Jan-19	3	5.3
Emperor Capital Group Ltd	717	1,469.50	7-Dec-18	3	5.3
Emperor Capital Group Ltd	717	1,469.50	15-Nov-18	3	5.3
Emperor Capital Group Ltd	717	1,469.50	31-Aug-18	3	4.8
Emperor Capital Group Ltd	717	1,469.50	31-Aug-18	3	5.0
Emperor Capital Group Ltd	717	1,469.50	15-Jun-18	3	5.0
Emperor Capital Group Ltd	717	1,469.50	25-May-18	3	5.0
Emperor Capital Group Ltd	717	1,469.50	30-Apr-18	3	4.8
Emperor Capital Group Ltd	717	1,469.50	30-Apr-18	3	5.0
Emperor Capital Group Ltd	717	1,469.50	9-Mar-18	3	5.0
Emperor Capital Group Ltd	717	1,469.50	15-Feb-18	3	5.0
Emperor Capital Group Ltd	717	1,469.50	31-Jan-18	3	5.0
Emperor Capital Group Ltd	717	1,469.50	24-Jan-18	3	5.0
China Animation Characters Co Ltd	1566	1,720.52	16-Jan-18	4	6.0
China Water Industry Group Ltd	1129	758.36	13-Dec-17	3	6.0
Eternity Investment Ltd	764	779.20	25-Aug-17	3	8.0
Rare Earth Magnesium Technology Group Holdings Ltd	601	2,005.19	11-Aug-17	3	7.0
SOCAM Development Ltd	983	990.87	8-May-17	3	6.3
Hsin Chong Group Holdings Ltd	404	1,997.33	22-Jan-16	3	8.5
Hsin Chong Group Holdings Ltd	404	1,997.33	18-May-15	3	8.8
Asia Standard International Group Ltd	129	1,755.31	22-Apr-15	5	5.1
Cheuk Nang Holdings Ltd	131	2,281.28	21-Apr-15	7	5.0
Up Energy Development Group Ltd	307	585.47	13-Feb-15	8	7.5
New Times Energy Corp Ltd	166	805.82	2-Jan-15	7	8.0
				Mean	6.1
				High	13.0
				Low	4.8
				the Convertible Securities	6.0

Notes:

(1) Data are extracted from Bloomberg as at 13 November 2019, being the Latest Practicable Date.

(3) Effect on shareholding

Assuming that there are no changes in the issued share capital of the Company between the Latest Practicable Date and the date of Completion, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion and the allotment and issue of the Convertible Securities; and (iii) immediately after full conversion of the Convertible Securities held by the Seller is as follows:

	As at the Latest Practicable Date			Immediately after completion of the Proposed Acquisition			Immediately after completion of the Proposed Acquisition, assuming the Convertible Securities are converted in full *(Note 1)*		
	Number of Ordinary Shares	*%*	*Number of Convertible Securities*	*Number of Ordinary Shares*	*%*	*Number of Convertible Securities*	*Number of Ordinary Shares*	*%*	*Number of Convertible Securities*
FSE Holdings Limited *(Note 2)*	337,500,000	75%	—	337,500,000	75%	—	337,500,000	68.4%	—
Seller *(Note 3)*	—	—	—	—	—	43,676,379	43,676,379	8.8%	—
Sub-total	337,500,000	75%	—	337,500,000	75%	43,676,379	381,176,379	77.2%	—
Public	112,500,000	25%	—	112,500,000	25%	—	112,500,000	22.8%	—
Total	450,000,000	100%	—	450,000,000	100%	43,676,379	493,676,379	100.0%	—

Note 1: The figures are provided for illustrative purposes only. The terms of the Convertible Securities will not permit conversion if immediately after such conversion, the public float of the Ordinary Shares will fall below the minimum requirements of the Listing Rules.

Note 2: FSE Holdings Limited is beneficially owned as to 63% by Sino Spring Global Limited, 18% by Dr. Cheng (through Chow Tai Fook Nominee Limited), 7% by Frontier Star Limited, 5% by Master Empire Group Limited, 4% by Supreme Win Enterprises Limited, 2% by Equal Merit Holdings Limited and 1% by Lagoon Treasure Limited.

Note 3: The Seller is a wholly owned subsidiary of FSE Holdings Limited.

Based on the table above, upon full conversion of the Convertible Securities, the shareholding of the existing public Shareholders will be diluted from 25% to approximately 22.8%.

(4) Effect on earnings

After Completion, each Target Entity (other than the Joint Venture Target Entities, International Property Management Limited and Turning Technical Services Limited) will become an indirect wholly-owned subsidiary of the Company and their respective financial results, assets and liabilities will be consolidated in the financial statements of the Company. The Proposed Acquisition will therefore enhance the earnings base of the Group going forward. However, with the issue of the Convertible Securities which may be converted into Ordinary Shares, there will be a dilution in earnings when such conversion takes place. In addition, as the Proposed

Acquisition will be partly funded by a bank loan and partly by the Convertible Securities, the Enlarged Group's earnings will be reduced by the interest on the said bank loan and the preferred distribution on the Convertible Securities after Completion.

Our view

Based on our analysis set out above, we consider that the terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), in particular (i) the Consideration of the Proposed Acquisition; and (ii) the Issue Price (and conversion price) of the Convertible Securities, are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

H. Financial effects of the Proposed Acquisition

(i) Earnings

Please refer to the paragraph headed "G. (4) Effect on earnings" above for our analysis on the effect on the Proposed Acquisition on the earnings of the Enlarged Group.

(ii) Net assets

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, assuming Completion to have occurred as at 30 June 2019, the total assets of the Group of approximately HK$2,687.9 million will increase to total assets of the Enlarged Group of approximately HK$2,952.9 million as at 30 June 2019. Total liabilities of the Group of approximately HK$1,915.9 million will increase to total liabilities of the Enlarged Group of approximately HK$2,674.0 million as at 30 June 2019. As a result of the above, net assets of the Group of approximately HK$772.0 million will decrease to net assets of the Enlarged Group of approximately HK$278.9 million as at 30 June 2019.

(iii) Working capital and gearing

Pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), the Proposed Acquisition will be paid for by the Company through (i) a cash consideration of HK$564.0 million payable in cash; and (ii) a non-cash consideration of HK$140.9 million settled through the issue of Convertible Securities by the Company on the Completion Date. As stated in the Letter from the Board, the payment of cash consideration will be funded by a bank loan (the "**Bank Loan**") of up to the lesser of HK$600 million or 80% of the total Consideration of the Proposed Acquisition. We have reviewed the terms of the Facility Agreement for the Bank Loan and note that the interest rate for the loan is 0.7% per annum over Hong Kong Interbank Offered Rate. As disclosed in the Annual Reports, the Group's gearing ratio as at 30 June 2019 (representing net debt (total borrowings less cash and cash equivalents) divided by total equity) was maintained at zero. Assuming a maximum amount of the Bank Loan of HK$564.0 million is utilised to fund part of the Consideration and based on the proforma cash and cash equivalents balance of the Enlarged Group of approximately HK$562.2 million as at 30 June 2019 as set out in Appendix IV, the Enlarged Group will have a net debt of approximately HK$1.8 million immediately subsequent to Completion. We concur with management of the Company that funding part of the Consideration by the Bank Loan would not have a material adverse impact on the Enlarged Group's gearing.

Our view

Having considered the aforesaid potential financial effects, we concur with management of the Company that the entering into of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) will not have a material adverse impact on the Group's earnings and financial position.

CONCLUSION AND RECOMMENDATION

Having considered the principal factors and reasons regarding the Proposed Acquisition, including, among others:

(i) the Group will be able to diversify from its existing business via the Proposed Acquisition, and the Proposed Acquisition will allow the Enlarged Group to solidify its position in the market as a services provider covering a wide spectrum of services from engineering services, environmental management services and facility services (including cleaning and laundry services) to property management services;

(ii) the Target Group is one of the leading market players in the property management services market with an established customer base, and its stable financial results track record will strengthen the recurring income stream of the Enlarged Group going forward, which is expected to benefit the Company and its Shareholders;

(iii) the implied P/E Ratio of the Proposed Acquisition is lower than the average of the P/E Ratio of the Comparables and the implied EV/EBITDA multiple of the Proposed Acquisition is comparable to the average of the EV/EBITDA multiple of the Comparables, which supports the fairness and reasonableness of the Consideration;

(iv) the Issue Price (and the conversion price) of the Convertible Securities represents a slight discount to the closing price of the Company's Ordinary Shares on the Last Trading Day and a slight premium over the average closing price of the Ordinary Shares for the last 30, 60 and 90 days up to and including the Last Trading Day, which we consider to be in line with the market when compared to the Comparable Share Issues;

(v) the preferred distribution rate of the Convertible Securities of 6.0% per annum is comparable to average of the Referenced Interest Rates;

(vi) the option (but not the obligation) of the Company to redeem in whole or in part of the Convertible Securities outstanding after the end of the 10^{th} year from their issue date; and

(vii) the insignificant dilution to the shareholding of the public shareholders upon full conversion of the Convertible Securities;

we are of the opinion that while the Proposed Acquisition and the issuance of the Convertible Securities are not in the ordinary and usual course of business of the Company, the terms of the Proposed Acquisition and the issuance of the Convertible Securities are on normal commercial terms, and fair and reasonable, so far as the Group and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed) and the issuance of the Convertible Securities.

Yours faithfully,
For and on behalf of
Ballas Capital Limited
Heidi Cheng **Angel Lai**
Managing Director *Vice President*

Note: Ms. Heidi Cheng of Ballas Capital Limited has been a responsible officer of Type 6 (advising on corporate finance) regulated activity since 2003 and Ms. Angel Lai of Ballas Capital Limited has been a licensed representative of Type 6 (advising on corporate finance) regulated activity since 2017.

1. FINANCIAL SUMMARY

A summary of the financial information with respect to the profits and losses, financial record and position of the Group for the two financial years ended 30 June 2018 and 30 June 2019 is set out in a comparative table on page 138 of the annual report of the Company for the year ended 30 June 2019. The audited consolidated financial statements of the Group for the three years ended 30 June 2019 together with the notes thereto are contained in the annual report of the Company for the three years ended 30 June 2019 published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.fseservices.com.hk/) and are incorporated in this Circular by way of reference:

a. please see below a link to the audited consolidated financial statements of the Group for the year ended 30 June 2017:

   https://www.fseservices.com.hk/storage/app/media/investor/reports/financial-reports-201710231713240-e.pdf

b. please see below link to the audited consolidated financial statements of the Group for the year ended 30 June 2018:

   https://www.fseservices.com.hk/storage/app/media/investor/reports/financial-reports-201810191945290-e.pdf

c. please see below link to the audited consolidated financial statements of the Group for the year ended 30 June 2019:

   https://www.fseservices.com.hk/storage/app/media/investor/reports/financial-reports-201910171716180-e.PDF

2. STATEMENT OF INDEBTEDNESS

As at 30 September 2019, the Target Group has a secured short-term bank loan of HK$30.0 million, guaranteed by FSE Holdings, a guarantee issued by banks for performance bonds amounting to HK$92.0 million and lease liabilities of HK$15.5 million. The Target Group is generally required to provide a counter-indemnity and collateral to bank that issues a performance bond.

As at 30 September 2019, the Group has a guarantee issued by banks for performance bonds amounting to HK$227.6 million and lease liabilities of HK$60.9 million. The Group is generally required to provide a counter-indemnity and collateral to bank that issues a performance bond.

As at 30 September 2019, being the latest practicable date for the purpose of this statement of indebtedness, save as disclosed above in the paragraph headed "Statement of Indebtedness", and apart from the intra-group liabilities and normal trade payables, the Directors were not aware of the Enlarged Group having any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other contingent liabilities.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in this Circular, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 30 June 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that following the completion of the Proposed Acquisition, after taking into account the financial resources available to the Enlarged Group, including the available credit facilities, the internally generated funds from operations, and cash and bank balances of the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this Circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group will take the Proposed Acquisition a step to expand its business scale and reduce cyclical risks with broaden revenue stream. On one hand, the Enlarged Group will continue to provide a comprehensive range of E&M engineering, facility services and environmental management services as its existing business and on the other hand, the acquired business operations provide a wide range of property management services generally include overseeing the cleaning, security, repair and maintenance of the residential, office buildings, shopping arcades, hotels, government institutions, airport, ecopark, academic institutions and car parks. The Target Group is one of the top players in the property management services market in Hong Kong in terms of number of units of residential property, area of non-residential property (excluding car parks) and number of units of car park spaces under management and it currently provides services to many well-known properties, including City One Shatin, Cyberport, EcoPark, Hong Kong Science Park, Convention Plaza, K11, and Riviera Gardens.

Given the government's sustained effort, the total E&M construction works expenditure for the financial year ending 30 June 2020 is expected to exceed HK$25.0 billion for the public sector and more than HK$27.0 billion for the private sector. Recently, the Hong Kong Government has proactively taken forward the eight land supply options tendered by the ''Task Force on Land Supply'' in order to build a land reserve to help resolve the challenge of a land supply shortage for the long-term development of Hong Kong. The Group's E&M engineering business is prepared to take on different sizeable infrastructure and building projects in the marketplace. In view of the progressive transformation of the Hong Kong economy towards higher value-added activities, high-end residential and commercial buildings will be the key growth driver in a number of new completions during the coming years. The greater number of commercial and residential buildings and hotels in Hong Kong, along with mega facilities and properties to be gradually launched at the West Kowloon Culture District, the Kai Tak development area, the Kwun Tong business area and new town extensions, and the increasing need for outsourcing environmental services will raise the demand for environmental services from property management companies and property owners. By capitalizing on its extensive experience, quality and customised services and distinctive brand, the Group's facility services segment will have competitive advantages to win new tenders or attain a high renewal rate for its existing contracts related to the above-mentioned business opportunities. However, the medium-term outlook remains weak with overarching challenges and uncertainties looming over the global political and economic environment that require close attention, like the Brexit deadlock, China's economic growth prospects, the normalisation of US interest rates and most recently the further escalation in trade tensions between the US and Mainland China. The market sentiment and the general operating environment for businesses in the city has become increasingly cautious and enterprises should be well-prepared for any potential impact from the industry especially the rippling effect of the recent political turmoil that may cause delay in funding approval from the Legislative Council and disruption of day-to-day operations. Our laundry services business is also impacted by the plummeted tourist arrivals and low room occupancy rates. Talent development is also an essential element and a prerequisite for the sustainable growth of the Group. Therefore, we must invest continuously in nurturing talent; provide diversified and tailor-made learning, and training and development opportunities offering good career prospects for our young people. Amidst the rising external headwinds on the Hong Kong economy, the Group should remain vigilant and prepare itself to drive the development of each of its business segments to the fullest extent possible. The combination of the Group's business operations and the Proposed Acquisition's business operations will expand Group's business scale, reducing cyclical risks with diversification of revenue stream and expand business footprint into the Mainland China, including the Greater Bay Area, achieving cross-selling synergies, higher customer loyalty by providing integrated services as well as better labour and manpower deployment which will increase the operational and cost efficiency in the long run. The Directors believe that the combination of the Group's existing business operations and the Target Group's business operations will allow the Enlarged group to enhance its position as a leading diversified city services provider in Hong Kong, covering E&M engineering services, facilities services (including cleaning and laundry services) and property management services, with industry leading position in respective areas. The Enlarged Group shall endeavour to maintain a strong financial position to stay poised for new investment as well as exploring for alternative business opportunities as and when they arise. As of the Latest Practicable Date, the Company has not identified any alternative business opportunities.

The following is the text of a report set out on pages II-1 to II-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF FSE SERVICES GROUP LIMITED

Introduction

We report on the historical financial information of Legend Success Investments Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-51, which comprises the combined statements of financial position as at 30 June 2017, 2018 and 2019, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years then ended (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-51 forms an integral part of this report, which has been prepared for inclusion in the circular of FSE Services Group Limited (the "**Company**") dated 15 November 2019 (the "**Circular**") in connection with the proposed acquisition of the Target Group by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Note 1 and Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Relevant Periods ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements and management accounts of the Target Company and its subsidiaries now comprising the Target Group for the Relevant Periods. The directors of the respective companies now comprising the Target Group are responsible for the preparation of the respective company's financial statements that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public

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Accountants ("**HKICPA**"), and for such internal control as the directors determine is necessary to enable the preparation of respective companies' financial statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Note 1 and Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the combined financial position of the Target Group as at 30 June 2017, 2018 and 2019 and of its combined financial performance and its combined cash flows for the Relevant Periods in accordance with the basis of presentation and preparation set out in Note 1 and Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

15 November 2019

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in HK dollars (HK$) and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Combined income statements

		Year ended 30 June		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*5*	498,696	508,684	527,323
Cost of operations	*7*	(344,994)	(346,189)	(357,662)
Gross profit		153,702	162,495	169,661
Other income, net	*6*	478	545	1,427
Administrative expenses	*7*	(85,038)	(96,841)	(100,303)
Operating profit		69,142	66,199	70,785
Finance costs	*8*	(584)	(410)	(416)
Share of results of				
An associate	*15*	1,050	928	937
Joint ventures	*16*	16	20	(207)
Profit before income tax		69,624	66,737	71,099
Income tax expenses	*9*	(11,361)	(10,431)	(11,163)
Profit for the year		58,263	56,306	59,936
Attributable to:				
Equity holder of the Target Company		58,227	56,266	59,862
Non-controlling interests		36	40	74
		58,263	56,306	59,936

Combined statements of comprehensive income

	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Profit for the year	58,263	56,306	59,936
Other comprehensive income/(loss):			
Item that will not be reclassified subsequently to combined income statement:			
Remeasurements of defined benefit retirement scheme, net of tax	3,270	2,505	(2,587)
Remeasurements gain on long service payment liabilities, net of tax	399	1,117	82
	3,669	3,622	(2,505)
Total comprehensive income for the year	61,932	59,928	57,431
Attributable to:			
Equity holder of the Target Company	61,896	59,888	57,357
Non-controlling interests	36	40	74
	61,932	59,928	57,431

Combined statements of financial position

		As at 30 June		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*13*	7,666	10,494	13,012
Intangible assets	*14*	25,382	26,855	26,191
Interest in an associate	*15*	56	72	79
Interest in joint ventures	*16*	1,121	1,141	934
Deferred income tax assets	*17*	17	98	—
Pension assets	*24*	3,741	5,783	2,849
		37,983	44,443	43,065
Current assets				
Trade and other receivables	*18*	68,312	77,168	90,392
Amount due from FSE Management Company Limited	*19*	66,575	24,655	12,178
Amounts due from related companies	*20*	12,819	10,668	12,596
Cash and cash equivalents	*21*	117,722	106,565	115,162
		265,428	219,056	230,328
Total assets		303,411	263,499	273,393
EQUITY				
Combined share capital	*22*	—	—	—
Reserves	*23*	133,598	139,526	82,247
Shareholder's funds		133,598	139,526	82,247
Non-controlling interests		57	57	67
Total equity		133,655	139,583	82,314
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities	*17*	1,499	2,483	2,628
Long service payment liabilities	*25*	9,827	9,699	10,794
		11,326	12,182	13,422

		As at 30 June		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade and other payables	*26*	101,080	98,337	109,181
Amount due to FSE Management Company Limited	*19*	—	—	24,326
Amounts due to related companies	*20*	5,646	4,027	3,403
Borrowings	*27*	40,000	—	30,000
Income tax payable		11,704	9,370	10,747
		158,430	111,734	177,657
Total liabilities		169,756	123,916	191,079
Total equity and liabilities		303,411	263,499	273,393
Net current assets		106,998	107,322	52,671

Combined statements of changes in equity

	Combined share capital	Reserves	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2016	—	127,667	127,667	56	127,723
Profit for the year	—	58,227	58,227	36	58,263
Other comprehensive income					
Remeasurement of defined benefit retirement scheme	—	3,270	3,270	—	3,270
Remeasurement gains on long service payment liabilities	—	478	478	—	478
Deferred tax on remeasurement of long service payment liabilities	—	(79)	(79)	—	(79)
Total comprehensive income for the year	—	61,896	61,896	36	61,932
Dividends *(Note 10)*	—	(55,965)	(55,965)	(35)	(56,000)
At 1 July 2017	—	133,598	133,598	57	133,655
Profit for the year	—	56,266	56,266	40	56,306
Other comprehensive income					
Remeasurement of defined benefit retirement scheme	—	2,505	2,505	—	2,505
Remeasurement gains on long service payment liabilities	—	1,337	1,337	—	1,337
Deferred tax on remeasurement of long service payment liabilities	—	(220)	(220)	—	(220)
Total comprehensive income for the year	—	59,888	59,888	40	59,928
Dividends *(Note 10)*	—	(53,960)	(53,960)	(40)	(54,000)

	Combined share capital *HK$'000*	Reserves *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 July 2018	—	139,526	139,526	57	139,583
Profit for the year	—	59,862	59,862	74	59,936
Other comprehensive (loss)/income					
Remeasurement of defined benefit retirement scheme	—	(2,587)	(2,587)	—	(2,587)
Remeasurement gains on long service payment liabilities	—	98	98	—	98
Deferred tax on remeasurement of long service payment liabilities	—	(16)	(16)	—	(16)
Total comprehensive income for the year	—	57,357	57,357	74	57,431
Dividends *(Note 10)*	—	(114,636)	(114,636)	(64)	(114,700)
At 30 June 2019	—	82,247	82,247	67	82,314

Combined statements of cash flows

		Year ended 30 June		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities				
Cash generated from operations	*28(a)*	46,810	96,966	48,224
Hong Kong profits tax paid		(11,434)	(12,460)	(9,559)
Net cash generated from operating activities		35,376	84,506	38,665
Cash flows from investing activities				
Addition to property, plant and equipment		(3,872)	(5,094)	(7,115)
Proceeds from disposal of property, plant and equipment		—	114	1,500
Interest received		9	10	33
Net cash acquired from the acquisition of subsidiaries	*32*	—	2,805	—
Dividend received from an associate		1,029	912	930
Net cash used in investing activities		(2,834)	(1,253)	(4,652)
Cash flows from financing activities				
Interest paid	*28(b)*	(584)	(410)	(416)
Proceeds from/(repayment of) bank borrowings	*28(b)*	40,000	(40,000)	30,000
Dividends paid		(56,000)	(54,000)	(55,000)
Net cash used in financing activities		(16,584)	(94,410)	(25,416)
Net increase/(decrease) in cash and cash equivalents		15,958	(11,157)	8,597
Cash and cash equivalents at beginning of year		101,764	117,722	106,565
Cash and cash equivalents at end of year		117,722	106,565	115,162

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

General information

Legend Success Investments Limited (the "**Target Company**") was incorporated in the British Virgin Islands on 3 September 2019 with limited liability. The address of its registered office is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

The immediate holding company of the Target Company is FSE Management Company Limited ("**FMC**"), a limited liability company incorporated in Hog Kong. The ultimate holding company of the Target Company is FSE Holdings Limited ("**FHL**"), a limited liability company incorporated in the Cayman Islands.

The Target Company is an investment holding company. The Target Company and its subsidiaries (collectively the "**Target Group**") are principally engaged in the provision of property and facility management services, property agency and related services for buildings, carparks management services and guarding services in Hong Kong. Details of the subsidiaries upon completion of the Reorganisation (as defined below) are set out in Note 29.

Reorganisation

In preparation of a proposed acquisition by FSE Property Management Group Limited (the "**Proposed Acquisition**"), a wholly owned subsidiary of FSE Services Group Limited ("**FSESG**"), the Target Group underwent a reorganisation (the "**Reorganisation**") with details as set out below:

(i) The Target Company was incorporated in the British Virgin Islands on 3 September 2019 with a total of 1 share issued and a share capital of US$1; and

(ii) Urban Management Limited and its subsidiaries (collectively, the "**Urban Group**") and Flash Star International Limited and its subsidiaries (collectively, the "**Kiu Lok Group**") were transferred to the Target Company on 5 November 2019.

Basis of presentation

As the Target Company, the Urban Group and the Kiu Lok Group are under common control of FHL, the Reorganisation has been accounted for as a business combination under common control. The Historical Financial Information has been presented as if the current group structure had been in existence throughout the Relevant Periods or since the date when the combining entities first came under the control of FHL, where it is a shorter period.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies applied in the preparation of these Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Historical Financial Information of the Target Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and under the historical cost convention.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Target Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

The Target Group has applied HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" consistently throughout the Relevant Periods.

The following new standards and amendments and improvements to existing standards, that are relevant to the Target Group's operation, have been issued but not yet effective as at 30 June 2019 and the Target Group has not early adopted:

		Effective for accounting periods beginning on or after
HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 Amendments	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 Amendments	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements	2015–2017 cycle	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and HKAS 8 Amendments	Definition of Material	1 January 2020
HKFRS 3 Amendments	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	To be determined

The Target Group has already commenced an assessment of the impact of the above pronouncements to the Target Group and considers that there will not be any substantial changes to the Target Group's accounting policies and presentation of its combined financial statements, except for HKFRS 16 as described below:

HKFRS 16, "Leases"

HKFRS 16 addresses the definition of a lease and recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on the statements of financial position for lessees. The Target Group is a lessee of certain premises and properties which are currently classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Target Group is the lessee. Almost all leases should be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations). Short-term leases of twelve months or less and leases of low-value assets are exempt from the recognition. The new standard will therefore result in an increase in assets and financial liabilities in the combined statements of financial position. As for the financial performance impact in the combined statements of comprehensive income, straight-line depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to combined income statement in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

The Target Group adopted HKFRS 16 starting from 1 July 2019, which results in its recognition of lease assets and lease liabilities primarily arising from leases of premises and properties in relation to the Target Group's various businesses.

As at 30 June 2019, the Target Group has non-cancellable operating lease commitments of HK$18.5 million. This results in the Target Group's recognition of assets and liabilities for future payments. Some of the commitments are covered by the exception for short-term and low-value leases and some commitments relate to arrangements that do not qualify as leases under HKFRS 16. There will not be any material effect on the Target Group's profit or loss for its adoption of HKFRS 16.

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are combined from the date on which control is transferred to the Target Group. They are decombined from the date that control ceases.

Business combinations under common control

Business combinations under common control refers to combinations where the combining entities are controlled by the same party or parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is recorded in other reserve. Any direct transaction cost attributable to the business combination is recorded in the combined statements of comprehensive income in the current period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

The Target Company applies merger accounting to account for the business combinations under common control in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

Business combinations not under common control

The Target Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. All other components of non controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expenses as incurred

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised in the combined income statement.

Intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

(ii) Disposal of subsidiaries

When the Target Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in combined income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Target Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are reclassified to combined statement of equity as specified/permitted by applicable HKFRSs.

(c) Associate

An associate is an entity over which the Target Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Target Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Target Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to combined income statement where appropriate.

The Target Group's share of post-acquisition profits or losses of associate is recognised in the combined income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Target Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Target Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Target Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Target Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of results of associate" in the combined income statement.

Profits and losses resulting from upstream and downstream transactions between the Target Group and its associate are recognised in the Target Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

Gain or losses on dilution of equity interest in associates are recognised in the combined income statement.

(d) Joint arrangements

The Target Group has applied HKFRS 11 to all joint arrangement. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. The Target Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Target Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Target Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Target Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Target Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Target Group's net investment in the joint ventures), the Target Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Target Group and its joint ventures are eliminated to the extent of the Target Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Target Group and the cost of the asset can be measured reliably. All other repairs and maintenance are charged to the combined income statement during the financial year in which they are incurred.

Leasehold improvements are depreciated over the period of the lease. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Land and building	Shorter of 20 to 40 years, or the remaining lease terms
Leasehold improvements	Shorter of 5 years or the remaining lease terms
Furniture, fixtures, equipment and others	4 to 5 years
Plant and machinery	2 to 7 years
Motor vehicles	5 years

The residual values and estimated useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount (Note 2(l)).

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised with "other income, net" in the combined income statement.

(f) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Customer contracts

Separately acquired customer contracts are shown at historical cost. Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. Customer contracts have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and brand names over their estimated useful lives of 5 years.

(g) Contract assets and liabilities

Upon entering into a contract with a customer, the Target Group obtains rights to receive consideration from the customer and assumes performance obligations to provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as a contract asset if its cumulative revenue recognised in the profit or loss exceeds cumulative progress billing to customers. Conversely, the contract is a liability and recognised as contract liability if its cumulative progress billing to customers exceeds the revenue recognised in the profit or loss. Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortised cost. Contract liabilities are recognised as revenue when the Target Group provides the services to the customers and therefore satisfies its performance obligations.

(h) Financial assets

(i) Classifications

The Target Group classifies its financial assets in the following measurement categories:

(a) those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss) after initial recognition, and

(b) those to be measured subsequently at amortised cost after initial recognition.

The classification depends on the Target Group's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses are either to be recorded in the profit or loss or OCI. For investments in equity instruments that are not held for trading, the accounting treatment for them depends on whether the Target Group has made an irrevocable election at the time of their initial recognition to account for them as the equity investments at fair value through other comprehensive income (FVOCI) or not.

Financial assets are classified as current assets if they are expected to be settled within 12 months or in the normal operating cycle of the business. Otherwise, they are classified as non-current.

The Target Group reclassifies debt investments when and only when its business model for managing these assets changes.

(ii) Recognition and Measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the combined income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership.

At initial recognition, the Target Group measures a financial asset at its fair value plus, in the case of financial asset not measured at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Target Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the profit or loss and presented in ''Other income, net'', together with foreign exchange gains and losses. Impairment losses are presented within ''Administrative expenses'' in another line item in the combined income statement

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised directly in the profit or loss. When an financial asset is derecognised, its cumulative gain or loss previously recognised in OCI is reclassified from equity to the profit or loss and recognised in ''Other gains/(losses), net''. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in ''Other income, net'' and impairment expenses are presented within ''Administrative expenses'' in another as separate line item in the combined income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the profit or loss and presented net within "Other income, net" in the period in which it arises.

(b) Equity instruments

The Target Group subsequently measures all equity instruments at fair value. When the Target Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the profit or loss as "Other income, net" when the Target Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in "Other income, net" in the combined income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of receivable. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the provision is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivable. Subsequent recoveries of amounts previously written off are credited in the combined income statement. See Note 2(j) to the combined financial statements for a description of Target Group's impairment policies.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less bank overdrafts.

(k) Impairment of financial assets

The Target Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI, trade receivables and amounts due from FMC and related companies. Provision for expected credit loss is made when the Target Group will not collect all amounts due. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment on these financial assets are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The Target Group considers the probability of default upon initial recognition of, a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Target Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in external credit rating of the debtors
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Target Group and changes in the operating results of the borrower

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 90 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 90 days of when they fail due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Target Group. The Target Group categories a loan or receivable for write off when a debtor fails to make contractual payments/repayable demanded greater than 120 days past due. Where loans or receivables have been written off, the Target Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in combined income statement.

(l) Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in combined income statement for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

(m) Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(n) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the combined income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(p) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

(q) Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the combined income statement, except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Target Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined balance sheet. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except deferred income tax liability where the timing of the reversal of the temporary differences can be controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the services in the ordinary course of the Target Group's activities. If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenues are recognised when or as the control of the service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the service may be transferred over time or at a point in time.

Control of the service is transferred over time if the Target Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Target Group performs; or
- does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset. Specific criteria where revenue is recognised are described below.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Target Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Target Group to the customer; or
- the Target Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

(i) Property management services

Revenue arising from property management services is recognised in the accounting period in which the services are rendered. The Target Group bills the customers for each month of service provided and recognises as revenue in the amount to which the Target Group satisfies performance obligations by transferring the services to its customers.

For property management services income from properties managed under lump sum basis, where the Target Group acts as principal and is primary responsible for providing the property management services to the property owners, the Target Group recognises the fee received or receivable from property owners as its revenue and all related property management costs as its cost of service. For property management services income from properties managed under commission basis, the Target Group only recognises the commission, which is calculated by fixed percentage of the costs involved in the management of the property units, as its revenue.

(ii) Value-added services

Value-added services income is recognised over time when the services are rendered and the Target Group's performance provides all of the benefits received and consumed simultaneously by the customer.

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(s) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the combined income statement on a straight-line basis over the period of the lease.

(t) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plan

Provisions for bonus plans are recognised when the Target Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Defined contribution schemes

Contributions to defined contribution schemes, including the Mandatory Provident Fund ("**MPF**") Scheme and Occupational Retirement Schemes Ordinance ("**ORSO**") scheme, are expensed as incurred. Except for the MPF Scheme, contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

(iv) Defined benefit schemes

Defined benefit costs under defined benefit schemes which are assessed using the projected unit credit method, are charged to profit or loss. Under this method, plan assets are measured at fair value and defined benefit obligations are measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on Exchange Fund Notes, which have terms to maturity approximating the terms of the related liability. The current service cost of the defined benefit plan, recognised in the combined income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in combined income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the combined income statement.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(v) Long service payment liabilities

The Target Group's net obligation in respect of long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed by using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the combined income statement so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlements accrued under the Target Group's MPF and ORSO scheme that is attributable to contributions made by the Target Group.

Changes in the present value of the long service payment liabilities resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(u) Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Target Group's and Target Company's financial statements in the period when the dividends are approved by the Target Company's shareholders or directors, where appropriate.

(v) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The combined financial statements are presented in Hong Kong dollars, which is the Target Company's functional and the Target Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re- measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined income statement.

(iii) Group companies

The results and financial position of all the Target Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of that reporting period;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The executive directors that make strategic decisions have been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The activities of the Target Group expose it to credit risk, liquidity risk and interest rate risk. The overall risk management programme of the Target Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Target Group. Risk management is carried out by management under policies approved by the Board of Directors.

(i) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Target Group. The Target Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The credit risk of the Target Group's financial assets, which mainly comprise deposits with banks and financial institutions, amount due from FMC and related companies and trade and other receivables, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(a) Credit risk of deposits with banks and financial institutions

To manage this risk arising from cash and cash equivalents, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(b) Credit risk of amount due from FMC and related companies

The Target Group monitors its exposure to credit risk in respect of amounts due from intermediate holding company and related companies through monitoring their financial positions on a regular basis.

(c) Credit risk of trade receivables

The Target Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The maximum exposure to credit risk is represented by the carrying amount of each receivable in the statement of financial position after deducting any impairment allowance.

(d) Credit risk of other receivables

Other receivables of the Target Group are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Other receivables are considered to be of low credit risk when they have a low risk of default and the counterparty has the ability to meet its contractual cash flow obligations in the near term.

(ii) Liquidity risk

Financial liabilities of the Target Group mature within 12 months from the end of the reporting years. The Target Group maintains undrawn available credit lines and cash deposits to reduce liquidity risk and to allow for flexibility in meeting funding requirements.

(iii) Interest rate risk

The Target Group's exposure to changes in interest rate risk relates primarily to the bank borrowings, the terms of which are disclosed in Note 27.

At 30 June 2017 and 2019, if interest rates on the bank borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the years would have been HK$400,000 and HK$300,000 lower/higher respectively. Other components of equity would not be affected by the changes in interest rates.

(b) Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders. The capital structure of the Target Group consists of total equity and borrowings as shown in on the combined statement of financial position. The overall strategies is consistent throughout the Relevant Periods.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders and withdraw or repay borrowings.

(c) Fair value estimation

The carrying amounts of the Target Group's financial assets and liabilities approximate their fair values due to the short-term maturities of these assets and liabilities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Property, plant and equipment

The estimated useful lives and residual values of property, plant and equipment are determined by management based on the internal accounting guidelines and industrial practices of similar property, plant and equipment. Management will revise the depreciation charges where useful lives and residual values are different to previously estimated.

Income taxes

The Target Group is subject to income tax in Hong Kong. Judgement is required in determining the provision for taxation. There are transactions and calculations for which the ultimate tax determination may be uncertain during the ordinary course of business. The Target Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income taxation in the financial period in which such determination is made.

Long service payment liabilities

The present value of the long service payment liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for long service payment liabilities include the discount rate. Any changes in these assumptions will impact the carrying amount of long service payment liabilities.

The Target Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the long service payment liabilities. In determining the appropriate discount rate, the Target Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the liabilities will be paid, and that have terms to maturity approximating the terms of the related long service payment liabilities.

Other key assumptions for long service payment liabilities are based in part on current market conditions. Additional information is disclosed in Note 25.

Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The expected return on plan assets assumption is determined based on historical return trends, asset allocation and future estimates of long-term investment returns.

The Target Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Target Group refers to market yields based on Exchange Fund Notes, which have terms to maturity approximating the terms of the related liability. Other key assumptions used are based on current market conditions.

5 REVENUE

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Property management services	459,725	470,496	484,647
Value-added services	32,924	31,611	36,569
Others	6,047	6,577	6,107
	498,696	508,684	527,323
Revenue from residential properties[1]	176,696	190,165	215,198
Revenue from non-residential properties[2]	322,000	318,519	312,125
	498,696	508,684	527,323
Timing of revenue recognition			
Revenue recognised over time	498,696	508,684	527,323

As at 30 June 2017, 2018 and 2019, the aggregate amounts of transaction price allocated to the Target Group's remaining performance obligations in respect of property services management fee, value-added services and other services are HK$110 million, HK$156 million and HK$173 million respectively. The Target Group will recognise this revenue during the completion of the related works, which is expected to occur within 5 years, 4.5 years and 4 years respectively after 30 June 2017, 2018 and 2019 respectively, which are typical for the respective projects.

1 Residential properties might include portion of non-residential properties such as car parks and shops within the same residential development property management contracts.

2 Non-residential properties might include portion of government staff quarters under the same property management contracts with the Government Property Agency.

6 OTHER INCOME, NET

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Gain on disposal of property, plant and equipment	—	13	443
Bank interest income	9	10	33
Write-off on other payables	—	—	564
Sundries	469	522	387
	478	545	1,427

7 EXPENSES BY NATURE

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Operating leases in respect of land and buildings	6,191	6,693	7,766
Amortisation of intangible assets	257	563	664
Depreciation	2,245	2,165	3,540
Staff costs *(Note 11)*	301,828	306,787	315,176
Auditor's remuneration			
— Provision for the year	683	735	806
— Under/(over)-provision in prior years	64	(8)	—
Advertising and promotion expenses	2,346	4,003	3,093
Building management fee	750	821	948
Management fee expenses *(Note 33(b))*	8,300	8,900	9,500
Repair and maintenance expenses	4,982	5,861	6,086
Subcontracting fee	71,187	74,673	76,429
Consultancy fee	953	895	940
Donation	2,636	2,643	2,676
Others	27,610	28,299	30,341
Total cost of operations and administrative expenses	430,032	443,030	457,965

8 FINANCE COSTS

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Interest on short-term bank borrowings	584	410	416

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the years.

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong profits tax			
Provision for the year	11,027	10,370	11,134
Under/(over) provision in prior years	18	(286)	(198)
Deferred income tax *(Note 17)*	316	347	227
	11,361	10,431	11,163

The income tax expense on the Target Group's profit before tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax	69,624	66,737	71,099
Less: Share of results of			
An associate *(Note 15)*	(1,050)	(928)	(937)
Joint ventures *(Note 16)*	(16)	(20)	207
	68,558	65,789	70,369
Calculated at a tax rate of 16.5%	11,312	10,855	11,611
Income not subject to taxation	(1)	(135)	(253)
Expenses not deductible for taxation purpose	5	5	32
Under/(over) provision in prior years	18	(286)	(198)
Other temporary differences	27	(8)	(29)
Income tax expense	11,361	10,431	11,163

10 DIVIDENDS

First interim dividend of HK$41,000,000, HK$54,000,000 and HK$55,000,000 were declared by companies within the Target Group to the then shareholders during the years ended 30 June 2017, 2018 and 2019 respectively.

Furthermore, second interim dividend of HK$15,000,000 and HK$59,700,000 were declared by companies within the Target Group to the then shareholders during the year ended 30 June 2017 and 2019 respectively.

Dividend per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the presentation of the results for the Relevant Periods on a combined basis as set out in Note 1 of this section.

11 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Wages, salaries and other allowances	302,261	304,083	303,284
Pension costs on defined contribution plans	13,004	11,984	11,484
Pension costs on defined benefits plans	729	563	408
Staff costs recharged to fellow subsidiary companies	(14,166)	(9,843)	—
	301,828	306,787	315,176

12 BENEFITS AND INTERESTS OF DIRECTORS OF THE URBAN GROUP AND THE KIU LOK GROUP

During the years, except as disclosed below, no emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors of the underlying business. No consideration was provided to or receivable by third parties for making available directors' services during the years. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities during the years.

No director of the Target Company or Target Group had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Target Company's business to which the Target Company was or is a party that subsisted at the end of the years or at any time during the years.

The value of their services to the Target Group approximates the management fee paid by the Target Group to the holding companies (Note 33(b)).

13 PROPERTY, PLANT AND EQUIPMENT

	Land and building	Leasehold improvements	Furniture, fixtures, equipment and others	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net book value					
At 1 July 2016	1,171	30	2,183	2,655	6,039
Additions	—	—	3,872	—	3,872
Depreciation	(38)	(30)	(1,314)	(863)	(2,245)
At 1 July 2017	1,133	—	4,741	1,792	7,666
Additions	—	1,194	3,055	845	5,094
Depreciation	(38)	(10)	(1,273)	(844)	(2,165)
Disposals	—	—	—	(101)	(101)
At 1 July 2018	1,095	1,184	6,523	1,692	10,494
Additions	—	1,306	5,143	666	7,115
Depreciation	(38)	(261)	(2,254)	(987)	(3,540)
Disposals	(1,057)	—	—	—	(1,057)
At 30 June 2019	—	2,229	9,412	1,371	13,012

	Land and building	Leasehold improvements	Furniture, fixtures, equipment and others	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 June 2017					
Cost	1,400	9,756	15,645	5,827	32,628
Accumulated depreciation	(267)	(9,756)	(10,904)	(4,035)	(24,962)
Net book value	1,133	—	4,741	1,792	7,666
At 30 June 2018					
Cost	1,400	10,950	18,686	6,378	37,414
Accumulated depreciation	(305)	(9,766)	(12,163)	(4,686)	(26,920)
Net book value	1,095	1,184	6,523	1,692	10,494
At 30 June 2019					
Cost	—	12,256	23,829	7,044	43,129
Accumulated depreciation	—	(10,027)	(14,417)	(5,673)	(30,117)
Net book value	—	2,229	9,412	1,371	13,012

14 INTANGIBLE ASSETS

	Goodwill	Trademark and brand names	Customer contracts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net book value				
At 1 July 2016	19,481	6,158	—	25,639
Amortisation	—	(257)	—	(257)
At 1 July 2017	19,481	5,901	—	25,382
Acquisition of subsidiaries *(Note 32)*	—	—	2,036	2,036
Amortisation	—	(257)	(306)	(563)
At 1 July 2018	19,481	5,644	1,730	26,855
Amortisation	—	(257)	(407)	(664)
At 30 June 2019	19,481	5,387	1,323	26,191

	Goodwill	Trademark and brand names	Customer contracts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 30 June 2017				
Cost	19,481	8,400	72,900	100,781
Accumulated amortisation	—	(2,499)	(72,900)	(75,399)
Net book value	19,481	5,901	—	25,382
At 30 June 2018				
Cost	19,481	8,400	74,936	102,817
Accumulated amortisation	—	(2,756)	(73,206)	(75,962)
Net book value	19,481	5,644	1,730	26,855
At 30 June 2019				
Cost	19,481	8,400	74,936	102,817
Accumulated amortisation	—	(3,013)	(73,613)	(76,626)
Net book value	19,481	5,387	1,323	26,191

Impairment tests for goodwill

Goodwill is allocated to the cash generating units ("**CGU**") for the purpose of impairment tests. The allocation is made to those CGU or groups of CGUs that are expected to be benefit from the business combination in which the goodwill arise and is identified at the lowest level of which goodwill is monitored. For the purpose of impairment test, the recoverable amount of the business unit is determined based on value-in-use calculations. The key assumptions adopted on growth rates and discount rates used in the value-in-use calculations are based on management's best estimates and past experience.

A summary of the goodwill allocation to CGU is presented below.

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Property management services			
— Urban Group	11,767	11,767	11,767
— Kiu Lok Group	7,714	7,714	7,714
	19,481	19,481	19,481

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period which the growth rates stated as below. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below. The terminal growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

The key assumptions used for value-in-use calculations for each year end are as follows:

Urban Group	As at 30 June		
	2017	**2018**	**2019**
Cash flows in first five years			
Gross profit margin	26.7%–27.1%	28.3%–28.8%	27.4%–27.6%
Growth rate	1.9%–2.1%	1.9%–2.1%	1.7%–3.8%
Pre-tax discount rate	12.9%	12.9%	12.9%
Cash flows beyond five-year period			
Terminal growth rate	1%	1%	1%
Pre-tax discount rate	11.4%	15.8%	12.9%

Kiu Lok Group	As at 30 June		
	2017	**2018**	**2019**
Cash flows in first five years			
Gross profit margin	78.5%–78.9%	73.7%–73.9%	75.6%–75.9%
Growth rate	2.0%–6.2%	2.0%–6.4%	1.5%–5.7%
Pre-tax discount rate	15.8%	15.8%	15.8%
Cash flows beyond five-year period			
Terminal growth rate	1%	1%	1%
Pre-tax discount rate	15.8%	15.8%	15.8%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments and business life-cycle. On the basis of these reviews, management concluded that there was no impairment losses on goodwill in the combined income statement for the years ended 30 June 2017, 2018 and 2019.

A reasonably possible change in a key assumption would not cause the recoverable amount to fall below the carrying value of the CGU.

15 INTEREST IN AN ASSOCIATE

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of year	35	56	72
Share of profits for the year	1,050	928	937
Dividend	(1,029)	(912)	(930)
At end of year	56	72	79

Particular of an associate is as follows:

Name	Place of incorporation	Principal activities	Particular of issued share capital	Effective percentage of equity interest held 2017	2018	2019
Harbour Place Management Services Limited	Hong Kong	Provision of property management services	1,000 ordinary shares paid up to HK$1,000	30%	30%	30%

The following amounts represent the Target Group's share of its individually immaterial associate that is accounted for using the equity method:

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of interest in an associate	56	72	79
Share of profit and total comprehensive income for the year	1,050	928	937

There are no commitments or contingent liabilities relating to the Target Group's interest in an associate, and no commitments or contingent liabilities of the entity itself.

16 INTERESTS IN JOINT VENTURES

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of year	1,105	1,121	1,141
Share of profit/(loss) for the year	16	20	(207)
At end of year	1,121	1,141	934

Particulars of the joint ventures are as follows:

Name	Place of incorporation	Principal activities	Particulars of registered/ issued share capital	Effective percentage of equity interest held 2017	2018	2019
廣州市富城物業管理有限公司	PRC	Provision of property management services	RMB800,000	50%	50%	50%
Urban-Wellborn Property Management Limited	Hong Kong	Provision of property management services	10,000 ordinary shares paid up to HK$100,000	50%	50%	50%

Set out below is, in aggregate, the carrying amounts of the Target Group's interests in all individually immaterial joint ventures that are accounted for using the equity method:

	As at 30 June 2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of interests in joint ventures	1,121	1,141	934
Share of profit/(loss) and total comprehensive income/(loss) for the year	16	20	(207)

There are no commitments or contingent liabilities relating to the Target Group's interests in joint ventures, and no commitments or contingent liabilities of the entities themselves.

17 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

	As at 30 June 2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Deferred income tax assets	17	98	—
Deferred income tax liabilities	(1,499)	(2,483)	(2,628)
	(1,482)	(2,385)	(2,628)

Deferred income tax assets

	Tax losses	Accelerated accounting depreciation	Remeasure-ment of long service payment liabilities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2016	4	95	25	124
Charged to combined income statement	(4)	(78)	—	(82)
Charged to other comprehensive income	—	—	(25)	(25)
At 1 July 2017	—	17	—	17
Charged to combined income statement	—	(3)	—	(3)
Credited to other comprehensive income	—	—	84	84
At 1 July 2018	—	14	84	98
Charged to combined income statement	—	(14)	—	(14)
Charged to other comprehensive income	—	—	(84)	(84)
At 30 June 2019	—	—	—	—

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Target Group has recognised all the tax losses. These tax losses have no expiry dates.

Deferred income tax liabilities

	Accelerated depreciation allowance *HK$'000*	**Fair value adjustment on property, plant and equipment arising from business combination** *HK$'000*	**Fair value adjustment on trademarks, brand names and customer contract** *HK$'000*	**Remeasure-ment of long service payment liabilities** *HK$'000*	**Total** *HK$'000*
At 1 July 2016	—	(193)	(1,018)	—	(1,211)
(Charged)/credited to the combined statements of comprehensive income	(282)	6	42	—	(234)
Charged to other comprehensive income	—	—	—	(54)	(54)
At 1 July 2017	(282)	(187)	(976)	(54)	(1,499)
Acquisition of subsidiaries *(Note 32)*	—	—	(336)	—	(336)
(Charged)/credited to the combined statements of comprehensive income	(442)	6	92	—	(344)
Charged to other comprehensive income	—	—	—	(304)	(304)
At 1 July 2018	(724)	(181)	(1,220)	(358)	(2,483)
(Charged)/credited to the combined statements of comprehensive income	(503)	181	109	—	(213)
Credited to other comprehensive income	—	—	—	68	68
At 30 June 2019	(1,227)	—	(1,111)	(290)	(2,628)

18 TRADE AND OTHER RECEIVABLES

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables			
Third parties	32,426	46,124	49,686
Related companies	955	1,536	1,420
	33,381	47,660	51,106
Receivables from property owners for expenses paid or payable on behalf	27,923	22,115	33,137
Other receivables	413	386	282
Deposits and prepayments	6,595	7,007	5,867
	68,312	77,168	90,392

Generally, no credit period is granted by the Target Group to its customers.

Expected credit losses

The Target Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. The expected credit loss is minimal as the majority of the trade and other receivables are due from a number of independent customers for whom there is no recent history of default.

The ageing analysis of the Target Group's trade receivables (including amounts due from related parties of trading in nature) based on the invoice due date is as follows:

At 30 June 2017, 2018 and 2019, none of the Target Group's trade receivables was impaired.

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Current–90 days	32,975	38,950	50,309
91–180 days	343	8,527	736
Over 180 days	63	183	61
	33,381	47,660	51,106

As of 30 June 2017, 2018 and 2019, trade receivables of HK$33,381,000, HK$47,660,000 and HK$51,106,000 respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

19 AMOUNT DUE FROM/(TO) FMC

The balance is unsecured, interest free and repayable on demand.

The carrying amount of the balance approximates its fair value and is denominated in Hong Kong dollars.

20 AMOUNT DUE FROM/(TO) RELATED COMPANIES

The amounts due from/(to) related companies are unsecured, interest free and repayable on demand.

The carrying amount of the balances approximates their fair value and are denominated in Hong Kong dollars.

21 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are denominated in Hong Kong dollars and their carrying amounts approximate their fair values.

22 COMBINED SHARE CAPITAL

As mentioned in Note 1 above, the Historical Financial Information has been prepared as if the structure after the Reorganisation had been in existence throughout the years ended 30 June 2017, 2018 and 2019, or since the respective dates of establishment of the combining companies, or since the date when the combining companies first came under the control of FHL, whichever is the shorter period. Combined share capital during the Relevant Periods represents the combined share capital of Urban Management Limited and Flash Star International Limited.

		As at 30 June	
Share capital of Urban Management Limited	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*
Issued and fully paid:			
1 ordinary share	1	1	1

		As at 30 June	
Share capital of Flash Star International Limited	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*
Issued and fully paid:			
1 ordinary share	1	1	1

23 RESERVES

	Merger reserve *(Note)*	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2016	179,712	(52,045)	127,667
Profit for the year	—	58,227	58,227
Other comprehensive income			
Remeasurement of defined benefit retirement scheme	—	3,270	3,270
Remeasurement gain on long service payment liabilities	—	478	478
Deferred tax on remeasurement gain of long service payment liabilities	—	(79)	(79)
Dividends *(Note 10)*	—	(55,965)	(55,965)

	Merger reserve *(Note)* *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 July 2017	179,712	(46,114)	133,598
Profit for the year	—	56,266	56,266
Other comprehensive income			
Remeasurement of defined benefit retirement scheme	—	2,505	2,505
Remeasurement gain on long service payment liabilities	—	1,337	1,337
Deferred tax on remeasurement gain of long service payment liabilities	—	(220)	(220)
Dividends *(Note 10)*	—	(53,960)	(53,960)
At 1 July 2018	179,712	(40,186)	139,526
Profit for the year	—	59,862	59,862
Other comprehensive income			
Remeasurement of defined benefit retirement scheme	—	(2,587)	(2,587)
Remeasurement gain on long service payment liabilities	—	98	98
Deferred tax on remeasurement gain of long service payment liabilities	—	(16)	(16)
Dividends *(Note 10)*	—	(114,636)	(114,636)
At 30 June 2019	179,712	(97,465)	82,247

Note: The balance represents the net asset values attributable to the Urban Group and the Kiu Lok Group at the date when the combining companies first came under the control of FHL. This balance has been made to the merger reserve in the Historical Financial Information.

24 PENSION ASSETS

The Target Group operates a defined benefit retirement scheme (the "**Scheme**") registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) that provides lump sum benefits based on a multiple of a member's final salary and years of service or employee contribution balance, whichever is higher, upon the member's retirement, death, disability or leaving service. The Scheme has been closed to new employees since 1 December 2000.

The Target Group has an unconditional right to the surplus of the Scheme.

The Scheme is administered by an independent trustee with its assets held separately from those of the Target Group. The key responsibilities of the trustee are to ensure that the Scheme is administered in accordance with the trust deed and rules and to act on behalf of all members impartially, prudently and in good faith.

The costs of benefits are jointly funded by the Target Group and the employees. Employees' contributions are based on 5% of basic salary and the Target Group's contributions are determined with reference to the funding valuation carried out by the Scheme's actuary. The valuations of the Scheme as at 30 June 2017, 2018 and 2019 were prepared by independent qualified actuaries using the projected unit credit method.

The Scheme exposes the Target Group to actuarial risks, such as investment risk, interest rate risk and salary risk.

(i) The amounts recognised in the combined statement of financial position are as follows:

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Present value of defined benefit obligations	(27,319)	(20,125)	(15,137)
Fair value of plan assets	31,060	25,908	17,986
Net retirement benefit assets	3,741	5,783	2,849

Majority of the above liabilities are expected to be settled after more than one year.

However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(ii) Movements in net defined benefit assets and its components are as follows:

	Present value of defined benefit obligations	**Fair value of plan assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2016	(25,345)	26,404	1,059
Net (charge)/credit to the combined income statement			
Current service costs	(739)	—	(739)
Interest (expenses)/income	(175)	185	10
	(914)	185	(729)
Net (charge)/credit to other comprehensive income			
Remeasurements (loss)/gain:			
Actuarial gain arising from change in financial assumptions	366	—	366
Actuarial loss arising from experience adjustment	(1,135)	—	(1,135)
Return on plan assets excluding interest income	—	4,039	4,039
	(769)	4,039	3,270
Actual benefit paid	64	(64)	—
Contribution paid by the employees	(355)	355	—
Contribution paid by the employer	—	141	141

	Present value of defined benefit obligations *HK$'000*	Fair value of plan assets *HK$'000*	Total *HK$'000*
At 1 July 2017	(27,319)	31,060	3,741
Net (charge)/credit to the combined income statement			
Current service cost	(602)	—	(602)
Interest (expenses)/income	(233)	272	39
	(835)	272	(563)
Net credit to other comprehensive income			
Remeasurements gain:			
Actuarial gain arising from change in financial assumptions	1,225	—	1,225
Actuarial loss arising from experience adjustment	(706)	—	(706)
Return on plan assets excluding interest income	—	1,986	1,986
	519	1,986	2,505
Actual benefit paid	7,775	(7,775)	—
Contribution paid by the employees	(265)	265	—
Contribution paid by the employer	—	100	100
At 1 July 2018	(20,125)	25,908	5,783
Net (charge)/credit to the combined income statement			
Current service cost	(533)	—	(533)
Interest (expenses)/income	(182)	307	125
	(715)	307	(408)
Net charge to other comprehensive income			
Remeasurements loss:			
Actuarial loss arising from change in financial assumptions	(884)	—	(884)
Actuarial loss arising from experience adjustment	(1,559)	—	(1,559)
Loss on plan assets excluding interest income	—	(144)	(144)
	(2,443)	(144)	(2,587)
Actual benefit paid	8,323	(8,323)	—
Contribution paid by the employees	(177)	177	—
Contribution paid by the employer	—	61	61
At 30 June 2019	(15,137)	17,986	2,849

The weighted average duration of the defined benefit obligation as at 30 June 2017, 2018 and 2019 are 4.5 years, 5.4 years and 8.7 years respectively.

(iii) Significant actuarial assumptions adopted for the purpose of the actuarial valuation are as follows:

	2017	2018	2019
Discount rate	1.0% p.a.	2.1% p.a.	1.4% p.a.
Salary growth rate	4.0% p.a.	4.0% p.a.	4.0% p.a.

The below analysis shows how the defined benefit obligation as at each year end date would have increased/(decreased) as a result of 0.25% change in significant actuarial assumptions:

	As at 30 June					
	2017		2018		2019	
	Increase in 0.25%	Decrease in 0.25%	Increase in 0.25%	Decrease in 0.25%	Increase in 0.25%	Decrease in 0.25%
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Discount rate	(292)	303	(258)	265	(327)	327
Salary growth rate	293	(285)	259	(254)	309	(301)

The above sensitivity analyses are based on change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same actuarial valuation method has been applied as when calculating the defined benefit obligation recognised in the combined statement of financial position.

(iv) Fair value of the plan assets is analysed as follows:

	2017	2018	2019
Equities	73.1%	73.0%	66.8%
Bonds	21.9%	21.0%	23.3%
Cash and others	5.0%	6.0%	9.9%
	100%	100%	100%

The Scheme has a benchmark asset allocation of 70% in equities and 30% in bonds and cash. The long term strategic asset allocations of the Scheme is set and reviewed from time to time by the Scheme's trustee taking into account the Scheme's membership, liability profile, liquidity requirements, and the risk appetite of the Target Group.

25 LONG SERVICE PAYMENT LIABILITIES

Under the Hong Kong Employment Ordinance, the Target Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Target Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Target Group's MPF and ORSO schemes that are attributable to contributions made by the Target Group. The Target Group has not set aside any assets to fund any remaining obligations.

The liability recognised in the combined statement of financial position is the present value of unfunded obligations and its movements are as follows:

	As at 30 June		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Beginning of the year	8,771	9,827	9,699
Expenses recognised in the combined income statement	1,875	1,982	1,410
Remeasurement gain recognised in other comprehensive income	(478)	(1,337)	(98)
Benefits paid	(341)	(773)	(217)
End of the year	9,827	9,699	10,794

Significant actuarial assumptions adopted for the purpose of the actuarial valuation are as follows:

	As at 30 June		
	2017	2018	2019
Discount rate	1.3%	1.3%	1.3%
Long term rate of salary increases	4.5%	4.5%	4.5%
Long term rate of increase of maximum salary and amount of long service payment and MPF Relevant Income limit	3.5%	3.5%	3.5%
Long term average expected return on MPF and ORSO balances	3.0%	3.0%	3.0%

The below analysis shows how the long service payment liability as at each year end date would have increased/(decreased) as a result of 0.25% change in significant actuarial assumptions:

	As at 30 June					
	2017		2018		2019	
Assumption	**Increase in 0.25%**	**Decrease in 0.25%**	**Increase in 0.25%**	**Decrease in 0.25%**	**Increase in 0.25%**	**Decrease in 0.25%**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Long term rate of salary increases	465	(560)	460	(473)	491	(510)
Long term average expected return on MPF and ORSO balances	(568)	499	(443)	452	(436)	441

The above sensitivity analyses are based on change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the long service payment liability to significant actuarial assumptions, the same actuarial valuation method has been applied as when calculating the long service payment liability recognised within the combined statement of financial position.

26 TRADE AND OTHER PAYABLES

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables			
Third parties	6,484	14,418	13,508
Related companies	4,340	3,700	8,677
Contract liabilities			
— Cleaning, repair and maintenance service fees *(Note)*	2,758	3,456	201
Cash collected on behalf of car park owner	19,050	9,292	10,568
Accrued staff costs	26,432	25,867	27,068
Advance payments from property owners	3,660	5,027	6,088
Expenses payable on behalf of property owners	19,250	20,903	23,531
Dividend payable to non-controlling interests	1,797	1,832	1,906
Other payables and accruals	17,309	13,842	17,634
	101,080	98,337	109,181

Trade and other payables are denominated in Hong Kong dollars. The balances are measured at amortised cost and their carrying amounts approximate their fair values.

The ageing analysis of the Target Group's trade payables based on invoice date is as follows:

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
1–90 days	10,824	18,118	22,185

Note: The following table shows the amount of the revenue recognised during the Relevant Period relates to contract liability balance at the beginning of the year.

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Cleaning, repair and maintenance service fees	—	—	3,456

27 BORROWINGS

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Current			
Bank borrowings — secured	40,000	—	30,000

Borrowings are interest bearing at effective interest rates of 1.3%, 1.7% and 2.4% per annum for the years ended 30 June 2017, 2018 and 2019 respectively. The carrying amounts of the borrowings approximate its fair values and are denominated in Hong Kong dollar.

Borrowings are secured by a corporate guarantee provided by FHL as at 30 June 2019. Borrowings were secured by a corporate guarantee provided by FMC as at 30 June 2017 and 2018.

28 NOTE TO THE COMBINED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash generated from operations:

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax	69,624	66,737	71,099
Adjustment for:			
Interest income	(9)	(10)	(33)
Interest on short-term borrowings	584	410	416
Depreciation	2,245	2,165	3,540
Amortisation of intangible assets	257	563	664
Gain on disposal of property, plant and equipment	—	(13)	(443)
Write-off on other payables	—	—	(564)
Pension costs on defined benefits plan	729	563	408
Share of results of joint ventures	(16)	(20)	207
Share of results of an associate	(1,050)	(928)	(937)
Long service payment liabilities			
— Expenses recognised in the combined income statement	1,875	1,982	1,410
— Benefit paid	(341)	(773)	(217)
Operating cash flows before changes in working capital	73,898	70,676	75,550
Change in working capital:			
— Trade and other receivables	3,040	(4,150)	(13,224)
— Trade and other payables	2,972	(11,912)	11,408
— Balances with related companies	(32,959)	42,452	(25,449)
— Pension assets	(141)	(100)	(61)
Cash generated from operations	46,810	96,966	48,224

(b) **Net cash reconciliation**

This section sets out an analysis of net cash and the movements in net cash for each of the years presented.

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Cash and cash equivalents	117,722	106,565	115,162
Borrowings — repayable within one year *(Note 27)*	(40,000)	—	(30,000)
Net cash	77,722	106,565	85,162

	Cash and cash equivalents	Borrowings due within one year
	HK$'000	*HK$'000*
Net cash as at 1 July 2016	101,764	—
Net cash flows	15,958	(40,000)
Net cash as at 30 June 2017	117,722	(40,000)
Net cash flows	(11,157)	40,000
Net cash as at 30 June 2018	106,565	—
Net cash flows	8,597	(30,000)
Net cash as at 30 June 2019	115,162	(30,000)

(c) Major non-cash transactions

During the year ended 30 June 2019, the payment of second interim dividend of HK$59,700,000 was settled through current account with FMC.

29 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Percentage of interest indirectly held As at 30 June 2017	2018	2019
Espora Company Limited	Hong Kong	Provision of property management services	2 ordinary shares paid up to HK$2	100%	100%	100%
FSE Facility Management Limited	Hong Kong	Provision of referral services to a fellow subsidiary engaged in insurance brokerage business	2 ordinary shares paid up to HK$2	100%	100%	100%
International Property Management Limited	Hong Kong	Investment holding and provision of property management services for buildings	450,000 ordinary shares and 95,500 non-voting deferred shares[1] paid up to HK$545,500	99%	99%	99%
i-Urban Limited	Hong Kong	Inactive	2 ordinary shares paid up to HK$2	100%	100%	100%
Kiu Lok International Realty Limited	Hong Kong	Provision of property agency and related services for buildings in Hong Kong	2 ordinary shares paid up to HK$2	100%	100%	100%
Kiu Lok Service Management Company Limited	Hong Kong	Provision of property management, property agency and related services for buildings in Hong Kong	2 ordinary shares and 1,002 non-voting deferred shares[1] paid up to HK$1,004	100%	100%	100%
KL Property Management Limited	Hong Kong	Provision of property management and related services for buildings in Hong Kong	1 ordinary share paid up to HK$1	100%	100%	100%
KLPS Group Limited	Hong Kong	Investment holding	20,000,000 ordinary shares paid up to HK$20,000,000	100%	100%	100%

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Percentage of interest indirectly held As at 30 June 2017	2018	2019
KOHO Facility Management Limited	Hong Kong	Provision of property management services for buildings	1 ordinary share paid up to HK$1	100%	100%	100%
Paramatta Estate Management Limited	Hong Kong	Estate Manager of City One, Shatin	10,000 ordinary shares paid up to HK$10,000	—	100%	100%
Park Vale (Management) Limited	Hong Kong	Provision of property management services for buildings	2 ordinary shares paid up to HK$2	—	100%	100%
Sunningdale (Management) Limited	Hong Kong	Provision of property management services for buildings	2 ordinary shares paid up to HK$2	100%	100%	100%
Turning Technical Services Limited	Hong Kong	Provision of cleaning, repairs and maintenance services for properties	200,000 ordinary shares paid to HK$200,000	100%	100%	100%
Urban Management Services Limited	Hong Kong	Provision of property management services	10,000 ordinary shares paid up to HK$10,000	100%	100%	100%
Urban Property Management Limited	Hong Kong	Provision of property management services for buildings and investment holding	49,995,498 ordinary shares and 4,502 non-voting deferred shares[1] paid up to HK$50,000,000	100%	100%	100%
Urban Technical Services Limited	Hong Kong	Provision of repairs and maintenance services	2 ordinary shares paid up to HK$2	100%	100%	100%

[1] The non-voting deferred shares do not carry any voting rights and are not entitled to any profits distribution by the Target Group. On a return of assets on winding up or otherwise, the assets of the Target Group to be returned shall be distributed firstly in paying HK$1,000,000,000 per share to the holders of the ordinary shares and secondly in repaying to the holders of non-voting deferred shares the nominal amount paid up or credited as paid upon such shares. The balance of the assets of the Target Group shall be distributed among the holders of the ordinary shares.

30 COMMITMENTS

(a) Operating leases commitments

The Target Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

The Target Group as lessee	As at 30 June 2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Within one year	6,777	3,624	9,539
Between one and five years	545	4,915	8,966
	7,322	8,539	18,505

Certain lease payments are reimbursable by the customers.

(b) Capital commitments for property, plant and equipment

	As at 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Contracted but not provided for	2,722	2,825	1,175

31 FUNDS HELD ON BEHALF OF THIRD PARTIES

As at 30 June 2017, 2018 and 2019, the Target Group held bank balances and deposits totalling HK$645,398,000, HK$678,674,000 and HK$771,016,000 respectively in trust for owners of certain buildings which were under its management. These funds have not been included in the combined financial statements of the Target Group.

32 ACQUISITION OF SUBSIDIARIES

On 29 September 2017 and 15 September 2017, the Target Group had acquired 100% of the issued share capital of Park Vale (Management) Limited ("**Park Vale**"), a company incorporated in the Hong Kong with limited liability and Paramatta Estate Management Limited ("**Paramatta**"), a company incorporated in the Hong Kong with limited liability, respectively. The principal activities of Park Vale and Paramatta are provision of property management services for buildings.

	HK$'000
Total consideration	1,710
Fair value of identifiable assets and liabilities acquired of:	
Intangible assets	2,036
Trade and other receivables	4,706
Cash and bank balances	4,515
Trade and other payables	(9,169)
Deferred tax liabilities	(336)
Tax payable	(42)
	1,710

Analysis of the net cash inflow in respect of the acquisition of subsidiaries:

	HK$'000
Consideration	(1,710)
Cash and bank balances acquired	4,515
Net cash inflow from acquisition of subsidiaries	2,805

33 RELATED PARTY TRANSACTIONS

In addition to those disclosed in other sections of the combined financial statements, the Target Group undertook the following transactions with related parties in the normal course of its business during the years:

(a) Sales of services

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Premises management service fee and building manager remuneration from related companies *(Notes i and xiii)*	19,034	18,083	20,899
Agency fee income from related companies *(Notes ii and xiii)*	4	32	18
Repair and maintenance service income from a related company *(Notes iii and xiii)*	27	108	42
Handling fee income from a fellow subsidiary *(Note iv)*	47	42	41
Building manager remuneration from related parties *(Notes v and xiii)*	102	82	81
Management fee income from a related company *(Notes vi and xiii)*	—	1,505	204
Disposal of properties to a fellow subsidiary *(Note vii)*	—	—	1,500
Administration fee income from a related company *(Notes viii and xiii)*	5	17	21
Project management fee from a fellow subsidiary *(Note xiv)*	—	1,126	862

Service income was charged at terms mutually agreed between the parties.

(b) Purchase of services

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Cleaning expenses to a fellow subsidiary *(Note ix)*	36,118	35,699	37,436
Management fee expenses to the intermediate holding company *(Note x)*	8,300	8,900	9,500
Operating lease and building management expenses to related companies *(Notes xi and xiii)*	6,319	6,842	8,508
Donation to a fellow subsidiary *(Notes xii)*	125	125	125
Appointment fee to related companies *(Notes xiii and xv)*	5,605	5,461	2,396
Repair and maintenance expenses to a related company *(Notes xiii and xvi)*	1,024	653	495
IT expenses to a related company *(Note xiii and xvii)*	396	416	556

Notes:

(i) Premises management service fee and building manager remuneration was charged based on certain percentages of total expenditures of the properties in accordance with the management contracts.

(ii) Agency fee income was charged at prices and terms as agreed by both parties involved.

(iii) Repair and maintenance service income was charged based on rates agreed by both parties.

(iv) Handling fee income was charged at a rate mutually agreed between the parties.

(v) Building manager remuneration from a related party are charged at rates mutually agreed between the parties.

(vi) Management fee income was charged at prices and terms as agreed by both parties involved.

(vii) Disposal of property to a fellow subsidiary is at consideration mutually agreed between the parties.

(viii) Administration fee income was charged at prices and terms as agreed by both parties.

(ix) Cleaning were charged based on terms mutually agreed by the parties.

(x) Management fee expenses were charged based on a fixed amount mutually agreed by the parties.

(xi) Operating lease and building management expenses were charged based on fixed amounts mutually agreed by the parties.

(xii) Donation expenses were made on a voluntary basis.

(xiii) These related companies include companies of which the key management personnel are close members of the family of the ultimate controlling shareholder of the ultimate holding company.

(xiv) Project management fee was charged at prices and terms as agreed by both parties.

(xv) Appointment fee was charged at prices and terms as agreed by both parties.

(xvi) Repair and maintenance expenses was charged based on terms mutually agreed between the parties.

(xvii) IT expenses were charged based on fixed amounts agreed by the parties.

(c) Key management compensation

	Year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	10,783	11,316	11,659
Pension cost on defined contribution plans	128	79	81
	10,911	11,395	11,740

34 SUBSEQUENT EVENTS

The following events took place subsequent to 30 June 2019 and up to the date of this report:

(a) Subsequent to 30 June 2019, the Target Group underwent a reorganisation in preparation for the proposed acquisition by FSE Property Management Group Limited, a subsidiary of FSESG. Details of the Reorganisation are set out in Note 1 above.

(b) The amounts due from/to FMC were settled by cash in October 2019.

III FINANCIAL STATEMENTS OF THE TARGET COMPANY

No audited financial statements have been prepared by the Target Company for the Relevant Periods because the Target Company was established on 3 September 2019.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2019 and up to the date of this report. No other dividend or distribution has been declared or made by the Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2019.

Set out below is the management discussion and analysis of the Target Group for each of the years ended 30 June 2017, 2018 and 2019 (the "**Relevant Periods**").

REVENUE

The revenue of Target Group consists principally of service fees derived from provision of property management services in Hong Kong.

The following table shows the breakdown of revenue during the Relevant Periods:

	For the year ended 30 June		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Revenue from residential properties	176,696	190,165	215,198
Revenue from non-residential properties	322,000	318,519	312,125
Total	498,696	508,684	527,323

- The Target Group's revenue increased by approximately HK$18.6 million from approximately HK$508.7 million for the year ended 30 June 2018 to approximately HK$527.3 million for the year ended 30 June 2019, representing an increase of approximately 3.7%. The increase was mainly driven by increase in revenue from residential properties by approximately HK$25.0 million or 13.2%; offset by decrease in revenue from non-residential properties by approximately HK$6.4 million or 2.0%. The increase in revenue from residential properties was mainly attributable to new contracts and price increment of existing contracts. The decrease in revenue from non-properties properties was mainly due to a major carpark management contract expired in November 2017; compensated by new contracts awarded.

- The Target Group's revenue increased by approximately HK$10.0 million from approximately HK$498.7 million for the year ended 30 June 2017 to approximately HK$508.7 million for the year ended 30 June 2018, representing an increase of approximately 2.0%. The increase was mainly driven by increase in revenue from residential properties by approximately HK$13.5 million or 7.6%; offset by decrease in revenue from non-residential properties by approximately HK$3.5 million or 1.1%. The increase in revenue from residential properties was mainly attributable to price increment of existing contracts. The decrease in revenue from non-properties properties was mainly due to a major carpark management contract expired in November 2017; compensated by new contracts awarded.

COST OF OPERATIONS

The cost of operations of Target Group primarily include staff costs, subcontracting fees and insurance.

- The Target Group's cost of operations increased by approximately HK$11.5 million from approximately HK$346.2 million for the year ended 30 June 2018 to approximately HK$357.7 million for the year ended 30 June 2019, representing an increase of approximately 3.3%. The increase was mainly attributable to the increase in staff costs which is in line with the increase in revenue.

- The Target Group's cost of operations increased by approximately HK$1.2 million from approximately HK$345.0 million for the year ended 30 June 2017 to approximately HK$346.2 million for the year ended 30 June 2018, representing an increase of approximately 0.3%. The increase was mainly attributable to increase in sub-contracting fees.

OTHER INCOME, NET

The other income, net of Target Group mainly represents write-off on other payables, gain on disposal of property, plant and equipment and bank interest income.

- The Target Group's other income, net increased by approximately HK$0.9 million from approximately HK$0.5 million for the year ended 30 June 2018 to approximately HK$1.4 million for the year ended 30 June 2019. The increase was mainly attributable to increase in write-off on other payables and gain on disposal of property, plant and equipment.

- The Target Group recorded other income, net of approximately HK$0.5 million for the year ended 30 June 2017 and 2018.

ADMINISTRATIVE EXPENSES

The administrative expenses of Target Group primarily include staff costs, management fee expense, operating lease in respect of land and buildings, repair and maintenance expenses, advertising and promotion expenses, and depreciation.

- The Target Group's administrative expenses increased by approximately HK$3.5 million from approximately HK$96.8 million for the year ended 30 June 2018 to approximately HK$100.3 million for the year ended 30 June 2019, representing an increase of approximately 3.6%. The increase was mainly attributable to increase in depreciation and service costs for upgrading computerised systems; and operating leases in respect of land and buildings.

- The Target Group's administrative expenses increased by approximately HK$11.8 million from approximately HK$85.0 million for the year ended 30 June 2017 to approximately HK$96.8 million for the year ended 30 June 2018, representing an increase of approximately 13.9%. The increase was mainly attributable to higher staff costs due to addition of staff and salary increment; and increase in advertising and promotion for brand building.

FINANCE COSTS

Finance costs represents interest expenses on bank loans. The Target Group recorded finance costs of approximately HK$0.6 million, HK$0.4 million and HK$0.4 million for the each of the years ended 30 June 2017, 2018 and 2019, respectively. The changes were mainly attributable to change in applicable bank interest rate and increase or decrease in borrowing amount during the Relevant Periods.

SHARE OF RESULTS OF AN ASSOCIATE

Share of results of an associate represents the share of net profits or losses of an associate in Hong Kong. The Target Group recorded share of results of an associate of approximately HK$1.1 million, HK$0.9 million and HK$0.9 million for the each of the years ended 30 June 2017, 2018 and 2019 respectively.

SHARE OF RESULTS OF JOINT VENTURES

Share of results of joint ventures represents the share of net profits or losses of a joint venture in Hong Kong and a joint venture in the PRC. The share of results of joint ventures was net profit of approximately HK$16,000 and HK$20,000 for the years ended 30 June 2017 and 2018, respectively; and a net loss of approximately HK$207,000 for the year ended 30 June 2019. The loss for the year ended 30 June 2019 was mainly attributable to the joint venture in the PRC recorded a loss due to increase in repair and maintenance expenses.

INCOME TAX EXPENSES

- The Target Group's income tax expenses increased by approximately HK$0.8 million from approximately HK$10.4 million for the year ended 30 June 2018 to approximately HK$11.2 million for the year ended 30 June 2019, representing an increase of approximately 7.7%. The increase was mainly attributable to increase in profit before taxation.

- The Target Group's income tax expenses decreased by approximately HK$1.0 million from approximately HK$11.4 million for the year ended 30 June 2017 to approximately HK$10.4 million for the year ended 30 June 2018, representing a decrease of approximately 8.8%. The decrease was mainly due to decrease in profit before taxation and reversal of overprovision of tax in previous years.

PROFIT FOR THE YEAR

The Target Group's profit increased by approximately HK$3.6 million from approximately HK$56.3 million for the year ended 30 June 2018 to approximately HK$59.9 million for the year ended 30 June 2019, representing an increase of approximately 6.4%. The increase was mainly attributable to increase in revenue and other income; offset by increase in administrative expenses.

The Target Group's profit decreased by approximately HK$2.0 million from approximately HK$58.3 million for the year ended 30 June 2017 to approximately HK$56.3 million for the year ended 30 June 2018, representing an a decrease of approximately 3.4%. The decrease was mainly attributable to increase in administrative expenses; offset by increase in revenue.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Target Group financed its operations and capital expenditures primarily by the internal generated funds from operations, amount due to the Seller and short-term bank borrowings.

As at 30 June 2017, 2018 and 2019, the Target Group had net current assets of approximately HK$107.0 million, HK$107.3 million and HK$52.7 million, respectively. The net current assets primarily include trade and other receivables, cash and bank balances, trade and other payables, amount due from/to the Seller and borrowings. The decrease in net current assets as at 30 June 2019 against 30 June 2018 was mainly attributable to increase in amount due to the Seller and borrowings.

The amount due from/to the Seller was fully settled in October 2019.

Cash and bank balances

As at 30 June 2017, 2018 and 2019, the Target Group had cash and bank balances of approximately HK$117.7 million, HK$106.6 million and HK$115.2 million, respectively. Cash and bank balances are denominated in Hong Kong dollars.

Borrowings

Borrowings represent secured short-term bank loans with maturity less than 1 year. The Target Group utilised bank loans principally to finance its daily operation and general working capital requirement. As at 30 June 2017, 2018 and 2019, the Target Group had borrowings of approximately HK$40.0 million, nil and HK$30.0 million, respectively. The bank loans are denominated in Hong Kong dollars with applicable interest rate ranged between HIBOR plus 0.83% and HIBOR plus 0.85%. The effective interest rate is 1.3%, 1.7% and 2.4% per annum for the years ended 30 June 2017, 2018 and 2019 respectively.

Gearing Ratio

The Target Group's net gearing ratio* maintained at zero as at 30 June 2017, 2018 and 2019, principally due to net cash (negative net debt) of approximately HK$77.7 million, HK$106.6 million and HK$60.8 million recorded as at 30 June 2017, 2018 and 2019, respectively.

The Target Group had no capital instruments and financial instruments for hedging purposes throughout the Relevant Periods.

* The net gearing ratio is calculated as net debt divided by total equity. The net debt is calculated as total borrowings plus amount due to the Seller less cash and cash equivalents.

DIVIDEND

The companies within the Target Group declared dividends of approximately HK$56.0 million, HK$54.0 million and HK$114.7 million to the then shareholders during the years ended 30 June 2017, 2018 and 2019 respectively.

CAPITAL EXPENDITURES

The capital expenditures of Target Group are used principally in connection with additions of property, plant and equipment. The Target Group recorded capital expenditures of HK$3.9 million, HK$5.1 million and HK$7.1 million for the each of the years ended 30 June 2017, 2018 and 2019 respectively.

CHARGE ON ASSETS

As at 30 June 2017, 2018 and 2019, the Target Group did not have any charge on its assets.

EMPLOYEES

As at 30 June 2017, 2018 and 2019, the Target Group had 5,012, 4,804 and 4,861 employees (1,795, 1,540 and 1,530 if excluding employees whose relevant costs directly reimbursed by or charged to our customers or sub-contractors), respectively. The total staff costs for the Target Group for the each of the years ended 30 June 2017, 2018 and 2019 were approximately HK$945.3 million, HK$1,030.5 million, and HK$1,132.4 million (HK$301.8 million, HK$306.8 million and HK$315.2 million if excluding the costs directly reimbursed by or charged to our customers or sub-contractors), respectively.

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except for the additions of property, plant and equipment for operations, as at the Latest Practicable Date, the Target Group had no plan for material investments or capital assets.

OPERATING LEASE COMMITMENT

As at 30 June 2017, 2018 and 2019, the Target Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings of approximately HK$7.3 million, HK$8.5 million and HK$18.5 million, respectively.

CAPITAL COMMITMENT

As at 30 June 2017, 2018 and 2019, the Target Group had capital commitment of approximately HK$2.7 million, HK$2.8 million and HK$1.2 million, respectively in relation to the purchase of property, plant and equipment.

CONTINGENT LIABILITIES

As at 30 June 2017, 2018 and 2019, the Target Group had no material contingent liabilities.

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**"), which has been prepared on the basis of the notes set out below and in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effects of the Proposed Acquisition on the Group, as if it had taken place on 30 June 2019 for the pro forma consolidated statement of assets and liabilities.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with that of the Group, as set out in the published annual report of the Company for the year ended 30 June 2019.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group contained in the annual report of the Company for the year ended 30 June 2019 and the accountant's report of the Target Group as set out in Appendix II to this Circular.

The Unaudited Pro Forma Financial Information has been prepared by the Directors solely for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not reflect the true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed as at 30 June 2019, where applicable, or at any future date.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Unaudited Pro forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	The Group as at 30 June 2019	The Target Group as at 30 June 2019	Pro forma adjustments				Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 30 June 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Non-current Assets							
Property, plant and equipment	393,945	13,012					406,957
Investment property	11,235	—					11,235
Land use rights	20,432	—					20,432
Interest in an associate	—	79					79
Interest in joint ventures	—	934					934
Other intangible assets	51,946	26,191					78,137
Deferred income tax assets	9,337	—					9,337
Pension assets	—	2,849					2,849
	486,895	43,065	—	—	—	—	529,960
Current Assets							
Inventories	40,206	—					40,206
Contract assets	290,822	—					290,822
Trade and other receivables	1,422,927	90,392				(8,401)	1,504,918
Amount due from FSE Management Company Limited	—	12,178					12,178
Amount due from related companies	—	12,596					12,596
Cash and bank balances	447,043	115,162	564,000	(564,000)			562,205
	2,200,998	230,328	564,000	(564,000)	—	(8,401)	2,422,925

	The Group as at 30 June 2019	The Target Group as at 30 June 2019	Pro forma adjustments				Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 30 June 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current Liabilities							
Contract liabilities	224,119	—					224,119
Trade and other payables	1,590,093	109,181			11,461	(8,401)	1,702,334
Amount due to FSE Management Company Limited	—	24,326					24,326
Amounts due to related companies	—	3,403					3,403
Taxation payable	53,819	10,747					64,566
Borrowings	—	30,000					30,000
	1,868,031	177,657	—	—	11,461	(8,401)	2,048,748
Net Current Assets	332,967	52,671	564,000	(564,000)	(11,461)	—	374,177
Total assets less current liabilities	819,862	95,736	564,000	(564,000)	(11,461)	—	904,137
Non-current Liabilities							
Deferred income tax liabilities	26,787	2,628					29,415
Long service payment liabilities	21,055	10,794					31,849
Borrowings	—	—	564,000				564,000
	47,842	13,422	564,000	—	—	—	625,264
Net Assets	772,020	82,314	—	(564,000)	(11,461)	—	278,873

(2) Notes to Unaudited Pro Forma Financial Information of the Enlarged Group

1. The balances were extracted from the audited consolidated statement of financial position of the Group as at 30 June 2019 as set out in the published annual report of the Company for the year ended 30 June 2019.

2. The balances were extracted from the audited combined statement of financial position of the Target Group as at 30 June 2019 included in the accountant's report of the Target Group as set out in Appendix II to this Circular.

3. The adjustment represents the estimated amount of term loan to be drawdown from a bank to finance the Proposed Acquisition.

4. Pursuant to the Sale and Purchase Agreement dated 18 October 2019 and the Supplemental Deed, the Group will acquire the entire issued share capital of the Target Company at a total consideration of HK$704.9 million of which HK$564.0 million will be settled via cash consideration by the aforementioned term loan in Note (3) and the remaining balance of HK$140.9 million will be settled through the allotment and issuance of 43,676,379 Convertible Securities ("**CS**") at the issue price of HK$3.226 per CS by the Company.

   The Proposed Acquisition is considered as a business combination under common control as the Group and the Target Group are under the common control of FSE Holdings before and after the Proposed Acquisition. Accordingly, the Proposed Acquisition is accounted for using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

5. The adjustment represents the estimated amounts for legal and professional fees and other transaction costs payable by the Company which is directly attributable to the Proposed Acquisition.

6. The adjustment represents the elimination of the trade receivables of the Group owing from the Target Group as at 30 June 2019.

7. No other adjustments have been made to reflect any trading results or other transactions of the Group and of the Target Group entered into subsequent to 30 June 2019.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of FSE Services Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of FSE Services Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") and Legend Success Investments Limited and its subsidiaries, upon completion of a group reorganisation (the "**Target Group**") (collectively the "**Enlarged Group**") by the Directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2019 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages IV-1 to IV-4 of the Company's circular dated 15 November 2019, in connection with the proposed acquisition of the Target Group (the "**Proposed Acquisition**") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-4.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 30 June 2019 as if the Proposed Acquisition had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's audited consolidated financial statements for the year ended 30 June 2019, on which an annual report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

15 November 2019

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

27/F Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kowloon
Hong Kong

15 November 2019

The Directors
8/F, Chevalier Commercial Centre
8 Wang Hoi Road, Kowloon Bay
Kowloon, Hong Kong

Dear Sirs/Madams,

VALUATION OF 100% EQUITY VALUE OF LEGEND SUCCESS INVESTMENTS LIMITED

In accordance with the instruction from FSE Services Group Limited (the "FSE Services"), we have carried out a valuation of 100% Equity Value of Legend Success Investments Limited and its subsidiaries (the "Target Group") as at 30 June 2019. The purpose of this report is to provide an independent opinion on the fair value of 100% Equity Value of the Target Group (the "Subject") as at the Valuation Date. We understand all or part of this valuation report may be disclosed in circular and will be available for inspection by the public for the purpose stated herein.

Based on our investigation, analysis and appraisal method employed as set out in this report, it is our opinion that, as at the Valuation Date, the fair value of the Subject can be reasonably and approximately stated as **HONG KONG DOLLARS SEVEN HUNDRED AND FORTY TWO MILLION (HKD742,000,000) ONLY**.

The opinion of value was based on generally accepted appraisal procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

The opinion was based on the management discussion, assumptions and representations, in oral or writing. The projection or estimates set out in the valuation formed part of the assumptions. We were furnished with limited financial information and other documents germane to the valuation. These data had been utilized without further verification as correctly representing the results and future prospects of the operation and the financial condition of the subject. No responsibility is assumed for the accuracy of the provided information. The opinion of value is subject to change if any of the assumptions provided by the management is not reasonable or properly made, and we reserve the right to change or withdraw our opinion without any liabilities.

This report is confidential to the client for the specific purpose to which it refers, and should not be the only factor to be referenced by the client. It may be disclosed to other professional advisers assisting the client in respect of that purpose, but the client shall not disclose this report to any other person. We have not been engaged to make specific sales or purchase recommendation. The use of the report will not supplant other due diligence which the company or the concerned parties should conduct in reaching business decision regarding the subject of valuation.

The valuation procedure did not require us to conduct legal due diligence on the legality and formality of the subject and its related legal documents, and it should be the responsibility of the legal advisor to the management of the company. Thus, no responsibility or liability is assumed from our report to the origin and continuity of the subject. We have not inspected the original documents filed in the relevant authorities to verify ownership of the subject. We need to state that we are not legal professional and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the subject. No responsibility or liability is assumed in relation to those opinions or copies of document provided (if any).

In accordance with our standard practice, this report is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of the contents of this report.

We hereby certify that we have neither present nor prospective interests in the assets or the value reported.

Yours faithfully,

For and on behalf of

VIGERS APPRAISAL & CONSULTING LTD.

Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS, MHKIS, MSc (e-com)
Certified Real Estate Appraiser
Managing Director

Favian Kam Man Yin
Chartered Financial Analyst
CFA, MBA
Executive Director

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS, MSc (e-com), China Real Estate Appraiser, has over twenty seven years' experience in undertaking valuation of properties in Hong Kong, has over twenty years' experience in undertaking valuations of properties in the PRC, Macau, Taiwan and Asia-Pacific region, and has over ten years' experience in business valuation.

LIMITING CONDITIONS

- Vigers Appraisal & Consulting Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this assessment, with reference to the project described herein, unless prior arrangements have been made.

- No opinion is intended to express for matters that require legal or other specialized expertise or knowledge, beyond that customarily employed by valuers.

- As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, project documentation and other pertinent data concerning the project as has been made available to us. Such information was provided by the company and related parties acting in concert. We assumed such information reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value.

- Our conclusions assume a continuation of prudent management policies over whatever period of time which is believed reasonable and is necessary to maintain the character and integrity of the assets valued.

- We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions which may require an adjustment in the assessment.

- Except for the specific purpose stated in this report, neither the whole nor any part of this report and assessment, nor any reference thereto, may be included in any document or statement without our written approval of the form and content in which it will appear.

- This report is confidential to the client for the specific purpose to which it refers. In accordance with our standard practice, we must state that this report and assessment is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

GENERAL SERVICE CONDITIONS

The service(s) provided by Vigers Appraisal & Consulting Limited will be performed in accordance with professional appraisal standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for as long as we wish.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/ or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subjects in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Vigers Appraisal & Consulting Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

1. INTRODUCTION

1.1 Purpose

We have been appointed by FSE Services Group Limited (the "FSE Services") to appraise 100% Equity Value of Legend Success Investments Limited and its subsidiaries (the "Target Group") as at 30 June 2019 (the "Valuation Date"). The purpose of this report is to provide an independent opinion on the fair value of the 100% Equity Value of the Target Group (the "Subject"). We understand all or part of this valuation report may be disclosed in circular and will be available for inspection by the public for the purpose stated herein.

1.2 Scope of work

The scope of work includes the valuation of 100% Equity Value of the Target Group as at 30 June 2019.

1.3 Basis of value

Our appraisal has been carried out on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

1.4 Date of value

The date of valuation is 30 June 2019.

2. INDUSTRY AND COMPANY PROFILE

2.1 Property Management Service Market

Overview

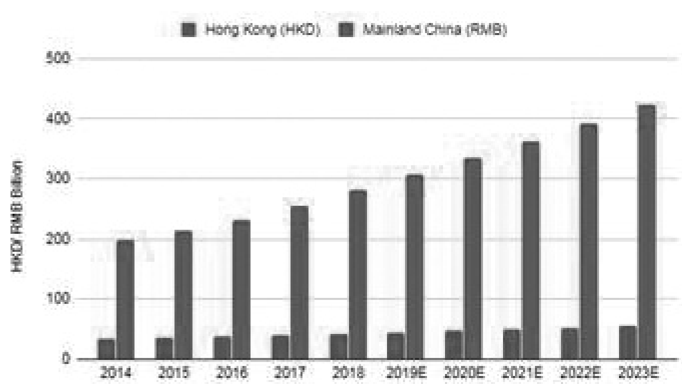
According to the Property Management Services Ordinance ("PMSO")[1], property management services include (1) general management services relating to a property; (2) management of the environment of a property; (3) repair, maintenance and improvement of a property; (4) finance and asset management relating to a property; (5) facility management relating to a property; (6) human resources management relating to personnel involved in the management of a property; and (7) legal services relating to the management of a property.

In Hong Kong, some developers set up subsidiaries to take up the property management service to the estates they developed, for example, Citybase Property Management Limited is a subsidiary of Cheung Kong Asset Holdings Limited (the "CK Asset Holdings Limited") and it provides property management service to Kingswood Villas, which is developed by CK Asset Holdings Limited. With regard to the top 10 private residential properties, 7 of them are managed by the subsidiaries of developers, 2 of them are managed by the Target Group and the remaining 1 is managed by MTR Corporation Limited.

Market Size[2]

With reference to the industry report from Frost & Sullivan (the "F&S"), the market size of property management services of Hong Kong market rose from HKD35.0 Billion in 2014 to HKD42.8 Billion in 2018 with Compound Annual Growth Rate ("CAGR") of 5.2% and the Mainland China market rose from RMB198.0 Billion in 2014 to RMB281.1 Billion in 2018 with CAGR of 9.2%. F&S expected the market size of Hong Kong market and Mainland China market will keep increasing at CAGR 5.7% and 8.4% from 2019 to 2023 respectively.

Market Size of Property Management Service



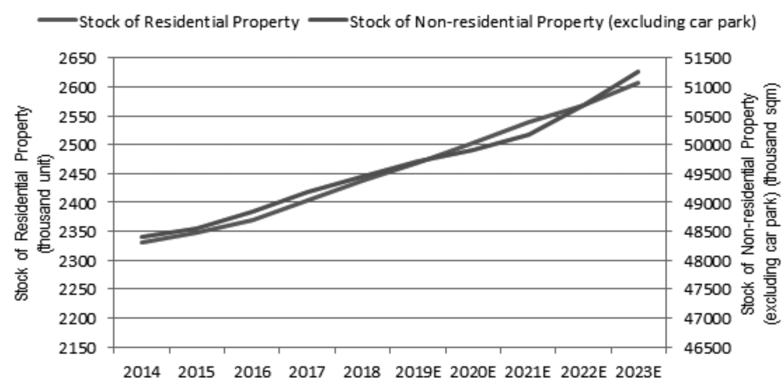
Source: F&S industry report

1 (1 July 2018). Cap. 626 Property Management Services Ordinance — Hong Kong e...Retrieved 3 October 2019, from https://www.elegislation.gov.hk/hk/cap626

2 The market size in F&S industry report is aligned with the financial year ended 30 June

The stock of residential and non-residential property (excluding car park) increased from 2,329.6 thousand units to 2,436.8 thousand units at CAGR 1.1% and 48,416.0 thousand sq.m. to 49,453.8 thousand sq.m. at CAGR 0.5% respectively from 2014 to 2018.

Market Size of Residential and Non-residential Property (excluding car park) Management Services



Source: F&S industry report

Market Trend

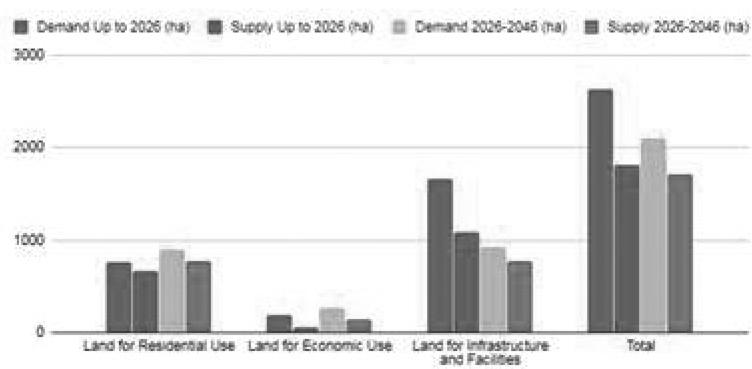
Increase in Market Size of Property Management Service

According to the F&S industry report, the stock of residential property and non-residential property (excluding car park) are expected to increase at CAGR 1.4% and 0.8% from 2019 to 2023, while the total market size of property management services in Hong Kong is expected to grow at CAGR 5.7%.

Increase in Land and Housing Supply

With reference to the Hong Kong Property Review 2019[3] announced by Rating and Valuation Department, the Hong Kong Government introduced housing initiatives in June 2019 and aimed at expediting housing supply. The Hong Kong Government will continuously review the land supply and the land reserve to meet the challenge of land shortage. As a result, the housing supply is expected to increase with a sustainable growth and hence the demand on property management service in future.

Estimation of Overall Land Supply and Demand up to 2046



Source: Task Force on Land Supply: Land Demand of Hong Kong[4]

3 (1 August 2019). Hong Kong Property Review 2019. Retrieved 25 September 2019, from https://www.rvd.gov.hk/en/publications/hkpr.html

4 (5 December 2018). Task Force on Land Supply — Land Demand of Hong Kong. Retrieved 26 September 2019, from https://www.landforhongkong.hk/en/demand_supply/land_demand.php

5 (n.d.). Licensing — Property Management Services Authority. Retrieved 3 October 2019, from https://www.pmsahk.org.hk/en/licensing/licensing.html

Regulation[5]

According to PMSO, the Property Management Services Authority (''PMSA'') was established as a statutory regulatory body, which aimed for regulation and promotion of the development of the property management industry through implementing a licensing regulatory regime.

There are two types of licences, which are Property Management Company Licence and Property Management Practitioner Licence.

Property Management Company Licence

Except for companies that provide properties not subject to deed of mutual covenant in Hong Kong with property management services or do not provide property management services falling within more than one category of services, property management companies providing properties subject to deeds of mutual covenant in Hong Kong with property management services as prescribed under the PMSO will be required to be licenced.

Property Management Practitioner Licence

The PMSO provides for a two-tier licensing regime of property management practitioners, namely PMP (Tier 1) licence and PMP (Tier 2) licence. The PMSA takes the view that as a matter of policy only those individuals assuming an overall managerial or supervisory role in a licensed PMC for all the property management services provided by the licensed property management company will be required to be licensed. Frontline staff will not be required to hold PMP licences.

Financial Position of Property Management Companies

According to our research, there are only 3 companies listed in Hong Kong and have more than 80% of total revenue is related to property management service generated from Hong Kong market in their latest fiscal year. The summary of result is illustrated in the table below.

Rounded to HKD Million	**Creative Enterprise Holdings Ltd (3992 HK) For the year ended 31 March 2019**	**Modern Living Investments Holdings Ltd (8426 HK) For the Year ended 31 December 2018**	**Shi Shi Services Ltd. (8181 HK) For the year ended 31 March 2019**
Revenue	716	371	426
Adjusted Net Profit Attributable to Equity Holder	24.1	12.1	26.2
Adjusted EBITDA	35.0	17.3	32.7
Adjusted Net Profit Margin[6]	3.4%	3.3%	6.2%

2.2 Background of FSE Services

FSE Services is a listed company in Hong Kong Stock Exchange (stock code: 0331.HK). FSE Services is a facility services group principally engaging in providing (i) Electrical and Mechanical engineering services in Hong Kong, Macau and the Mainland China, (ii) Environmental Management services in Hong Kong and Macau, and (iii) Laundry and Cleaning services in Hong Kong and the Mainland China. The services are provided by 4 major groups of companies which are (i) FSE Engineering Group, (ii) FSE Environmental Technologies Group, (iii) Waihong Services Group, and (iv) New China Laundry.

2.3 Background of the Target Group

Target Group means Legend Success Investments Limited (the ''Company'') and its subsidiaries. The Company is a limited company incorporated in the British Virgin Islands in 2019. The principal business of the Company is investment holding. The Company is holding Flash Star International Limited and Urban Management Limited.

6 Adjusted Net Profit Margin is defined as revenue divided by adjusted net profit attributable to equity holder

The Target Group is principally engaged in the provision of property management services in Hong Kong and the Mainland China, and the property management services accounted for 91.9% of total revenue in 2019. Property management services are rendered to both residential and non-residential buildings, such as Cyperport, the Link's Carpark, Senior Staff Quarters of the HKU, Ecopark, City One Shatin, K11, New World Tower, HKIA Tower & Airport World Trade Centre and Kowloon City Government Office. Residential and non-residential property contributed 41% and 59% of total revenue in 2019 respectively. With reference to the F&S industry report, the Target Group has 5.3%, 7.2% and 6.5% of market share in residential property management, non-residential property management (excluding car park) and car park property management markets respectively, where the Target Group is ranked number 2 in all of these markets.

According to the Accountant's Report provided by FSE Services, the summary of financial position of the Target Group is illustrated below.

Rounded to HKD Million	**30 June 2017**	**30 June 2018**	**30 June 2019**
Revenue	499	509	527
Adjusted Net Profit Attributable to Equity Holder	67.4	65.9	69.2
Adjusted EBITDA	83.6	81.4	86.8
Adjusted Net Profit Margin[6]	13.5%	13.0%	13.1%

2.4 Economic Outlook

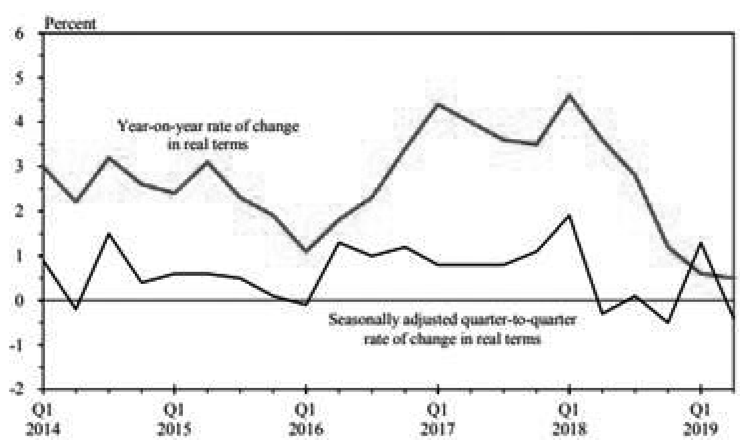
Since the Target Group is operating in Hong Kong, we have also reviewed the economic conditions of Hong Kong. The discussion below is cited from the Half-Yearly Economic Report 2019[7] announced by Office of the Government Economist and Financial Secretary's Office of the Government of the Hong Kong Special Administrative Region.

Overview

The overall Hong Kong economy expanded by 0.5% in the first half of 2019 in real terms over a year earlier. The total exports of goods and domestic demand were weak and the overall investment expenditure fell markedly. The labour market was stable in the second quarter of 2019 at a seasonally adjusted unemployment rate of 2.8%. The local stock market was volatile as the market was swayed by the uncertainty of US-Mainland trade relations and the evolving expectations for US interest rate cuts.

Gross Domestic Product ("GDP")

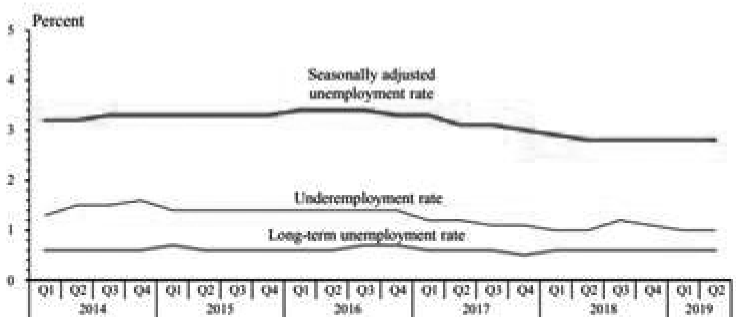
In the second quarter of 2019, the real GDP increased by 0.5% over a year earlier, of which the real GDP growth of real estate related activities increased by 1.2%. Hong Kong government forecasts the real GDP growth for 2019 will lie between 0–1%, which was lower than the forecast of 2–3% in May.



7 (n.d.). Hong Kong Economy — Hong Kong Economic Situation. Retrieved 2 October 2019, from https://www.hkeconomy.gov.hk/en/situation/index.htm

Labour Market

The labour market was stable in the second quarter of 2019 despite the weak economic conditions. The seasonally adjusted unemployment rate and the underemployment rate held steady at low levels of 2.8% and 1.0% respectively in the second quarter. With effect from 1 May 2019, the Statutory Minimum Wage is raised from HKD34.5 per hour to HKD37.5 per hour[8], the wages of low-income workers are expected to have improvement. Besides, the hiring sentiment among large enterprises was generally positive.



QBTS: Expected changes in number of persons engaged

	Net balance* (% point)					
	2018			2019		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+15	+3	+13	+12	-6	+8
Construction	-8	+18	-6	-3	-6	+10
Import/export trade and wholesale	+2	-7	-1	-6	-4	-5
Retail	+7	+11	+13	+4	+1	0
Accommodation and food services	+7	+13	+14	+9	+12	+19
Transportation, storage and courier services	+8	+10	+16	+11	+6	+6
Information and communications	+9	0	+15	-11	+11	-3
Financing and insurance	+26	+21	+12	+20	+12	+9
Real estate	+5	+4	+18	+7	+6	+7
Professional and business services	+2	-1	+3	-4	-8	+2

Note: (*) Net balance indicates the direction of expected change in the number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

Local Stock Market

The local stock market was volatile during the second quarter. The Hang Seng Index (HSI) rose further in April, but fell visibly in May as sentiment was hit by the re-escalation of US-Mainland trade tensions. The HSI closed at 28,543 at end-June, 1.8% lower than at end-March. Average daily turnover of the stock market still stood at a relatively high level of HKD94.7 billion, though down by 6.2% from the preceding quarter and by 11.3% from a year earlier.

Inflation

The underlying consumer price inflation went up to 2.9% in the second quarter of 2019, of which the housing component recorded 3.6% inflation. The GDP deflator rose by 3.0% in the second quarter of 2019 over a year earlier.

8 (29 April 2019). Labour Department — Employee Rights and Benefits. Retrieved 2 October 2019, from https://www.labour.gov.hk/eng/news/mwo.htm

3. INFORMATION AND FACTORS CONSIDERED

Our valuation requires consideration of all relevant factors affecting the operation of the business and its ability to generate future investment returns. The factors considered in the valuation included, but were not limited to, the followings:

- The business nature of the Target Group and other relevant legal documents;
- The economic outlook in general and the specific economic environment wherein the Target Group is located;
- F&S industry report provided by FSE Services;
- Audited combined financial statements of the Target Group for the years ended 30 June 2017, 30 June 2018 and 30 June 2019 provided by FSE Services;
- Discussion with the management in relation to the future business strategy, market position, customer segmentation, optimal finance structure and cost of financing;
- Market information of the property management business in Hong Kong; and
- The market position of the Target Group and the competition it might face, discussion with the management in relation to risk factors and marketing strategy.

We have reviewed the information required and made discussions with the management, which is considered sufficient for the issue of the valuation report of the type in question and we believe no material factor has been intentionally omitted or withheld from the given information in order to reach an informed view.

4. VALUATION

4.1 Valuation theory

In arriving at our opinion of value, we make reference to three generally accepted approaches to value, namely; the Market Approach, the Cost Approach and the Income Approach.

Market Approach considered the transacted prices that recently paid for similar assets. The transacted prices might require adjustments to reflect the difference on the conditions or character between the asset being appraised and transactions observed from market, such as the liquidity of the asset.

Asset Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation as condition or obsolescence present, whether arising from physical, functional or economic causes.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for asset than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent asset with similar risk.

4.2 Determine the appropriate valuation approach

Since the Target Group is a private company, income approach would be one of the approaches to be considered. The general practice will consider discounted cash flow analysis to measure the future cash flow in near term. In this valuation, the application of income approach would have limitation since there is insufficient period of cash flow projection that made available to use. Secondly, asset approach may not be appropriate to this valuation since the Target Group is a service company with going concern. The value of the Target Group mostly contributed by its staffs instead of the assets owned. Therefore, the net asset value cannot properly indicate the future earnings capabilities of the Target Group. We consider market approach is one of the appropriate methods to assess the Target Group. We noted that there is a group of comparable companies listed in Hong Kong, the Mainland China and overseas which engaged in the similar business operation as the Target Group. The similar companies provided a benchmark valuation multiples for the assessment of the Target Group. The market approach also has the merit of capturing the market sentiment on future growth expectation to infer an objective valuation.

4.3 Market Approach

4.3.1 Methodology

Market Approach considered the transacted prices that recently paid for similar assets. The transacted prices might require adjustments to reflect the difference on the conditions or character between the asset being appraised and transactions observed from market, such as the liquidity of the asset.

4.3.2 Construction of Comparables

In the construction of a list of similar companies for comparison (the "Comparables"), we have considered the following factors in order to provide appropriate comparison:

- The Comparables shall be listed in mature stock markets;
- The Comparables shall be in the same industry as the Target Group being apprised. We thus select only companies having more than 80% of total revenue from property management;
- The Comparables shall report positive earnings so to infer meaningful multiples for comparison; and
- We may also not consider observable outliers.

After reviewing the above criteria, we have identified 11 companies which are described below and categorized into "Hong Kong Players", "the Mainland China Players" and "International Players" according to the main region where they generate revenue.

Stock code	Company name	Description
Hong Kong Players[9]		
3992 HK	Creative Enterprise Holdings Ltd.	Creative Enterprise Holdings Limited offers property management services and serves customers in Hong Kong.
8181 HK	Shi Shi Services Ltd.	Shi Shi Services Limited is a property management business based in Hong Kong and incorporated under the laws of the Cayman Islands.
8426 HK	Modern Living Investments Holdings Ltd.	Modern Living Investments Holdings Limited offers property management services and offers services throughout Hong Kong.

9 Based on the selection criteria, we have reviewed the relevant information which is publicly available. As far as we are aware, this list is exhaustive.

Stock code	Company name	Description
The Mainland China Players		
1417 HK	Riverine China Holdings Ltd.	Riverine China Holdings Limited operates as a property management company. The Company offers engineering, repair and maintenance, security, and cleaning and gardening services. The Company serves office buildings, cultural venues, stadiums, exhibition halls, government properties, and industrial areas in PRC.
1538 HK	Zhong Ao Home Group Ltd.	Zhong Ao Home Group Limited is an independent property management company in PRC. The Company provides property developers and owners with management services to residential properties.
1778 HK	Colour Life Services Group Co Ltd.	Colour Life Services Group Co., Ltd. is a real estate management company in PRC.
2669 HK	China Overseas Property Holdings Ltd.	China Overseas Property Holdings Limited operates as a property management firm. The Company manages residential communities, commercial properties and government properties in Hong Kong and Macau. The major revenue of the Company is from PRC.
603506 CH	Nacity Property Service Co. Ltd.	Nacity Property Service Co., Ltd. provides property management services and operates business throughout PRC.
International Players		
6721 TT	Sincere Security Corp. Ltd.	Sincere Security Corp. Ltd. offers property management services to science parks, hypermarkets, commercial buildings, schools golf courses, and other areas. Sincere Security provides services in Taiwan.
9728 JP	Nippon Kanzai Co. Ltd.	NIPPON KANZAI Co., Ltd. provides integrated building management services for public and commercial buildings. The Company serves customers in Japan.
HMLH LN	HML Holdings PLC	HML Holdings PLC, through subsidiaries, offers residential property management, insurance, and ancillary services. The Company serves customers in United Kingdom.

Source: Bloomberg[10]

10 (n.d.). Bloomberg Markets: Asia. Retrieved 30 September 2019, from http://www.bloomberg.com/asia?utm_source=bloomberg-menu

We have observed there are 11 companies satisfying the criteria mentioned above, of which 7 companies are listed in Hong Kong, 1 company is listed in the Mainland China and 3 companies are listed overseas.

We then review the economic condition and the property management industry of the operating regions of the companies, including Hong Kong, the Mainland China, Taiwan, Japan and United Kingdom. The economic data below is cited from International Monetary Fund, World Economic Outlook Database, April 2019[11].

Economic Condition

2018	Hong Kong	The Mainland China	Taiwan	Japan	United Kingdom
GDP per capita adjusted by Purchasing Power Parity ("PPP"), current price	USD 64,216	USD 18,110	USD 53,023	USD 44,227	USD 45,705
Inflation Rate	2.4%	2.1%	1.5%	1.0%	2.5%
Average of 1-year Volatility of Stock Market	16.2%	14.2%	12.2%	13.4%	10.6%
Tax rate[12]	16.5%	25%	17%	30.86%	19%
Property Price to Income Ratio[13]	41.1	28.2	14.35	12.64	9.31

11 (n.d.). World Economic Outlook Database April Retrieved 3 October 2019, from https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx

12 (n.d.). List of Countries by Corporate Tax Rate Retrieved 3 October 2019, from https://tradingeconomics.com/country-list/corporate-tax-rate

13 (n.d.). Property Prices Index by Country 2018 — Cost of Living. Retrieved 3 October 2019, from https://www.numbeo.com/property-investment/rankings_by_country.jsp?title=2018

Analysis and Determine Most Appropriate Comparables

From the data above, we have observed that there is significant difference between Hong Kong and other regions in terms of GDP per capita adjusted by PPP and property price to income ratio, which indicates the purchasing power and property price in Hong Kong are much higher than other regions. Hence, it is reasonable to say the revenue of Hong Kong Player is higher than the Mainland China and International Player, given the scope of services to be provided is the same. In addition, the building structure and urban planning in different countries may also cause difference in the scope of property management, for example, most of the buildings and residential properties in Hong Kong are tall buildings and housing estates, while the buildings in other regions may not be the same. As a result, the property management service provided in Hong Kong may mainly include general management services relating to the property and its environment, while the property management service provided in Taiwan, Japan, the Mainland China and United Kingdom may be focusing on facility management of the property due to more frequently natural disasters, which indicates that the business nature of the Target Group and the Mainland China and International Players may not be similar at all, though all of them are generating revenue from providing property management service.

In relation to the Mainland China Players, according to the F&S industry report, the market size of property management of Hong Kong market was HKD42.8 Billion in 2018 with CAGR 5.2% from 2014 to 2018 and the Mainland China market was RMB281.1 Billion in 2018 with CAGR at 9.2% from 2014 to 2018. F&S also expected Hong Kong and Mainland China market will grow at CAGR 5.7% and 8.4% respectively from 2019 to 2023. With reference to the financial information available on Bloomberg, the averages CAGR of the Mainland China Players and International Players in the last 3 financial years were 19% and 7% respectively, which were much higher than the Target Group. We have noticed that there is significant difference between Hong Kong, Mainland China and overseas markets in terms of their market size, historical and future growth rate and profitability of the companies, thus Mainland China and International Players may not be the appropriate to be used as guideline companies for this valuation.

We consider Hong Kong Players as the most appropriate guideline companies since their market multiples can directly reflect the market value of property management companies which mainly generate revenue from Hong Kong market and capture the market growth of Hong Kong property management market as well. In addition, the average 3 year CAGR of their revenue in the last 3 financial years was 3%, which was very close to the Target Group.

Thus, we consider Creative Enterprise Holdings Ltd., Shi Shi Services Ltd and Modern Living Investments Holdings Ltd. as the most appropriate Comparables in this valuation.

4.3.3 Determine the Appropriate Multiples

We have considered various multiples in the valuation, such as the earning based multiples: EV/EBITDA (Enterprise value to earnings before interest, tax, depreciation and amortization) and P/E (Price to earnings), and assets based multiples: EV/Assets (Enterprise value to Assets).

Asset based multiples

Asset based multiples method considers the market value in relation to the operating assets owned by a company. When a company reports no earnings or temporary fail to operate at its normal earnings level, the asset based multiples would be useful indicators on the company's value. Conversely, when a company operates at its normal earnings level, the use of assets based multiples may not be an effective measure of the earnings capability of the company. In additional, the assets based multiples may be affected by the different accounting policy on the depreciation and amortization of assets. With reference to the information provided, the Target Group reported earnings in 2019 which achieved its normal earnings capacity. Thus, asset based multiples may not serve a good reference in this valuation.

Earning based multiples

Earnings based multiples method considers the market value in relation to the earnings capability of a company. The value of a company shall base on its earnings capabilities in the long run and the earnings based multiples are frequently used in market approach. When a company reported no earnings or operates below its normal capacity, the earnings based multiples cannot provide meaningful results.

In our investigation, we noted that the Target Group has started their operations for many years. As at the Valuation Date, the Target Group has three years' results recorded. The earnings reported for the year ended 30 June 2019 can sufficiently reflect the normal operating performance of the property management service.

Earnings multiples, such as EV/EBITDA, deduce the value of a company on the basis of its earning capacity, which can appropriately reflect the going concern and the growth expectation in relation to the business of the Target Group, so earnings multiples can provide better estimation of the company value on the basis of its earnings capacities. Thus, we adopt earning based multiples in this valuation.

Determine the Appropriate Earning Based Multiples

We considered that the use of the Enterprise Value (EV) to Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) multiple is an appropriate valuation methodology for the valuation of the Subject since:

(i) EV is a measure of the total value of a company, which has considered equity, debt and cash and cash equivalents. EV to EBITDA multiple ("EV/EBITDA") allows companies with different financial structures to be compared. In this valuation, there is a large difference in the financial structure between the Target Group and the Comparables, hence we considered EV/EBITDA is more appropriate;

(ii) EV/EBITDA eliminates the effect of Interest, Taxes, Depreciation and Amortization. It represents the operating cash flow contributed to a company subjected to minimal accounting effect between the Comparables and the Target Group. Differences in accounting policy on Taxes and Depreciation and Amortization and different tax rate may lead to significant impact on P/E but have less on EV/EBITDA. Thus, we consider EV/EBITDA as a more appropriate guideline multiple than P/E in this valuation;

For cross-checking purpose we have also carried out P/E analysis on the Comparables. We observed that the Standard Deviation ("SD") and Standard Error of Mean ("SEM") of EV/EBITDA of the Comparables are small than that of P/E. SD is an estimate of variability of observations while SEM is the standard deviation of mean of random samples drawn from the original population[14]. In general, a smaller SD or SEM suggests that the data is more concentrate and the model is more precise.

The valuation is derived from applying

(i) An average EV to EBITDA multiple of a group of listed companies operating in comparable business, adjusted for the uniqueness of the subject being valued,

(ii) Adjusted EBITDA of the Target Group reflected in the financial statement for the year ended 30 June 2019.

Before arriving at our opinion of value, we have considered, inter alia, the following factors:

- the nature of the business and the history of the Target Group;

[14] (n.d.) What to use to express the variability of date: Standard deviation or standard error of mean? — NCBI. Retrieved on November 4, 2019, from Http://www.ncbi.nih.gov/pmc/articles/PMC3487226

- the economic outlook of the Hong Kong and Mainland China in general;
- the general outlook of the property management industry in Hong Kong and Mainland China;
- the composition of revenue and earnings quality of the business of the Target Group and other comparable companies in the business of the Target Group;
- future challenge and developments in the business of the Target Group;
- the financial condition of the Target Group; and
- the specific risks associated with the Target Group.

We will also make adjustments on the conclusion of EV/EBITDA multiple, where appropriate; such as country factor of the Comparables or other possible factors which may affect the values of the Target Group to form our opinion. We may also not consider the non-operating items of the Target Group and the Comparables.

4.3.4 Assumptions

Assumptions considered to have significant sensitivity effects in this valuation were evaluated and validated in order to provide a more accurate and reasonable basis for arriving at our assessed value. Based on our experience in valuing businesses of similar nature, we consider the assumptions made in this valuation report to be reasonable.

- There will be no material adverse change in the political, legal, fiscal or economic condition in Hong Kong and other regions in which the Target Group operate;
- The Target Group will retain the key management, competent personnel and technical staff to support its ongoing operation;
- Market trend and conditions for the Target Group in related areas will not deviate significantly from the economic forecasts in general. Consumer behavior will have no significant change throughout the valuation period;
- We assumed that the general management practice of the Target Group including but not limited to accounting policy and dividend policy, will have no significant deviation from the current practice adopted by the Target Group;

- Based on the information provided by FSE Services, at as 30 June 2019, the Target Group had no idle cash and the amount of non-operating assets and liabilities were HKD12 million and HKD24 million respectively; and

- As per discussion with the Management, we understand that cash deposit is required for property management service companies. As a result, except other identifiable use, we assumed all cash and cash equivalent is for operating use.

We also have assumed the reasonableness of information provided and relied to a considerable extent on such information in arriving at our opinion of value.

4.3.5 Earnings Normalization

Normalized earnings represent a company's earnings that remove the effects of non-recurring and non-operating charges or gains. In this valuation, we want to compare the Comparables' and the Target Group's recurring earnings from operations by eliminating unusual or one-time influences, non-operating revenue and expenses, so that the Target Group and the Comparables can be compared on the same basis and a relatively stable and reasonable result can be achieved. The normalized earnings of the Comparables and the Target Group are therefore the reported earnings after removing non-recurring and non-operating expenses or gain and their tax effect.

Comparables

Non-recurring and non-operating items include listing expense, donation, earnings from money landing business, gain or loss from impairment, fair value change or disposal of assets, rental income, commission income, interest income from investment at fair value through profit or loss and compensation income[15].

Target Group

Non-recurring charges include donation and management fee expense and non-recurring gains include write-off on other payables and gain on disposal of property, plant and equipment.

Since EV/EBITDA is adopted as the benchmark valuation multiple, we eliminate the Interest, Tax, Depreciation and Amortization effect from the normalized earnings to achieve the normalized EBITDA.

15 Shi Shi Services Ltd. reported HKD26 million of compensation income in fiscal year 2019.

4.3.6 Analysis of Comparables

We calculate EV/EBITDA of the Comparables from the financial data available in Bloomberg and the latest financial year annual results as at 30 June 2019.

Stock Code	**Company Name**	**EV/ EBITDA**	**P/E (Cross reference check)**
3992 HK	Creative Enterprise Holdings Ltd.	14.0	19.1
8181 HK	Shi Shi Services Ltd	9.8	11.8
8426 HK	Modern Living Investments Holdings Ltd.	8.2	10.6
	Range	5.7	8.5
	Average	**10.7**	**13.8**

Valuation based on the EV would require the exclusion of debt amount to arrive at the equity value. Since the value concluded from multiples represents the operating value of the Group, we have also considered the non-operating cash position, non-operating assets and non-operating liabilities of the Target Group.

The EV/EBITDA inferred by the Comparable represents the value of equity interest in a freely transferable status. The Company, however, is a closely held company that is not readily tradable in the open market. We shall include marketability discount to reflect the illiquidity nature of the Target Group shares and control premium to reflect the minority nature of the Target Groups Equity Value inferred from the market multiple.

4.3.7 Control Premium

Control premium is defined as the additional value the purchaser would pay over the Equity Value for the controlling interest. Valuation of the Equity Value of the Target Group inferred from market multiple is presented on non-controlling basis. Since FSE Services purchases 100% Equity Value of the Target Group, it will gain control of the Target Group after the transaction, if it happens. Therefore control premium shall be considered in the valuation. We have made reference to the FactSet Mergerstat Control Premium Study in second quarter of 2019, a 20% of Control Premium would be considered.

4.3.8 Discount for Lack of Marketability

The Company is a private company whose shares are not publicly trade on the open market. The closely held nature results in weak liquidity of its shares, or the lack of marketability. In valuation, marketability of an asset represents how quick the asset can turn into cash. Transfer of the share of a private company would possibly involve lengthy time on verifying financial information, due diligence, deal structuring and administrative process. The interest is subject to additional costs and risks not incurred by interests in publicly held securities. The privately held company is uncertain not only of the time required for the sale but also of the eventual sales price. In addition, there are substantially more costs in preparing for the sale, such as business valuation services and accounting and legal costs. There may be a risk that the sale will not transact for cash but for some deferred payments or notes, assuming the buyer will not back out at the last minute. With reference to the Target Group cash generating ability, a 30% Discount for Lack of Marketability (DLOM) would be considered[16].

4.3.9 Opinion of Value

Based on our investigation, analysis and appraisal method employed as set out in this report, it is our opinion that, as at the Valuation Dates, the fair values of the Subject can be reasonably and approximately stated as **HONG KONG DOLLARS SEVEN HUNDRED AND FORTY TWO MILLION (HKD742,000,000) ONLY**.

4.3.10 Sensitivity Test

We understand that DLOM and Control Premium are key parameters of the valuation model. The sensitivity test of DLOM and Control Premium of the Subject is illustrated below.

Equity Value		Control Premium										
		15.0%	16.0%	17.0%	18.0%	19.0%	20.0%	21.0%	22.0%	23.0%	24.0%	25.0%
DLOM	10%	915	923	931	938	946	954	962	970	978	986	994
	15%	864	871	879	886	894	901	909	916	924	931	939
	20%	813	820	827	834	841	848	855	862	870	877	884
	25%	762	769	775	782	789	795	802	809	815	822	828
	30%	711	718	724	730	736	742	748	755	761	767	773
	35%	661	666	672	678	684	689	695	701	707	712	718
	40%	610	615	620	626	631	636	642	647	652	657	663

16 Institute of Business Appraisers. (2009). Suggestions for the Selection of a Baseline Marketability Discount. Business Appraisal Practice, 5

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 INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of listed issuers to be notified to the Company and the Stock Exchange:

Name of Director	**Our Company/ Associated Corporation**	**Capacity/Nature of Interest**	**Number and Class of Securities** *(Note 1)*	**Approximate Percentage of Shareholding** *(Note 2)*
Dr. Cheng	FSE Holdings *(Note 3)*	Beneficial owner *(Note 4)*	90,000,000 shares of HK$0.10 each (L)	18%
Mr. Lam Wai Hon, Patrick	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 5)*	10,000,000 shares of HK$0.10 each (L)	2%
Mr. Doo William Junior Guilherme	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 6)*	25,000,000 shares of HK$0.10 each (L)	5%
	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 7)*	20,000,000 shares of HK$0.10 each (L)	4%
Mr. Lee Kwok Bong	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 8)*	5,000,000 shares of HK$0.10 each (L)	1%
Mr. Wong Kwok Kin, Andrew	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 9)*	35,000,000 shares of HK$0.10 each (L)	7%

Notes:

(1) The letter "L" denotes the long position of the Director in the shares of the Company or the relevant associated corporation of the Company.

(2) The percentage of shareholding is calculated on the basis of shares in issue of FSE Holdings as at the Latest Practicable Date.

(3) FSE Holdings is the holding company of the Company and falls under the definition of "associated corporation" within the meaning under Part XV of the SFO. Each of Mr. Lam Wai Hon, Patrick, Mr. Doo William Junior Guilherme and Mr. Wong Kwok Kin, Andrew is a director of FSE Holdings.

(4) The shares are held by Chow Tai Fook Nominee Limited for Dr. Cheng.

(5) The shares are held by Equal Merit Holdings Limited, the entire issued share capital of which is solely and beneficially owned by Mr. Lam Wai Hon, Patrick.

(6) The shares are held by Master Empire Group Limited, the entire issued share capital of which is solely and beneficially owned by Mr. Doo William Junior Guilherme.

(7) The shares are held by Supreme Win Enterprises Limited, the entire issued share capital of which is solely and beneficially owned by Mr. Doo William Junior Guilherme.

(8) The shares are held by Lagoon Treasure Limited, the entire issued share capital of which is solely and beneficially owned by Mr. Lee Kwok Bong.

(9) The shares are held by Frontier Star Limited, the entire issued share capital of which is solely and beneficially owned by Mr. Wong Kwok Kin, Andrew.

3 DISCLOSURE OF OTHER INTERESTS

Interests in contract or arrangement

As at the Latest Practicable Date, the following Directors had a material interest in the following contracts which were significant in relation to the business of the Enlarged Group:

(1) Dr. Cheng, a non-executive Director, is interested in the following agreements and transactions contemplated thereunder respectively:

a. the master services agreements dated 10 April 2017 made between Mr. Doo and:

i. NWD in relation to the provision of services as contemplated thereunder by Mr. Doo, his 30%-controlled companies and their subsidiaries to the NWD Group and vice versa;

ii. NWDS in relation to the provision of services as contemplated thereunder by Mr. Doo, his 30%-controlled companies and their subsidiaries to the NWDS Group and vice versa; and

iii. NWS in relation to the provision of services as contemplated thereunder by Mr. Doo, his 30%-controlled companies and their subsidiaries to the NWS Group and vice versa;

b. the master services agreement dated 10 April 2017 entered into between the Company and NWD in relation to (i) the provision of the E&M engineering and environmental services by the Group to the NWD Group; and (ii) the provision of rental services by the NWD Group to the Group;

c. the master services agreement dated 10 April 2017 entered into between the Company and NWS in relation to (i) the provision of the E&M engineering and environmental services by the Group to the NWS Group; and (ii) the provision of contracting services by the NWS Group to the Group;

d. the master services agreement dated 10 April 2017 entered into between the Company and NWDS in relation to (i) the provision of the E&M engineering and environmental services by the Group to the NWDS Group; and (ii) the provision of rental services by the NWDS Group to the Group;

e. the master services agreement dated 10 April 2017 entered into between the Company and CTFJ in relation to the provision of the E&M engineering and environmental services by the Group to the CTFJ Group;

f. the master services agreement dated 10 April 2017 entered into between the Company and the Seller in relation to (i) the provision of the E&M engineering and environmental services by the Group to the Doo's Associates Group; and (ii) the provision of rental services and sundry services by the Doo's Associates Group to the Group (the "**2017 Doo's Associates Group Master Services Agreement**");

g. the master facility services agreements dated 11 April 2018 between the Company and:

   i. the Seller in relation to (a) the provision of cleaning and laundry services by the Group to the Doo's Associates Group; and (b) the provision of rental and related services by the Doo's Associates Group to the Group (the "**2018 FSE Master Facility Services Agreement**");

   ii. NWD in relation to the provision of cleaning and laundry services by the Group to the NWD Group;

   iii. NWS in relation to the provision of (a) cleaning and laundry services by the Group to the NWS Group; and (b) IT support services by the NWS Group to the Group (the "**2018 NWS Master Facility Services Agreement**");

iv. NWDS in relation to the provision of cleaning and laundry services by the Group to members of the NWDS Group;

v. CTFE in relation to the provision of cleaning and laundry services by the Group to the CTFE Group; and

vi. CTFJ in relation to the provision of cleaning and laundry services by the Group to the CTFJ Group;

h. the 2019 Master Property Services Agreements to be entered into; and

i. the Sale and Purchase Agreement and the Supplemental Deed.

(2) Mr. Wong Kwok Kin, Andrew and Mr. Lee Kwok Bong are interested in the following agreements and transactions contemplated thereunder respectively:

a. the 2017 Doo's Associates Group Master Services Agreement;

b. the 2018 FSE Master Facility Services Agreement;

c. the 2019 FSE Master Property Services Agreement to be entered into; and

d. the Sale and Purchase Agreement and the Supplemental Deed.

(3) Mr. Kwong Che Keung, Gordon, is interested in the following agreements and transactions contemplated thereunder respectively:

a. the 2018 NWS Master Facility Services Agreement;

b. the 2018 CTFJ Master Facility Services Agreement;

c. the 2019 NWS Master Property Services Agreement to be entered into; and

d. the 2019 CTFJ Master Property Services Agreement to be entered into.

(4) Mr. Doo William Junior Guilherme and Mr. Lam Wai Hon, Patrick, are interested in the following agreements and transactions contemplated thereunder respectively:

a. the 2017 Doo's Associates Group Master Services Agreement;

b. the 2018 FSE Master Facility Services Agreement;

c. the 2018 NWS Master Facility Services Agreement;

d. the 2019 FSE Master Property Services Agreement to be entered into;

e. the 2019 NWS Master Property Services Agreement to be entered into; and

f. the Sale and Purchase Agreement and the Supplemental Deed.

Save as disclosed above, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted which was significant in relation to the business of the Enlarged Group as at the Latest Practicable Date.

Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which, since 30 June 2019, being the date to which the latest published audited consolidated accounts of the company were made up, had been 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 Enlarged Group.

Interests in competing business

As at Latest Practicable Date, none of the Directors nor any of his close associates had any interest in any business apart from the Group's business which competed or would likely to compete, either directly or indirectly, with the business of the Group.

4 DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with any member of the Enlarged Group which was not determinable by the relevant member of the Enlarged Group within one year without payment of compensation other than statutory compensation.

5 MATERIAL CONTRACTS

Save for the following, there are no contracts (not being contracts entered into in the ordinary course of business) which were entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

(1) the conditional agreement for sale and purchase of the entire issued share capital of Crystal Brilliant Limited for an initial consideration of HK$502 million (subject to post-completion adjustment) by the Seller as vendor and FSE Facility Services Group Limited (a wholly-owned subsidiary of the Company) as purchaser on 27 February 2018, details of which were disclosed in the Company's circular dated 20 March 2018; and

(2) the Sale and Purchase Agreement and the Supplemental Deed.

6 LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge information and belief, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group that would have a material adverse effect on the results of operations or financial conditions of the Enlarged Group.

7 QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts whose opinions or advice are contained in this Circular:

Name	Qualifications
PricewaterhouseCoopers	Certified Public Accountants
Ballas Capital Limited	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Frost & Sullivan	Independent Industry Expert
Vigers Appraisal and Consulting Limited	Independent Valuer

As at the Latest Practicable Date, each of the above experts:

(1) had no direct or indirect shareholdings in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and

(2) had no interests, direct or indirect, in any assets which had been, since 30 June 2019 being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this Circular with the inclusion therein of its letter, report or opinion and reference to its name in the form and context in which they respectively appear.

8 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Units 801-810, 8th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday (except public holidays) for a period of 14 days from the date of this Circular:

(1) the memorandum and articles of association of the Company;

(2) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 39 to 40 of this Circular;

(3) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 41 to 78 of this Circular;

(4) the accountant's report on the Target Group set out in Appendix II to this Circular;

(5) the accountant's assurance report on the compilation of the unaudited pro forma financial information on the Enlarged Group set out in Appendix IV to this Circular;

(6) the Business Valuation report set out in Appendix V to this Circular;

(7) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(8) the written consents referred to in the section headed "Qualifications and consent of Experts" in this appendix;

(9) the annual reports of the Company containing the audited consolidated financial statements of the Group for the year ended 30 June 2018 and 30 June 2019 respectively; and

(10) this Circular.

9 GENERAL

(1) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is at Units 801–810, 8th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong.

(2) The Company's principal share registrar and transfer office in the Cayman Islands is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(3) The Company's Hong Kong branch share registrar and transfer office is Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(4) The company secretary of the Company is Mr. Chan Ju Wai. Mr. Chan Ju Wai is a member of the Institute of Public Accountants in Australia, the Institute of Certified Management Accountants in Australia and the Institute of Financial Accountants in the United Kingdom.

(5) The English text of this Circular shall prevail over the Chinese text.

FSE SERVICES GROUP LIMITED
豐盛服務集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 331)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of **FSE SERVICES GROUP LIMITED** (the "**Company**") will be held at 17/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 6 December 2019 at 11:30 a.m. (or as soon thereafter as the annual general meeting convened to be held at 11:00 a.m. on the same day shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions:

1. "**THAT** subject to and conditional upon the passing of ordinary resolution 2 in this notice:

   (a) the sale and purchase agreement dated 18 October 2019 (the "**Sale and Purchase Agreement**"), as amended and supplemented by the supplemental deed dated 14 November 2019 (the "**Supplemental Deed**"), entered into between the Company as buyer, FSE Property Management Group Limited (a wholly-owned subsidiary of the Company) as buyer nominee (the "**Buyer Co**") and FSE Management Company Limited as seller (the "**Seller**") (a copy of which is tabled at this meeting and marked "A" and initialled by the chairman of this meeting for the purpose of identification), pursuant to which the Company, Buyer Co and the Seller agreed that, subject to the satisfaction of the conditions precedent therein, the Seller will sell and the Company will purchase (or procure the Buyer Co to purchase) the entire issued share capital of Legend Success Investments Limited (the "**Proposed Acquisition**") and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

   (b) subject to and conditional upon completion of the Proposed Acquisition in accordance with the terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), the creation and issue by the Company of 43,676,379 Convertible Securities credited as fully paid (the "**Consideration Issue**") be and is hereby generally and unconditionally approved in all respects;"

   "**Convertible Securities**" mean convertible preference shares of a par value of HK$0.10 each to be created as a new class of shares in the capital of the Company in accordance with ordinary resolution 2 in this notice; and

   (c) the directors of the Company (the "**Directors**") acting together or by committee, or any Director acting individually, be and is/are hereby authorised to take all steps necessary on behalf of the Company whatever he or they may, in his/their absolute discretion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementing and/or giving effect to the above matter.''

2. ''**THAT** subject to and conditional upon the passing of ordinary resolution 1 in this notice:

   (a) the authorised share capital of the Company be and is hereby re-designated from HK$100,000,000 divided into 1,000,000,000 shares of a nominal or par value of HK$0.10 each, into HK$100,000,000 divided into 900,000,000 ordinary shares of par value of HK$0.10 each, and 100,000,000 convertible preference shares of par value of HK$0.10 each with the rights, privileges and restrictions of the Convertible Securities set out in the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed);

   (b) the creation and issue of the Convertible Securities as set out in the circular of the Company dated 15 November 2019, on and subject to the terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Deed), be and it is hereby approved;

   (c) any one Director be and is hereby authorised to allot and issue such number of new ordinary shares in the capital of the Company as may be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Securities; and

   (d) the Directors acting together or by committee, or any Director acting individually, be and is/are hereby authorised to take all steps necessary on behalf of the Company whatever he or they may, in his/their absolute discretion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementing and/or giving effect to the above matter.''

By order of the Board
FSE Services Group Limited
Chan Ju Wai
Company Secretary

Hong Kong, 15 November 2019

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Units 801–810, 8th Floor
Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay, Kowloon
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares (the "**Shares**") of HK$0.10 each in the Company may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy needs not be a member of the Company.

2. In the case of joint registered holders of any Share, any one of such joint holders may vote at the Meeting (or any adjournment thereof), either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders are present at the Meeting (or any adjournment thereof) personally or by proxy, that one of the said joint holders so present whose name stands first on the Company's register of members in respect of such Share shall alone be entitled to vote in respect thereof.

3. A form of proxy for use at the Meeting is enclosed. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the Meeting (or any adjournment thereof) if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

4. To be valid, the instrument appointing a proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (or any adjournment thereof).

5. The record date for determining the entitlement of the holders of Shares to attend and vote at the Meeting will be 6 December 2019. The Company's branch register of members will be closed from 3 December 2019 to 6 December 2019 (both days inclusive) during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on 2 December 2019.

6. Voting on the above resolutions will be taken by poll.

As at the date of this notice, the board of directors of the Company comprises Dr. Cheng Kar Shun, Henry (Chairman) and Mr. Wong Kwok Kin, Andrew as non-executive directors, Mr. Lam Wai Hon, Patrick (Vice-Chairman), Mr. Poon Lock Kee, Rocky (Chief Executive Officer), Mr. Doo William Junior Guilherme, Mr. Lee Kwok Bong, Mr. Soon Kweong Wah and Mr. Wong Shu Hung (Dr. Cheng Chun Fai as his alternate) as executive directors, Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung, Eddie and Dr. Tong Yuk Lun, Paul as independent non-executive directors.