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 GROUP ENGAGED IN THE PROVISION OF SECURITY GUARDING & EVENT SERVICES, INSURANCE SOLUTIONS AND LANDSCAPING SERVICES; (2) MAJOR AND CONNECTED TRANSACTION: DISPOSAL OF PROPERTIES; (3) CONTINUING CONNECTED TRANSACTIONS: 2021 MASTER FACILITY AND RELATED SERVICES AGREEMENTS; (4) PROPOSED CHANGE OF COMPANY NAME AND STOCK SHORT NAME; (5) RE-ELECTION OF THE RETIRING DIRECTOR; AND (6) NOTICE OF EXTRAORDINARY GENERAL MEETING

Sole Financial Adviser

BNP PARIBAS

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

BALLAS CAPITAL

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 11 to 73 of this Circular. A letter from the Independent Board Committee is set out on pages 74 to 76 of this Circular. A notice convening the EGM to be held at 17th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 9 April 2021 at 4:30 p.m. is set out on pages EGM-1 to EGM-7 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.

19 March 2021

CONTENTS

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

"2021 Master Facility and Related Services Agreements"	the following proposed new master services agreements collectively:

(1) the agreement to be entered into between the Company and the Seller in relation to (a) rental and related services by Doo's Associates Group to the Enlarged Group; and (b) the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services by the Enlarged Group to the Doo's Associates Group ("**2021 FSE Master Facility and Related Services Agreement**");

(2) the agreement to be entered into between the Company and NWD in relation to (a) the provision of the IT Support Services and Rental Services by the NWD Group to the Target Group of the Enlarged Group; and (b) the provision of the Security Guarding & Event Services, the Insurance and Related Services and the Landscaping Services by the Enlarged Group to the NWD Group ("**2021 NWD Master Facility and Related Services Agreement**");

(3) the agreement to be entered into between the Company and NWS in relation to (a) the provision of the Security Guarding & Event Services, supply of security products, the Insurance Advisory Services and the Landscaping Services by Enlarged Group to the NWS Group; and (b) the provision of rental and related services and convention and exhibition facilities and related functions and services, and food and beverage catering services by the NWS Group to the Enlarged Group ("**2021 NWS Master Facility and Related Services Agreement**");

(4) the agreement to be entered into between the Company and CTFE in relation to (a) the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services by the Enlarged Group to the CTFE Group; and (b) the provision of leasing or licensing services by the CTFE Group to the Enlarged Group ("**2021 CTFE Master Facility and Related Services Agreement**"); and

(5) the agreement to be entered into between the Company and CTFJ in relation to (a) the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services by the Enlarged Group to the CTFJ Group ; and (b) the provision of leasing or licensing services by the CTFJ Group to the Enlarged Group ("**2021 CTFJ Master Facility and Related Services Agreement**")

"30%-controlled company"	has the meaning ascribed to it under the Listing Rules
"Announcement"	the announcement of the Company dated 26 February 2021 in relation to, among other things, the Proposed Transactions, the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder, the Annual Caps and the Proposed Change of Company Name
"Annual Cap(s)"	the estimated maximum aggregate annual amounts in respect of the Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreements for the period commencing from the date of Completion of the Proposed Transactions and ending on 30 June 2023 (as applicable) as stated in the section headed "Annual Caps" in the Letter from the Board in this Circular
"associate"	has the meaning ascribed to it under the Listing Rules
"Beijing Nova"	北京新域保險經紀有限公司 (Beijing Nova Insurance Services Limited*), a limited liability company incorporated in the PRC
"Best Culture"	Best Culture Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and, as at the Latest Practicable Date, an indirect wholly-owned subsidiary of the Company
"Board"	the Board of Directors
"Brokerslink"	Brokerslink Management AG, an AG *(aktiengesellschaft)* incorporated in the Switzerland
"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 31 December 2020, amounting to HK$840,600,000
"Buyer Co"	FSE City Essential Services Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"City Essential Services"	referring to certain services essential to the operation of a city, including environmental services, cleaning services, maintenance services, security guarding services, security design, installation and management, event services (concierge services), insurance solutions, landscaping services and other related services
"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, the Proposed Disposal and the transaction contemplated under the Sale and Purchase Agreement
"Completion Date"	the date which is ten (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 consideration for the sale and purchase of the Sale Share, the initial sum of which being HK$840,600,000, comprising (i) a non-cash consideration of HK$442,650,000 settled through the Proposed Disposal of the Disposal Property and the entire issued share capital in the Property Holdcos by the Group to the Seller Group; and (ii) a cash consideration of HK$397,950,000 payable in cash by the Company
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules

"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
"Definitive Agreements"	with respect to any 2021 Master Facility and Related Services Agreement, the individual definitive agreements in respect of the Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreement which may from time to time be entered into in pursuance thereto
"Directors"	the directors of the Company
"Disposal Property"	the property owned by the Group to be disposed of to the Seller in accordance with the Sale and Purchase Agreement (as more particularly set out under the section headed "INFORMATION ON THE PROPERTY HOLDCOS AND THE DISPOSAL PROPERTY" in the Letter from the Board in this Circular)
"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"	(i) the Proposed Transactions; (ii) the transactions and the proposed Annual Caps stipulated under the 2021 Master Facility and Related Services Agreements; (iii) the Proposed Change of Company Name; and (iv) the proposed re-election of the retiring Director

"Enlarged Group"	the Group as enlarged by the Target Group upon Completion
"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
"Fultech Development"	Fultech Development Limited, a company incorporated in Hong Kong with limited liability and, as at the Latest Practicable Date, an indirect wholly-owned subsidiary of the Company
"FY" or "financial year"	financial year of the Company ended or ending 30 June
"Group"	the Company and its subsidiaries from time to time
"Heritage Star"	Heritage Star Limited, a company incorporated in the British Virgin Islands with limited liability and, as at the Latest Practicable Date, an indirect wholly-owned subsidiary of the Company
"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 Transactions and the 2021 Master Facility and Related Services Agreements and the transactions and proposed Annual Caps contemplated thereunder
"Independent Financial Adviser"	Ballas Capital Limited, a corporation licensed to carry out Types 1 and 6 regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the Proposed Transactions and the 2021 Master Facility and Related Services Agreements and the transactions and proposed Annual Caps contemplated thereunder

"Independent Shareholders"	the Shareholders, other than FSE Holdings, who do not have any material interest in the Proposed Transactions
"Insurance and Related Services"	referring to insurance underwriting services, insurance consultancy and advisory services, policy underwriting services, medical and health care services, rehabilitation and wellness enhancement and related services, but excluding insurance brokerage services
"Insurance Advisory Services"	referring to insurance advisory and related services
"IT Support Services"	referring to the maintenance and support of computer software-related matters, such as solving software and hardware conflicts and usability problems and supplying updates and patches for bugs, security holes in the programme and other services as required by in-house IT staff as and when necessary
"Joint Venture Target Entities"	Landes Limited (景藝設計有限公司), a company incorporated in Hong Kong with limited liability and, as at completion of the Reorganisation, indirectly owned as to 20% by the Target Company
"Latest Practicable Date"	means 15 March 2021, 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 2021, or such other date as the Company and the Seller may agree in writing
"Macao"	Macao Special Administrative Region of the People's Republic of China
"Mr. Doo"	Mr. Doo Wai Hoi, William, one of the controlling shareholders of the Company
"Non-Compete Undertakings"	the non-compete undertakings dated 20 November 2015 executed by the Company's controlling shareholders in favour of the Company containing the non-compete undertakings more particularly referred to in the paragraph headed "Competition" in the section headed "Relationship with Controlling Shareholders" in the Prospectus
"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 NWS Group
"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
"Optimum Result"	Optimum Result Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and, as at the Latest Practicable Date, an indirect wholly-owned subsidiary of the Company
"Ordinary Share"	ordinary share of par value HK$0.10 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, for which, for the purpose of this circular only, excludes Hong Kong, Macau and Taiwan
"Property Holdcos"	collectively, Top Line Investment, Fultech Development, Heritage Star, Optimum Result and Best Culture which directly or indirectly own certain properties, to be disposed of by the Group to the Seller in accordance with the Sale and Purchase Agreement (as more particularly set out under the section headed "INFORMATION ON THE PROPERTY HOLDCOS AND THE DISPOSAL PROPERTY" in the Letter from the Board in this Circular)
"Property Management Services"	referring to the property and facility management services, agency leasing and sales services, consultancy services, provision of car parking and other related services

"Property Valuation"	a property valuation of the properties held by the Property Holdcos and the Disposal Property performed by an independent professional valuer, Vigers Appraisal & Consulting Limited, as at 31 December 2020
"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 and the performance of the transactions contemplated thereunder
"Proposed Change of Company Name"	the proposed change of the English name of the Company from "FSE Services Group Limited" to "FSE Lifestyle Services Limited" and the proposed adoption of the Chinese name of "豐盛生活服務有限公司" as the dual foreign name of the Company in place of its existing Chinese name "豐盛服務集團有限公司"
"Proposed Disposal"	the proposed disposal of all right, title and interest in the Disposal Property and the entire issued share capital of each of the Property Holdcos by the Group to the Seller on and subject to the terms and conditions of the Sale and Purchase Agreement and the performance of the transactions contemplated thereunder
"Proposed Transactions"	collectively, the Proposed Acquisition and the Proposed Disposal contemplated under the Sale and Purchase Agreement
"Prospectus"	the prospectus of the Company dated 26 November 2015
"Rental Services"	referring to the leasing of properties, including, without limitation, spare spaces, office spaces and car parking spaces, and related services
"Reorganisation"	the series of transactions required in order for each member of the Target Group to become subsidiaries of (or, in the case of the Joint Venture Target Entity, to become an associated company under) the Target Company
"Retained Insurance Business"	collectively, Brokerslink and Beijing Nova
"Sale and Purchase Agreement"	the conditional agreement for the sale and purchase of the Sale Share entered into between the Seller, the Buyer Co and the Company dated 26 February 2021

"Sale Share" — one (1) fully paid ordinary share(s) 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

"Security Guarding & Event Services, Insurance Solutions and Landscaping Services" — collectively, referring to:

(A) the provisions of services of security guarding, event servicing, security services, security systems & technology (including installation and maintenance), security consultancy, armoured transit & vaulting security, escort & surveillance security services and related services (the "**Security Guarding & Event Services**");

(B) the provision of insurance brokerage services, insurance consultancy and advisory services and related services (the "**Insurance Solutions**"); and

(C) the provision of landscaping and plant maintenance, supply of plants and related services (the "**Landscaping Services**")

"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

"Seller Group" — the Seller and its subsidiaries from time to time

"Services" — the provision and receipt of the services stipulated under the 2021 Master Facility and Related Services Agreements

"Services Transactions" — the provision of the Services as contemplated under the 2021 Master Facility and Related Services Agreements (as more particularly set out under the section headed "THE 2021 MASTER FACILITY AND RELATED SERVICES AGREEMENTS" in the Letter from the Board in this Circular)

"SFO" — the Securities and Futures Ordinance (Cap. 571)

"Shareholder" — the holder of any Ordinary Share

"Stock Exchange" — The Stock Exchange of Hong Kong Limited

"Target Company"	Business Investments Limited, a company incorporated in the British Virgin Islands with limited liability and, as at the Latest Practicable Date, 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) and each of (i) FSE C & L Limited and its subsidiaries and the Joint Venture Target Entity, (ii) FSE S & G Limited and its subsidiaries, and (iii) FSE Ins Limited (formerly known as Double Luck Ventures Limited) and its subsidiaries, which have, upon completion of the Reorganisation, become subsidiaries (in case of the Joint Venture Target Entity, an associated company) of the Target Company
"Technical and Management Services"	referring to the provision of mechanical and electrical engineering services, trading of building materials, construction project management services involving engineering and technology related work and provision of related design, engineering installation, testing and commissioning and consultancy services
"Top Line Investment"	Top Line Investment Limited (通能投資有限公司), a company incorporated in Hong Kong with limited liability and, as at the Latest Practicable Date, an indirect wholly-owned subsidiary of the Company
"%"	per cent

* *for identification purpose only*

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)*

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

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

19 March 2021

Dear Shareholders,

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET GROUP ENGAGED IN THE PROVISION OF SECURITY GUARDING & EVENT SERVICES, INSURANCE SOLUTIONS AND LANDSCAPING SERVICES; (2) MAJOR AND CONNECTED TRANSACTION: DISPOSAL OF PROPERTIES; (3) CONTINUING CONNECTED TRANSACTIONS: 2021 MASTER FACILITY AND RELATED SERVICES AGREEMENTS; (4) PROPOSED CHANGE OF COMPANY NAME AND STOCK SHORT NAME; (5) RE-ELECTION OF THE RETIRING DIRECTOR; AND (6) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Proposed Transactions, the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder, the Annual Cap and the Proposed Change of Company Name.

The Board is pleased to announce that on 26 February 2021 (after trading hours of the Stock Exchange), the Company, the Buyer Co and the Seller entered into a Sale and Purchase Agreement pursuant to which the Company has conditionally agreed to nominate the Buyer Co to acquire from the Seller the Sale Share at a total consideration of HK$840,600,000 (subject to adjustments, if any), comprising (i) a non-cash consideration of HK$442,650,000 settled through the Proposed Disposal of the Disposal Property and the entire issued share capital in the Property Holdcos to the Seller Group; and (ii) a cash consideration of HK$397,950,000 payable in cash by the Company.

The Target Group is principally engaged in the provision of Security Guarding & Event Services, Insurance Solutions and Landscaping Services.

Completion of the Proposed Acquisition and the Proposed Disposal shall take place simultaneously on the Completion Date, and the Completion is subject to the fulfilment (or, as the case may be, waiver) of the Conditions. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company, and the Group will cease to hold any right, title and interest in the Property Holdcos and the Disposal Property.

Members of the Target Group, in their ordinary course of business, regularly entered into continuing transactions in relation to facility and related services including Security Guarding & Event Services, Insurance Solutions and Landscaping Services:

(1) the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to and receipt of the rental and related services from the Doo's Associates Group;

(2) the provision of the Security Guarding & Event Services, the Insurance and Related Services and the Landscaping Services to and receipt of IT Support Services and Rental Services from the NWD Group; and

(3) the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to members of each of the NWS Group, the CTFE Group and the CTFJ Group and receipt of the rental and related services from the NWS Group, the CTFE Group and the CTFJ Group and receipt of convention and exhibition facilities and related functions and services and food and beverage catering services from the NWS Group.

It is expected that the above continuing transactions will continue after the completion of the Proposed Transactions. As the Target Company will become an indirect wholly-owned subsidiary of the Company upon completion of the Proposed Transactions, the continuing transactions entered into or to be entered into between the Group on one side, and each of the Doo's Associate Group, the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group on the other will respectively 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 relevant requirements under the Listing Rules, the Company proposes to enter into the 2021 Master Facility and Related Services Agreements upon completion of the Proposed Transactions, the principal terms and conditions of which are set out in this Circular.

The Board also proposes to change the English and Chinese names of the Company in order to better identify the business of the Group. The stock short name of the Company is also proposed to be changed accordingly after the Proposed Change of Company Name becoming effective.

THE PROPOSED ACQUISITION AND THE PROPOSED DISPOSAL

The Sale and Purchase Agreement

Date : 26 February 2021

Parties

- Seller : FSE Management Company Limited
- Buyer : the Company
- Buyer Co : FSE City Essential Services 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 as at the Latest Practicable Date, is a controlling 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.

Assets to be acquired by the Group under the Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to nominate 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 to be acquired by the Group.

Assets to be disposed of by the Group under the Sale and Purchase Agreement

As part of the Consideration for the Proposed Acquisition, pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to procure the relevant members of the Group to sell the entire share capital in the Property Holdcos and all right, title and interest in the Disposal Property to the Seller.

The section below headed "INFORMATION ON THE PROPERTY HOLDCOS AND THE DISPOSAL PROPERTY AND THE FINANCIAL IMPACT OF THE PROPOSED DISPOSAL" provides further information on the Property Holdcos and the Disposal Property to be disposed of by the Group.

The Consideration, its payment term and adjustment

The Consideration for the Proposed Acquisition is HK$840,600,000 (subject to adjustments, if any), which is based on arm's length negotiations between the Company and the Seller with reference to the Business Valuation. Pursuant to the business valuation report prepared by the independent professional valuer, the fair value of the Target Group (the "**Fair Value**") is HK$840,600,000 as at 31 December 2020 and was determined on basis of market approach. Such Consideration implies a P/E multiple of approximately 10.0x based on the normalized earnings of the Target Group for the financial year ended 30 June 2020.

The Target Group comprises three business segments, namely Security Guarding & Event Services, Insurance Solutions and Landscaping Services. The Board noted that the Fair Value was derived after due consideration of the following factors:

(1) The normalized earnings of the Target Group was approximately HK$83.7 million for the financial year ended 30 June 2020, which was composed of the normalized earnings of Security Guarding & Event Services, Insurance Solutions and Landscaping Services which respectively amounted to HK$47.6 million, HK$34.0 million and HK$2.1 million for the financial year ended 30 June 2020. Such amounts were determined based on the net profit attributable to equity holders of each of the business segments for the financial year ended 30 June 2020 after adjusting for non-recurring and non-operating charges and gains, and their tax effect from the respective segmental net profits, where appropriate, namely:

  (a) the management fee charged by the Seller to each of the business segments for the financial year ended 30 June 2020. 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) the donation made for the financial year ended 30 June 2020;

  (c) the exchange gain or loss incurred during currency translation of assets and liabilities located in the PRC for the financial year ended 30 June 2020;

  (d) the government grant including (i) one-off subsidy from the Anti-epidemic Fund, (ii) wage subsidies under Employment Support Scheme, and (iii) subsidy for phasing out pre-Euro IV diesel commercial vehicles under the Ex-gratia Payment Scheme for the financial year ended 30 June 2020;

  (e) the bank interest income for the financial year ended 30 June 2020;

(f) the gain on disposal of property, plant and equipment for the financial year ended 30 June 2020; and

(g) the tax effect of the adjustment (a) to (b) above for the financial year ended 30 June 2020.

The respective adjustment effect of the above factors (a) to (g) on the three business segments, namely Security Guarding & Event Services, Insurance Solutions and Landscaping Services, are set out below:

		Security Guarding & Event Services	Insurance Solution	Landscaping Services
		HK$'million	*HK$'million*	*HK$'million*
(a)	the management fee charged by the Seller to each of the business segments for the financial year ended 30 June 2020	2.2	3.0	0.5
(b)	the donation made for the financial year ended 30 June 2020	1.5	4.0	—
(c)	the exchange gain or loss incurred during currency translation of assets and liabilities located in the PRC for the financial year ended 30 June 2020	—	(0.1)	0.2
(d)	the government grant including (i) one-off subsidy from the Anti-epidemic Fund, (ii) wage subsidies under Employment Support Scheme, and (iii) subsidy for phasing out pre-Euro IV diesel commercial vehicles under the Ex-gratia Payment Scheme for the financial year ended 30 June 2020	(18.3)	(0.4)	(0.8)
(e)	the bank interest income for the financial year ended 30 June 2020	(0.4)	(0.2)	—
(f)	the gain on disposal of property, plant and equipment for the financial year ended 30 June 2020	(8.2)	—	—
(g)	the tax effect of the above items (a) and (b)	(0.6)	(1.2)	(0.1)

(2) The implied P/E multiple of the Target Group is approximately 10.0x, which was the result of (i) the P/E multiples of Security Guarding & Event Services, Insurance Solutions and Landscaping Services segments adopted in the business valuation report prepared by the independent professional valuer, which was 10.7x, 15.3x and 9.1x, respectively. The selected comparable companies used in deriving the P/E multiples of each of the business segments were companies listed in mature stock markets; in the same industries as the business segments of Target Group being appraised; having positive earnings so as to infer meaningful multiples for comparison; and not being considered as observable outliers. The comparable companies in the security and insurance industries operate in various overseas countries as only one comparable company operating in the security industry in

Hong Kong and no comparable companies operating in the insurance industry in Hong Kong or PRC with similar business operations or meaningful P/E multiples (i.e. non-loss making) could be identified despite extensive research conducted by the independent valuer; while the independent valuer has identified comparable companies from Hong Kong and the PRC, where possible, for the landscaping services industry. However, it is noted by the independent valuer that all the comparable companies are considered to be fair and representative from valuation perspective taking into account their listing status in open and established markets, similarity in business operation models as those of the Target Group, and that a substantial portion of their revenue was generated from business comparable to those of the Target Group. In addition, adjustments were applied on the P/E multiples where appropriate, with reference to the market index of the relevant countries as suggested by valuation literatures to address the issue of difference in valuation among different countries; (ii) the adjustments in NTAV of each of Security Guarding & Event Services, Insurance Solutions and Landscaping Services as at 31 December 2020, including adjustments on idle cash, loan, non-operating asset and non-operating liabilities, where appropriate; (iii) applying a 30% discount for lack of marketability; and (iv) applying a 14.3% control premium which is derived based on the average value of an exhaustive list of acquisitions of majority control and/or privatizations on the Stock Exchange from 1 January 2018 to 31 December 2020 after removing certain observable outliers.

Based on the above, 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 Directors who are considered to have a material interest in the Proposed Transactions as set out in the paragraph headed "Approval by the Board") are of the view that (i) the selected comparable companies are fair and representative and (ii) the adjustments on the P/E multiples and the control premium of 14.3% are fair and reasonable.

Pursuant to the Sale and Purchase Agreement, the Consideration is subject to adjustment, if any, by reference to the amount of the NTAV of the Target Group as at the Completion Date as follows:

(1) if the NTAV of the Target Group as at the Completion Date is greater than the NTAV of the Target Group as at 31 December 2020, 100% of the difference shall be payable in cash and added to the 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 31 December 2020, 100% of the difference shall be deducted from the cash portion of the Consideration for the Sale Share.

The NTAV of the Target Group as at 31 December 2020 was approximately HK$45.7 million.

At Completion, the cash portion of the Consideration will be funded by the Group's internal resources. The amount of the non-cash portion through the Proposed Disposal was agreed after arm's length negotiations between the Company and the Seller having taken into consideration the Property Valuation and is not subject to any write-up or write-down based on the latest market value of the properties held by the Property Holdcos and the Disposal Property as at the Completion Date. The Directors believe that using the Proposed Disposal of the Property Holdcos and the Disposal Property as part of the Consideration would also provide the Group more flexibility in managing its cashflow, maintain a good capital structure and better utilize less liquid assets in its balance sheet.

Conditions precedent to Completion

Pursuant to the Sale and Purchase Agreement, 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, the Property Transfer Agreement and the 2021 Master Facility and Related Services Agreements having been obtained, including the approval by the Independent Shareholders at a general meeting of the Proposed Transactions and the approval by the Board of the 2021 Master Facility and Related Services Agreements;

(2) the warranties provided by the Seller in the Sale and Purchase Agreement remaining true and accurate in all respects and not misleading in any respect as at Completion;

(3) all consents, approvals, permits, authorisations or clearances (as the case may be) that the Seller reasonably considers necessary pursuant to applicable laws, regulations or rules (including but not limited to the consents from lenders of the relevant banking facilities) for its execution, implementation and completion of the Sale and Purchase Agreement and the property transfer agreement relating to the Disposal Property and the consents from counterparties of the relevant agreements having been obtained, and all such consents, approvals, permits, authorisations and clearances not having been revoked or withdrawn at any time before Completion; and

(4) 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, the Property Transfer Agreement and the 2021 Master Facility and Related Services Agreements 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 Condition (4), not later than 5:00 p.m. on the Longstop Date.

The Seller shall use its reasonable endeavours to achieve satisfaction of Condition (3) 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) and (3) 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 shall terminate with immediate effect.

Completion

Subject to the fulfilment (or, as the case may be, waiver) of the Conditions, completion of the Proposed Acquisition and the Proposed Disposal shall take place simultaneously on the Completion Date.

Upon Completion, (i) 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; and (ii) the Group will cease to hold any right, title and interest in the Property Holdcos and the Disposal Property and each of the Property Holdcos will cease to be a wholly-owned subsidiary of the Company.

Corporate guarantees and counter-indemnity

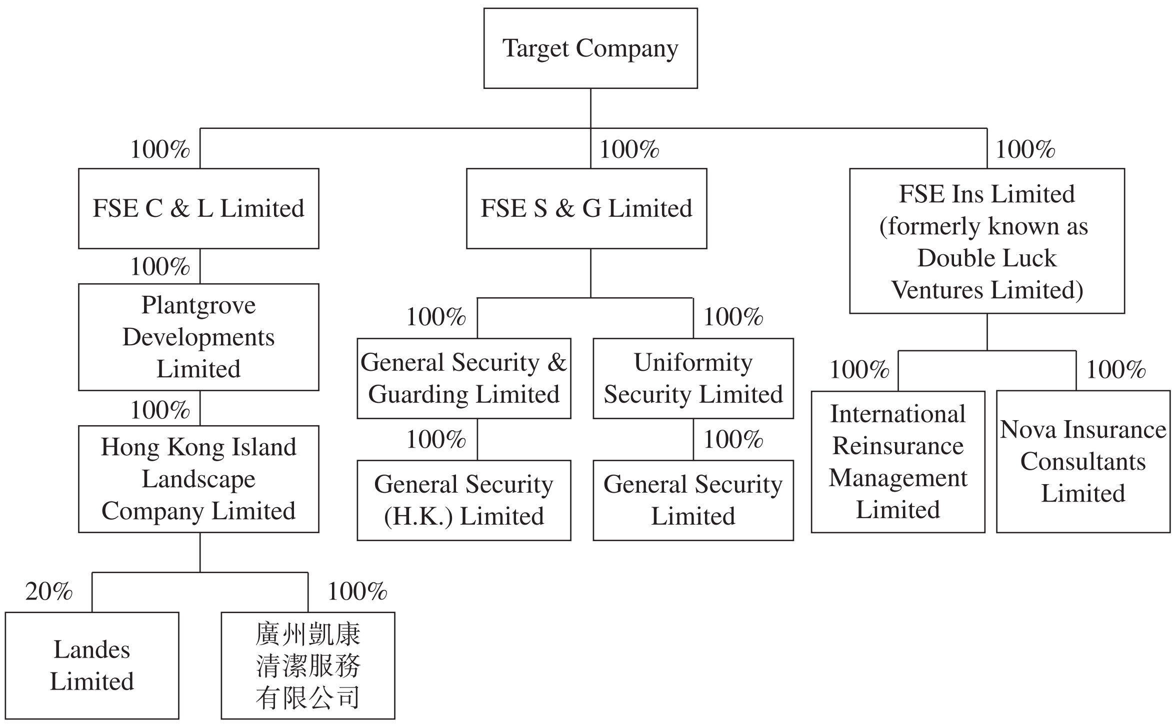
Prior to the execution of the Sale and Purchase Agreement, the Seller has provided certain corporate guarantees and undertaking (i) for securing the granting of credit facilities to certain members of the Target Group in favour of certain lending banks amounting to approximately HK$100.0 million and (ii) for performance of some contractual obligations by certain members of the Target Group in favour of contract counterparties of the Target Group, where the Seller indemnifies the contract counterparties of the Target Group in the event there is any breach of obligations by 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, 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). In the event any such credit facilities or contracts guaranteed by the Seller expire and should be renewed, the Group will provide new guarantees as required by the lending banks or contract counterparties.

The Company shall use its reasonable endeavours to procure such existing corporate guarantees and undertaking provided by the Seller to be released and replaced by such new corporate guarantees 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 the deed 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 TARGET GROUP

The following is a simplified group structure chart of the Target Group immediately after the completion of the Reorganisation:



The Target Company is a limited company incorporated in the British Virgin Islands on 29 December 2020. 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.

As at the Latest Practicable Date, the Reorganisation has been duly completed. Upon completion of the Reorganisation, the Target Group will continue to be engaged in the provision of three different segments namely Security Guarding & Event Services, Insurance Solutions and Landscaping Services.

The Security Guarding & Event Services arm

The Target Group's Security Guarding & Event Services arm of business is ranked as the No. 2 in Type I securities services provider in Hong Kong in terms of revenue for the financial year ended 30 June 2020 according to Frost & Sullivan. It is operated through FSE S & G Limited and its subsidiaries, which is commonly known as "General Security" and mainly offers security guarding services such as physical guarding of property and person, security management and planning, and armoured transportation. Event services are also provided that combine security guarding services and customer services to optimize the guest experience without compromising the safety of event participants or the integrity of critical assets. Other related services include concierge services, alarm installation and maintenance.

The Insurance Solutions arm

The Target Group's Insurance Solutions arm of business is ranked as the No. 1 (among local insurance brokers) and No. 5 (among local and international insurance brokers) general insurance brokers in Hong Kong in terms of gross insurance brokerage income for the financial year ended 30 June 2020 according to Frost & Sullivan. It is operated through FSE Ins Limited (formerly known as Double Luck Ventures Limited) and its subsidiaries, which is more commonly known as "Nova Insurance" and mainly offers general insurances brokerage services related to property and casualty, construction project, and employee benefits. Other insurance brokerage services include director and officers liability, prospectus liability, cyber risk liabilities.

The Landscaping Services arm

The Target Group's Landscaping Services arm of business is a one of the more sizeable leaders in the fragmented industry in Hong Kong. It is operated through FSE C & L Limited and its subsidiaries, which is more commonly known as "Hong Kong Island Landscape" and offers services related to planting and maintenance of landscapes and sales of plants and related materials.

Financial information of the Target Group

Set out below is a summary of key combined financial information of the Target Group for the two financial years ended 30 June 2019 and 30 June 2020 and the six months ended 31 December 2020 respectively, 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 Accountant.

	For the financial year ended		**For the six months ended 31 December**
	30 June 2019	**30 June 2020**	**2020**
	(Audited)	**(Audited)**	**(Audited)**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Revenue	740,368	777,169	396,883
Profit before taxation	93,344	117,089	151,308
Profit for the year/period	78,006	102,598	142,340

As of 31 December 2020, the unaudited and combined net asset value of the Target Group was approximately HK$77.7 million. The fair value of the Target Group as at 31 December 2020 was HK$840,600,000, according to the Business Valuation based on historical financial performance of the Target Group.

Apart from revenue contribution from the Doo's Associate Group, the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group, the Target Group also receives a stable revenue stream of approximately 63% to 67% from independent customers. The independent customer base of the Target Group consists of large and reputable customers in the relevant markets. For example, among the top 10 customers of the security guarding business of the Target Group for the financial year ended 30 June 2020, the revenue from independent customers amounted to HK$245.7 million (representing 68% of the total revenue generated from the top 10 customers of the Target Group for the financial year ended 30 June 2020 of approximately HK$357.8 million). This has demonstrated that the Target Group has a diversified customer base and strong ability to generate revenue streams from its independent customers.

Financial effect of the Proposed Transactions

Upon Completion, the earnings of the Enlarged Group is expected to be enhanced taking into account the net profit of the Group of HK$329.1 million and the Target Group of HK$142.3 million for the six months ended 31 December 2020, while the net asset value is expected to decrease mainly due to the net effect resulted from (i) the consolidation of the assets and liabilities of the Target Group of HK$77.7 million as at 31 December 2020; (ii) the decrease in cash and bank balances of HK$397.9 million arising from the cash settlement of part of the Consideration; and (iii) the disposal of the Disposal Property and the properties held by the Property Holdcos with total carrying values of HK$300.9 million as at 31 December 2020 as settlement of the remaining part of the Consideration.

Non-competition undertakings by the Seller

As disclosed in the Prospectus, the controlling shareholders of the Company (including the Seller) have given the Non-Compete Undertakings in favour of the Company pursuant to which the controlling shareholders have irrevocably undertaken, among other things, each of them shall not, and shall procure that their respective close associates and/or companies controlled by them (other than the Group) shall not, directly or indirectly be interested or involved or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the businesses currently and from time to time engaged by our Group (including the provision of E&M engineering services and ancillary building materials trading and retail, and environmental engineering services) in Hong Kong and/or Macau and/or the PRC or any other country or jurisdiction in or to which our Group carries on business mentioned above from time to time.

As part of the Reorganization, the Seller has reorganized all of its entities engaged in Security Guarding & Event Services, Insurance Solutions and Landscaping Services, except that with respect to the Insurance Solutions arm, Brokerslink and Beijing Nova were retained in the Seller's group.

With respect to the Retained Insurance Business, there is a clear delineation between the Retained Insurance Business and the Insurance Solutions arm of the Target Group to be acquired by the Company in the Proposed Acquisition in terms of their geographical locations and target customers. As disclosed above, the Insurance Solutions arm of the Target Group is a leading general insurance broker in Hong Kong. On the other hand, Brokerslink is incorporated in the Switzerland, principally engaged in promoting the cooperation between its global network members on cross business referrals, and Beijing Nova is incorporated in the PRC, principally engaged in insurance broking business within the territory in the PRC only. Both companies are not the licensed insurance intermediaries in Hong Kong and are restricted from carrying out insurance broking insurance in accordance with the Insurance Ordinance (Cap. 41 of the Laws of Hong Kong). The geographical focus and target customers of the Insurance Solutions arm of the Target Group are distinctly different from those of the Retained Insurance Business. Furthermore, the Group currently has no intention to develop its Insurance Solutions arm into Switzerland and/or the PRC in the near term, nor will it expect the Enlarged Group to do so upon completion of the Proposed Acquisition.

Therefore, the Company is of the view that there is no competition issue between the Enlarged Group upon completion of the Proposed Transactions and the businesses of the Seller's group (including the Retained Insurance Business), and the Non-Compete Undertakings will continue to be complied with by the Company's controlling shareholders upon completion of the Proposed Transactions.

INFORMATION ON THE PROPERTY HOLDCOS AND THE DISPOSAL PROPERTY AND THE FINANCIAL IMPACT OF THE PROPOSED DISPOSAL

The following table sets out the details of the properties directly or indirectly held by the Property Holdcos and the Disposal Property to be disposed of by the Group as part of the Consideration for the Proposed Acquisition:

Properties held by the Property Holdcos to be transferred:

No.	Location of the property in Hong Kong	Property owner as at the Latest Practicable Date	Gross floor area *(square feet)*	Property use
1.	Unit A on 8/F, Chai Wan Industrial Centre, No. 20 Lee Chung Street, Hong Kong	Top Line Investment	9,944	Industrial
2.	Unit A on 19/F, Chai Wan Industrial Centre, No. 20 Lee Chung Street, Hong Kong	Fultech Development	9,944	Industrial
3.	Portion B on 6/F, Hop Shi Factory Building, Nos. 29–31 Lee Chung Street & Nos. 22–24 Cheung Lee Street, Hong Kong	FSE Property (Hong Kong) Limited, which is wholly owned by Heritage Star	5,000	Industrial

No.	Location of the property in Hong Kong	Property owner as at the Latest Practicable Date	Gross floor area *(square feet)*	Property use
4.	17/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong	Ocean Front Investments Limited, which is wholly owned by Optimum Result	31,400	Office
5.	Em Macao, Rua Nova da Areia Preta No 456, Edf. Tong Wa Block XII, Rés-Do-Chão A	Prime Star Investment Limited, which is wholly owned by Best Culture	1,962	Commercial
6.	Em Macao, Rua do Almirante Costa Cabral No S 17–17-A, Holland Garden (Phase 4), Rés-Do-Chão A (Com Sobreloja)	Prime Star Investment Limited, which is wholly owned by Best Culture	2,843	Commercial
7.	Em Macao, Rua do Ouvidor Arriaga No 39, Holland Garden (Phase 4), 1o Andar A	Prime Star Investment Limited, which is wholly owned by Best Culture	613	Residential

The properties shown in the table above are directly or indirectly held by the Property Holdcos and will be transferred by the Group to the Seller Group by way of transfer of the entire share capital of the Property Holdcos (being the ultimate owner of such properties) pursuant to the Sale and Purchase Agreement.

Each of the Property Holdcos (namely, Top Line Investment, Fultech Development, Heritage Star, Optimum Result and Best Culture) is an indirect wholly-owned subsidiary of the Company. Each of these Property Holdcos is principally engaged in investment holding.

Disposal Property to be transferred:

No.	Location of the property in Hong Kong	Property owner as at the Latest Practicable Date	Gross floor area *(square feet)*	Property use
1.	Unit D on 2/F including Flat Roof, Golden Bear Industrial Centre, Nos. 66–82 Chai Wan Kok Street, Tsuen Wan, New Territories, Hong Kong	Trident Engineering Company Limited which is an indirect wholly owned subsidiary of the Company	5,930	Industrial

The Disposal Property will be transferred by the Group to the Seller Group by way of a transfer of asset pursuant to the Sale and Purchase Agreement

As disclosed in the section headed "THE PROPOSED ACQUISITION AND THE PROPOSED DISPOSAL" above, the Proposed Disposal of the entire issued share capital in the Property Holdcos and the Disposal Property is used for settling part of the Consideration for the Proposed Acquisition.

The net book value (netted with related deferred tax) of the properties directly or indirectly held by the Property Holdcos and the Disposal Property as at 31 December 2020 amounted to approximately HK$294.7 million. The difference between the fair value and the net book value of the properties directly or indirectly held by the Property Holdcos and the Disposal Property is expected to be approximately HK$148.0 million. The carrying values of the Property Holdcos and Disposal Property amounted to approximately HK$294.7 million and the cash consideration of approximately HK$397.9 million, totalling approximately HK$692.6 million, will be recorded in the merger reserve of the Group as this is linked to the Proposed Acquisition, which is considered as a business combination under common control and will be 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.

Shareholders and potential investors should note that the exact amount to be recorded in the consolidated financial statements of the Group for the financial year ending 30 June 2021 remains subject to audit and may therefore differ from the estimated amount set out above.

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 as at the Latest Practicable Date, is a controlling 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 TRANSACTIONS

The Group consistently seeks opportunities to increase its scale and profitability with the aim to optimize return for its Shareholders. The Directors believe that the Proposed Transactions would increase the Group's overall competitiveness and add to its growth momentum by expanding its service line offerings to meet the ever-changing demands which is crucial amid increasing competitions.

As a long-term development strategy, the Group has decided to re-position its business into a large scale and unique lifestyle services company which has the capability to offer a comprehensive range of services (e.g. property management services, essential services, technical and management services, etc.) to our clients including corporates and households, and become their "go-to" services provider whereby the Group can directly service their needs or provide them guidance to immediate solutions. Hence, the Directors believe that the Proposed Transactions would be a good complementary add on to such initiative and strengthen its service line offerings. Below sets forth the reasons for and the benefits of the Proposed Transaction:

Increase the Group's scale and profit, providing higher return to shareholders

- The Group has achieved progressive growth in net profit through organic and acquisition growth which allowed it to distribute an increasing level of dividend for the Shareholders of the Company over the past few years. The Directors believe that the Proposed Acquisition will increase the Company's profit scale and expect to maintain the Company's dividend payout ratio of not less than 30%.

- Throughout the years of successful integration from the previous acquisitions, the Group has shown a proven track record in utilizing its capital to invest in attractive acquisitions to increase Shareholder's return. The Directors believe that the Proposed Acquisition represents a good investment for the Group by utilizing its existing cash on hand, and leveraging on the Proposed Disposal of the Property Holdcos and the Disposal Property, which will allow the Group to engage in businesses that could enhance recurring profit in long term and lead to an accretion to the Company's earnings per share. The benefits of using the Proposed Disposal of the Property Holdcos and the Disposal Property as part of the Consideration would also provide the Group more flexibility in managing its cashflow, maintain a good capital structure and better utilize less liquid assets in its balance sheet.

- The Target Group has a normalized net profit of approximately HK$83.7 million for the financial year ended 30 June 2020, which is approximately 27.0% of that of the Group during the same period.

Mitigate cyclical risks by diversifying revenue streams and expanding financial scale

- The Directors believe that the Proposed Transactions would enable the Group to further mitigate cyclical risks typically associated with the E&M engineering segment by diversifying its revenue streams. Moreover, the Target Group has a diversified service line offerings and client base, which could potentially improve the stability of operation of the Enlarged Group with more diversified revenue streams.

- The Target Group recorded a revenue of approximately HK$777.2 million and net profit of approximately HK$102.6 million for the financial year ended 30 June 2020. According to the Business Valuation, the normalized net profit was HK$83.7 million for the financial year ended 30 June 2020.

- The Target Group recorded 15.4% and 5.0% revenue growth from the financial years of 2018 to 2019 and 2019 to 2020, respectively. Moreover, the Target Group recorded 14.8% and 31.5% net profit growth from the financial years of 2018 to 2019 and 2019 to 2020, respectively.

  — the Security Guarding & Event Services arm of the Target Group has a proven track record of financial growth. During the period of the financial years of 2018 to 2020, the revenue increased from HK$537.0 million to HK$664.9 million, at a compounded annual growth rate of 11.3%; the net profit increased from HK$37.9 million to HK$71.5 million during the same period, at a compounded annual growth rate of 37.3%;

  — the Insurance Solutions arm of the Target Group has demonstrated high client retention ratio of over 90% during the financial years of 2018 to 2020 and strong ability to expand into new business segments, including cyber security insurance, directors and officers liability insurance, employee benefits and international broker business. During the period of the financial years of 2018 to 2020, the revenue increased from HK$77.0 million to HK$86.2 million, at a compounded annual growth rate of 5.8%; the net profit increased from HK$27.5 million to HK$28.9 million during the same period, at a compounded annual growth rate of 2.5%; and

  — the Landscaping Services arm of the Target Group is a stable business with revenue of HK$26.1 million and net profit of HK$2.3 million in the financial year of 2020.

- With the integration of the Target Group, the Directors believe that the Proposed Transaction would bring in businesses with sustainable income and proven growth, further enhancing the financial performance of the Enlarged Group.

Increase cross-selling synergies and customer loyalty by providing integrated lifestyle services

- By diversifying the range of services of the Group, the Directors believe that there will be more cross-selling synergies that would allow the Group to offer comprehensive "one-stop-shop" services that differentiate the Group from its competitors. The inclusion of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services will directly enhance the Group's ability to provide high quality complementary services and create more cross-selling opportunities. The Proposed Transactions also allow the Enlarged Group to have better insights of the customer needs and would have unique capabilities to offer a wide range of services that our competitors could not match. For example, the Security Guarding & Event Services arm of the Target Group has been serving certain clients of the Property Management Services under the Group, and approximately 15% of total turnover of the Security Guarding & Event Services of Target Group originated from the Property Management Services of the Group in the financial year ended 30 June 2020. Moreover, the Insurance Solutions business of the Target Group has been serving certain clients of the E&M engineering business of the Group.

- Upon Completion, the Enlarged Group will expand its client base with the addition of the clientele of the Target Group which will benefit the existing businesses of the Group. As the Enlarged Group will garner experience and expertise in all of the aforementioned business segments, the Enlarged Group will be able to offer ''one-stop-shop'' comprehensive solutions to clients, for example, our tender submissions may be considered more competitive and comprehensive than our competitors who are unable to provide such all rounded services.

- The Enlarged Group would have staff members exceeding 18,000. The Directors believe that the Enlarged Group could have more flexibility to allocate human resources across more business lines after the Proposed Acquisition. In addition, we could also offer more flexibility in job opportunities for our employees and allow us to better retain our talent if they would like to pursue their career in other operations of the Group.

Enhance the Group's leading position by adding more market-leading player in its portfolio

- The Target Group is recognised as leaders in its respective markets in Hong Kong, which would add value to the Group's diversified lifestyle services businesses by bringing various additional leading positions. According to Frost & Sullivan, the Target Group has achieved the following rankings:

  — No. 2 Type I security guarding services provider in Hong Kong in terms of revenue for the financial year ended 30 June 2020;

  — No. 1 (among local insurance brokers) and No. 5 (among local and international insurance brokers) general insurance brokers in Hong Kong in terms of gross insurance brokerage income for the financial year ended 30 June 2020; and

  — One of the more sizeable leaders in the fragmented landscaping services industry in Hong Kong.

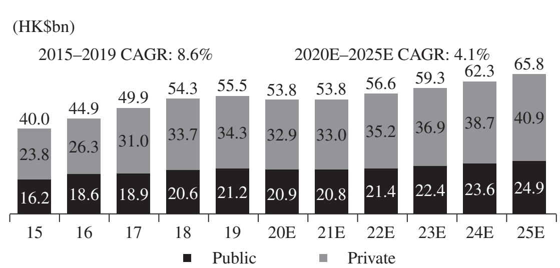
- The combination of the Group's existing business operations and the Target Group's business operations will allow the Enlarged Group to re-position itself as a leading diversified lifestyle services provider in Hong Kong with industry leading positions in different segments.

The Company has commissioned Frost & Sullivan, an independent market research consultant, to conduct market research concerning the (i) E&M engineering market, (ii) environmental hygiene services market, (iii) property management services market, (iv) insurance brokerage services market, (v) security guarding services market, and (vi) landscape services market as set forth as follows:

E&M engineering market

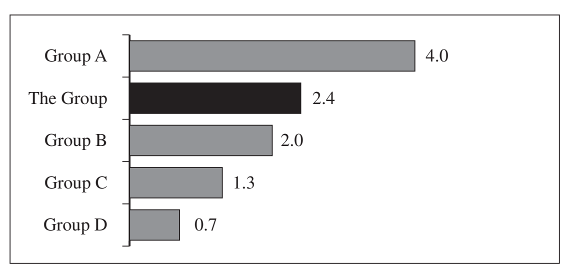
The Group's E&M engineering business is the top 2 player in the Hong Kong market in terms of revenue for the financial year ended 30 June 2020 with an estimated market share of approximately 4.5% during such period according to Frost & Sullivan. The Group has a long operating history and has been recognised as one of the reputable leaders in such industry. Frost & Sullivan also estimates that the market size will continue to grow at a CAGR of approximately 4.1% from 2020 to 2025, reaching HK$65.8 billion in 2025. The E&M engineering market in Hong Kong is relatively fragmented with the top five players contributing to about 19.3% market share in terms of revenue in the financial year ended 30 June 2020.

Market size of E&M engineering services market in Hong Kong



Top 5 E&M engineering services providers in Hong Kong by revenue

(HKD billion)

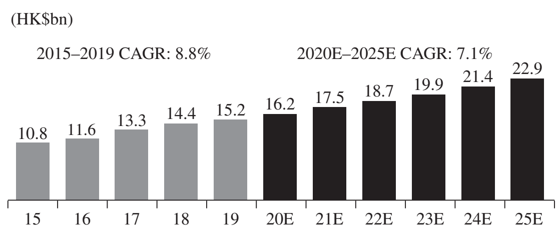


Source: Frost & Sullivan

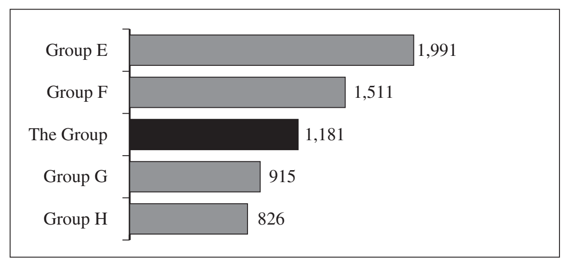
Environmental hygiene services market

The Group's cleaning services business is one of the top 3 players in the Hong Kong market in terms of revenue with an estimated market share of approximately 7.3% for the financial year ended 30 June 2020 according to Frost & Sullivan. Frost & Sullivan also estimates that the market size will continue to grow at a CAGR of approximately 7.1% from 2020 to 2025, reaching HK$22.9 billion in 2025. For the financial year ended 30 June 2020, the top five market players accounted for about 39.6% of the total market size which is relatively more consolidated.

Market size of environmental hygiene services market in Hong Kong



Top 5 environmental hygiene services providers in Hong Kong by revenue
(HKD million)



Source: Frost & Sullivan

Property management services market

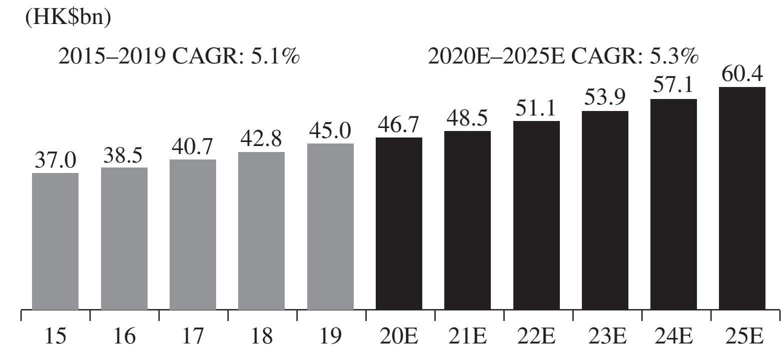
According to Frost & Sullivan, the market size of property management market in Hong Kong is estimated to grow at a CAGR of approximately 5.3% from 2020 to 2025, reaching HK$60.4 billion in 2025. The Property Management Services of the Group has achieved the following rankings in the Hong Kong property management services market:

- No. 1 among all independent players 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 5.8% for the financial year ended 30 June 2020;

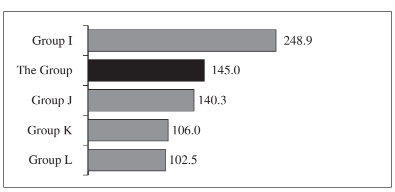
- No. 1 among all independent players and No. 2 among all players in the non-residential (excluding car park) property management services market in Hong Kong in terms of area under management with an estimated market share of approximately 7.6% for the financial year ended 30 June 2020; and

- No. 1 among all independent players and No. 3 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 6.4% for the financial year ended 30 June 2020.

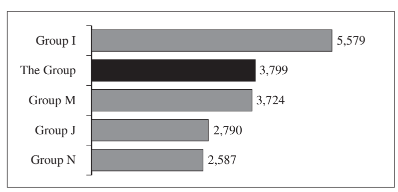
Market size of property management services market in Hong Kong



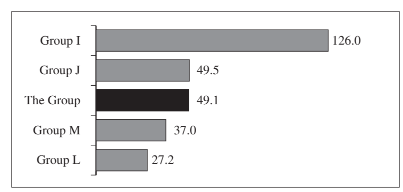
Top 5 residential property management services providers in Hong Kong by units
(thousand units)



Top 5 non-residential property management services providers in Hong Kong by area
(thousand sq.m.)



Top 5 car park property management services providers in Hong Kong by units
(thousand units)

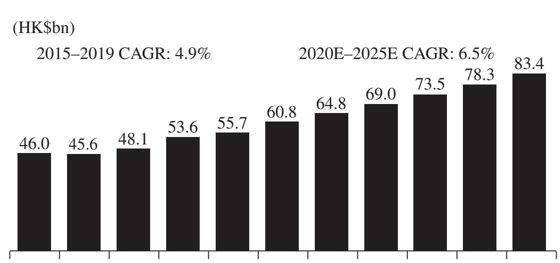


Source: Frost & Sullivan

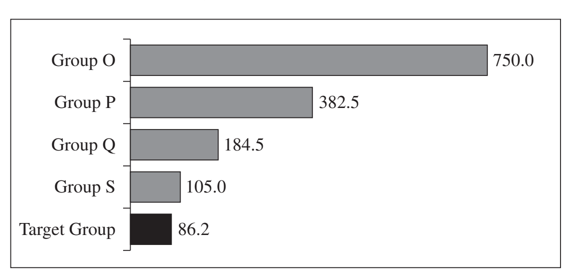
Insurance brokerage services market

The Target Group's Insurance Solutions business, is the No.1 local insurance broker and the top 5 among all local and international insurance brokers in Hong Kong in terms of gross insurance brokerage income in general business line for the financial year ended 30 June 2020 according to Frost & Sullivan. Frost & Sullivan also estimates that the overall gross premium of general business in Hong Kong will continue to grow at a CAGR of approximately 6.5% from 2020 to 2025, reaching HK$83.4 billion in 2025.

Gross premium of general insurance business in Hong Kong



Top 5 insurance brokers in general insurance business in Hong Kong by revenue
(HKD million)

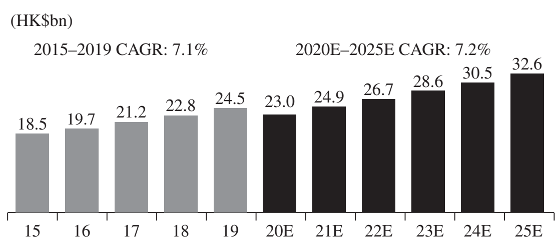


Source: Frost & Sullivan

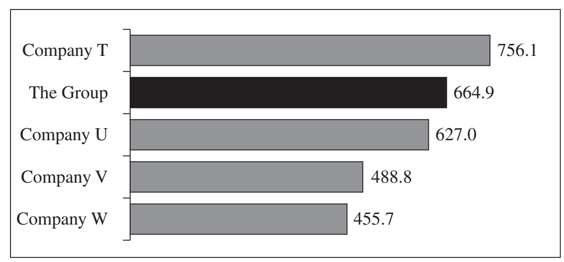
Security guarding services market

The Target Group's security guarding services business, is one of the top 2 players in the Hong Kong market in terms of revenue with an estimated market share of approximately 2.9% for the financial year ended 30 June 2020 according to Frost & Sullivan. For the financial year ended 30 June 2020, the top five market players accounted for about 13.0% of the total market size which is relatively fragmented. Frost & Sullivan also estimates that the market size will continue to grow at a CAGR of approximately 7.2% from 2020 to 2025, reaching HK$32.6 billion in 2025.

Market size of Type I security guarding services market in Hong Kong



Top 5 Type I security guarding services companies* in Hong Kong by revenue
(HKD million)



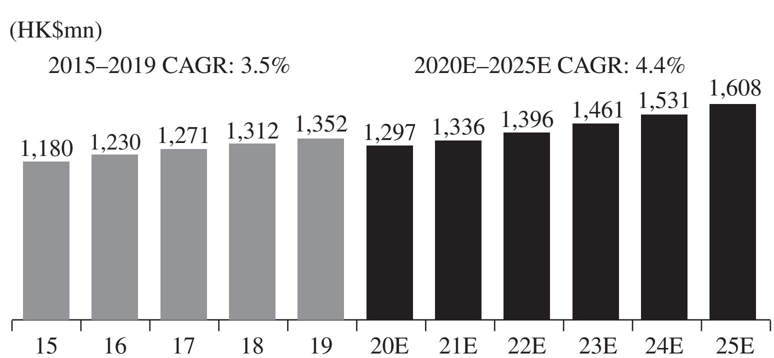
Source: Frost & Sullivan

* According to the Hong Kong Security and Guarding Services Industry Authority, there are three types of licensed security companies engaged in different types of security work, while Type I refers to provision of security guarding services. Type I security work could be further classified into three categories, namely (i) general manned guarding services, (ii) event and crisis security services, and (iii) manpower support services.

Landscape services market

The Target Group's Landscaping Services business is one of the more sizeable leaders in the fragmented industry in Hong Kong. According to Frost & Sullivan, the market size of landscape services is estimated to grow at a CAGR of approximately 4.4% from 2020 to 2025, reaching HK$1.6 billion in 2025. The landscape services market is highly fragmented with no dominant players in Hong Kong.

Market size of landscaping services market in Hong Kong



Unless otherwise specified, the market size and market data stated above refer to those for the financial year ended 30 June 2020.

Re-position the Group into a comprehensive lifestyle services company to reflect the Group's vision and long-term strategy

- The Group's vision is to become the premier organization for the delivery of all aspects of lifestyle services to create aspirational and sustainable developments for the city community. The Group intends to re-categorize its business segments into Property Management Services, City Essential Services and Technical and Management Services going forward to better reflect the Group's business development.

- The Proposed Transactions would enhance our service line offerings to differentiate us from our competitors to meet the industry's ever-changing lifestyle services demand. The Enlarged Group would also be able to offer our clients more comprehensive and integrated "one-stop-shop" high-quality services solutions through a collection of its market-leading branded subsidiaries. Moreover, the Enlarged Group will also become a comprehensive solution provider with in-house technical capabilities supporting our clients when such clients decide to outsource multiple services.

- The Group's vision is to enhance the following company values through the Proposed Transactions:

  — Comprehensive services — we take pride in our comprehensive services scope and our ability to offer clients multiple solutions that would go beyond their expectations. This would differentiate us from other services providers as we can proactively identify the needs of our clients.

  — Commitment to quality — we provide high-quality and exceptional services to our clients with an aim to create value for their businesses through our industry leading subsidiaries, allowing the clients a peace of mind.

  — Reliability — client's requirements are our priority. As such, we aim to keep our promises in terms of our services commitment, timing and objectives and communicate progress with our clients regularly in the different type of services we provide to reinforce our position as a one-stop-shop solution provider.

  — Investment in people — Our employees are important assets to our operation and business. Our wide range of services operations allow our talents to achieve their goals and to expand their expertise in different development areas.

- The Group's exposure in integrated services continue to increase over the years and has become an important growth driver of the Group with more significant profit contribution. The Proposed Acquisition would also further enhance the contribution of its integrated services business. In view of the Group's exposure in integrated services and its continued diversification in services related to servicing the city community, the Company proposed to change its name into FSE Lifestyle Services Limited (豐盛生活服務有限公司).

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 Transactions as set out in the paragraph headed "Approval by the Board") consider the Proposed Transactions on terms of the Sale and Purchase Agreement and the transactions contemplated thereunder 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 or matrix 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.

The customers of the Target Group evaluate tenders based on different financial and non-financial consideration, some customers 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 particular, the sectors of certain services provided by the Target Group remain to be highly unregulated with low barrier of entry, which leads to a large number of other market players competing with the Target Group in the service contracts tender awarding process and the Target Group may face pressure in terms of pricing and may not be able to compete with its competitor on financial consideration. 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 fees and 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 services by the Target Group on a pre-determined and fixed lump sum basis could subject to losses*

The Target Group generated a significant proportion of its business from pre-determined and fixed lump sum contracts. Under contracts which the Target Group charges on such basis, subject to a periodic fee adjustment mechanism, the Target Group generally rely on their costs assessment when they decide to submit tender for service contract. The Target Group has experienced and may continue to experience an increment in various costs, including but not limited to labour costs, material costs, rental costs (which contain under-market rent of certain premises or land used by the Target Group for operation) and other unforeseen 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 the services stipulated in such service contracts, 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 cost fluctuation 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 feedbacks and complaints from customers or adverse publicity about the Target Group could impact the Target Group's reputation, business and/or results of operations*

The reputation of the Target Group is of paramount importance of its business, which is highly sensitive to its customer's perception of the Target Group. Therefore, any damage to or adverse publicity about the reputation of the Target Group could impact its business and/or results of operations. The Target Group receive complaints from its customers from time to time in its operation. There is no assurance that all its customers' 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, including professional indemnity insurance in relation to the Target Group's Insurance Solutions business. 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 have taken out insurance policies, the insurance coverage may not be sufficient to cover any and all potential liabilities. 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) The businesses of the Target Group are exposed to various potential liabilities, including but not limited to claims relating to work-related accidents and injuries and public liabilities relating to bodily injuries and property damages

The frontline workers of certain businesses of the Target Group are required to perform certain tasks such as working at height or on slippery floor, working in environments containing dust, dirt, viruses or bacteria, carrying heavy objects and operation of motor vehicles and cleaning machineries or work during extreme weather conditions. As such, such frontline workers are exposed to the risk of physical injuries, diseases or death arising from the course of employment. The Target Group has implemented internal guidance, such as workplace safety procedures, to minimize such risks, however, the Target Group cannot guarantee that its frontline workers will fully comply with such work procedure and guidelines. If they fail to comply with such work safety procedure and guidelines, the quality of services may be affected and the Target Group may face a higher risk of personal injuries, property damage or fatal accidents. Moreover, in the case of a failure on the part of the frontline workers of the Target Group to comply with safety measures, codes, ordinances, laws or regulations while performing their duties in the course of their employment with the Target Group and/or if any third parties get injured due to the frontline workers' misconducts, the Target Group may be held vicariously liable for, or face legal proceedings in connection with, the conducts of such frontline workers. This may adversely affect the Target Group's ability to obtain new service contracts or renew existing service contracts and therefore negatively impact its reputation, business operation and financial performance.

The Target Group has taken out insurance policies in relation to such potential liabilities, however, the such insurance policies may not cover all the risks or payments associated with the business of the Target Group. Furthermore, such frontline workers who suffer bodily injury or death as a result of accidents or occupational diseases arising out of and in the course of their employment with the Target Group may be entitled to claim statutory and common law damages against the Target Group.

(6) The Target Group may not be able to renew the necessary licences in conducting its Insurance Solutions business and security guarding business

On 7 December 2015, the Insurance Authority was established under the Insurance Companies (Amendment) Ordinance 2015 and on 23 September 2019, it took over the regulation of insurance intermediaries from the three original self-regulatory organisations, being the Insurance Agents Registration Board established under The Hong Kong Federation of Insurers, The Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association.

As an interim measure, all insurance intermediaries governed by the Insurance Authority are considered to be deemed licensees, therefore Nova Insurance Consultants Limited and International Reinsurance Management Limited were automatically regard as licensed insurance intermediaries under such new regulatory regime for the transitional period running from 23 September 2019 to 22 September 2022. All such insurance intermediaries would need to submit application to the Insurance Authority by batches and as instructed by the IA from early 2021 to apply for a renewal of the relevant insurance intermediary license, upon such approval and renewal, the Insurance Authority will grant the brokers a licence for a period of 3 years.

As of the Latest Practicable Date, both Nova Insurance Consultants Limited and International Reinsurance Management Limited have not been requested to submit applications to the Insurance Authority. Despite being one of the largest insurance broker in the market as illustrated by the market research conducted by Frost & Sullivan, there is no assurance that the Target Group would be able to renew the necessary licences. If the necessary licenses of Nova Insurance Consultants Limited and International Reinsurance Management Limited are not renewed by the Insurance Authority or if there is any delay in the application or approval for such licences, the Target Group may need to suspend or terminate its existing Insurance Solutions services.

According to the Security and Guarding Services Ordinance (Cap. 460), any bodies/companies operate security business by supplying an individual to do any type of security work for another person should possess relevant security licenses specified by the Ordinance. General Security (H.K.) Limited and/or General Security Limited of the Target Group possess all requisite licenses including Type I, II & III but they are subject to a mandatory requirement to renew the requisite licenses annually.

Despite being one of the largest security companies in the market as illustrated by the market research conducted by Frost & Sullivan, there is no assurance that the Target Group would be able to renew the necessary licenses. If the necessary licenses of General Security (H.K.) Limited and/or General Security Limited are not renewed by the Commissioner of Police or if there is any delay in the application or approval for such licenses, the Target Group may need to suspend or terminate its existing Security Work services.

(7) The Target Group's business operation and financial performance have been and may continue to be affected by the outbreaks of the COVID-19 pandemic

Since early 2020, a growing number of countries and regions around the world, including Hong Kong, have encountered outbreaks of COVID-19, a highly contagious disease known to cause respiratory illness. On March 11, 2020, the World Health Organization made the assessment that COVID-19 can be characterized as a pandemic. COVID-19 has subsequently spread to over 100 countries and territories globally and the death toll and number of infected cases are continuing to rise. The outbreaks, as well as the various social distancing and travel restrictions implemented, have had an adverse impact on the economy of Hong Kong, particularly to the events/exhibitions and the hotels and hospitality industries. Such industries constitute a substantial number of the customers of the Target Group and the COVID-19 pandemic has adversely affected the Target Group's business with such customers. The worsened economic conditions caused by the outbreaks also increased the market competition and the pressure in profit margin and pricing of the Target Group's businesses as its competitors are more willing to lower their fees to attract more businesses and the Target Group may not be able to compete accordingly.

The outbreaks could also cause disruption to our suppliers, subcontractors and customers. The operations of such suppliers, subcontractors and customers could be disrupted by the labour absenteeism driven by the work-from-home recommendations issued by the Hong Kong Government, quarantines, or other travel or health-related restrictions as a result of the COVID-19 pandemic. If any of these suppliers, subcontractors and customers are so affected, they may experience difficulties in maintaining their financial strength and performing their obligations under their agreements with us, such as provision of services or payment obligations, the failure of which may adversely affect the business operation and financial performance of the Target Group.

The development of the COVID-19 pandemic is beyond the Target Group's control and the Target Group expects that if such pandemic continues for a prolonged period of time, the business operations and financial performance of the Target Group may be materially and adversely affected.

(8) The Insurance Solutions business of the Target Group may be affected by any potential downward trend in insurance premium as well as disintermediation in the insurance industry

The Target Group's Insurance Solutions business serves as an intermediary between the insurers and the end customers and a substantial part of its revenue arises from the commission received from the insurers based on a certain percentage of the premium paid by the end customers to the insurers. Therefore, any downward fluctuation in the year-over-year insurance premium due to a phenomenon referred to in the industry as "a soft market" where the insurance premiums are reduced, may in turn result in a reduction in commission received by, and adversely affect the financial performance of, the Target Group. Additionally, with the backdrop of a competitive and price sensitive insurance market, the insurers may further lower their premium in such soft market. Furthermore, more and more insurers are trying various ways to reduce their reliance on intermediaries such as insurance brokers and directly reach out to end customers. Such disintermediation trend may reduce the role of the insurance brokers in the future and result in a more competitive insurance brokerage market particularly in some of the more straightforward products such as travel insurance and motor insurance. It might also affect the breadth of Insurance Solutions that the Target Group provides. Such trends relating to the insurance premium in a soft market and disintermediation are beyond the Target Group's control and may adversely impact its business operation and financial performance.

(9) Economic, social and political environment

The state of the economy, social and political environment and the level of business activity in Hong Kong may affect the operation of some contracts or negatively impact the demand for the services provided by the Target Group. Any such economic slowdown or downturn, social instability or decrease in the level of business activity could have a material adverse impact on the business operation and financial performance of the Target Group.

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 Transactions. In particular:

(1) Mr. Doo William Junior Guilherme, an executive Director of the Company, has served as a director of General Security (H.K.) Limited, Hong Kong Island Landscape Company Limited, International Reinsurance Management Limited and Nova Insurance Consultants 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 General Security (H.K.) Limited, Hong Kong Island Landscape Company Limited, International Reinsurance Management Limited and Nova Insurance Consultants 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 General Security (H.K.) Limited, International Reinsurance Management Limited and Nova Insurance Consultants Limited, the major operating companies of the Target Group, since July 2010 and August 2012 respectively, and is responsible for overall finance operation, financial reporting management and overseeing business development and operational management of each company.

THE 2021 MASTER FACILITY AND RELATED SERVICES AGREEMENTS

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

(1) the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to and receipt of the rental and related services from the Doo's Associates Group;

(2) the provision of the Security Guarding & Event Services, the Insurance and Related Services and the Landscaping Services to and receipt of IT Support Services and Rental Services from the NWD Group; and

(3) the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to members of each of the NWS Group, the CTFE Group and the CTFJ Group and receipt of the rental and related services from the NWS Group, the CTFE Group and the CTFJ Group and receipt of convention and exhibition facilities and related functions and services and food and beverage catering services from the NWS Group.

It is expected that the above continuing transactions will continue after the completion of the Proposed Transactions. 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 Group on one side, and each of the Doo's Associate Group, the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group on the other will respectively become continuing connected transactions of the Company under the Listing Rules.

It is proposed that, upon Completion, written agreement(s) will be entered into by the Company and the relevant counterparties for the above continuing connected transactions in accordance with the requirements under the Listing Rules, details of which are set out below:

2021 FSE Master Facility and Related Services Agreement

The major terms of the 2021 FSE Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) the Seller; and
		(2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive).

Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 FSE Master Facility and Related Services Agreement shall be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.

Services to be provided by the Enlarged Group to Doo's Associates Group	:	Security Guarding & Event Services, Insurance Solutions and Landscaping Services and such other types of services as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing.
Services to be provided by Doo's Associates Group to the Enlarged Group	:	Rental and related services, and such other types of services as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing. The Group has been using certain properties to be disposed under the Proposed Disposal for office premises, staff accommodation and industrial purposes. Upon completion of the Proposed Disposal, the Group will cease to hold any right, title and interest in the Property Holdcos and the Disposal Property. In order for the Enlarged Group to continue to use such properties, it is proposed that, upon Completion, the Seller will provide the rental related services to the Group and lease certain properties to the Enlarged Group. The premises to be leased by the Doo's Associates Group to the Enlarged Group include:

(1) Unit A on 8/F, Chai Wan Industrial Centre, No. 20 Lee Chung Street, Hong Kong;

(2) Portion B on 6/F, Hop Shi Factory Building, Nos. 29–31 Lee Chung Street & Nos. 22–24 Cheung Lee Street, Hong Kong;

(3) Unit D on 2/F including Flat Roof, Golden Bear Industrial Centre, Nos. 66–82 Chai Wan Kok Street, Tsuen Wan, New Territories, Hong Kong;

(4) 17/F., Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong;

(5) Em Macao, Rua Nova da Areia Preta No 456, Edf. Tong Wa Block XII, Rés-Do-Chão A;

(6) Em Macao, Rua do Almirante Costa Cabral No S 17–17-A, Holland Garden (Phase 4), Rés-Do-Chão A (Com Sobreloja);

(7) Em Macao, Rua do Ouvidor Arriaga No 39, Holland Garden (Phase 4), 1o Andar A;

and such other premises as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing.

Definitive Agreements	:	Members of the Enlarged Group and members of the Doo's Associates Group will, from time to time during the term of the 2021 FSE Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 FSE Master Facility and Related Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to or from independent third parties.

2021 NWD Master Facility and Related Services Agreement

The major terms of the 2021 NWD Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) NWD; and (2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 NWD Master Facility and Related Services Agreement may be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.

Services to be provided by the Enlarged Group to the NWD Group	:	Security Guarding & Event Services, the Insurance and Related Services and the Landscaping Services and such other types of services as members of the Enlarged Group and members of the NWD Group may agree upon from time to time in writing.
Services to be provided by the NWD Group to the Enlarged Group	:	IT Support Services, Rental Services and such other types of services as members of the Enlarged Group and members of the NWD Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the NWD Group will, from time to time during the term of the 2021 NWD Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 NWD Master Facility and Related Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to or from independent third parties.

2021 NWS Master Facility and Related Services Agreement

The major terms of the 2021 NWS Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) NWS; and (2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 NWS Master Facility and Related Services Agreement may be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.

Services to be provided by the Enlarged Group to the NWS Group	:	Security Guarding & Event Services, supply of security products, the Insurance Advisory Services and the Landscaping Services and such other types of services as members of the Enlarged Group and members of the NWS Group may agree upon from time to time in writing.
Services to be provided by the NWS Group to the Enlarged Group	:	Rental of properties, spare spaces, car parking spaces, vehicles and vessels and related services, provision of convention and exhibition facilities and related functions and services, food and beverage catering services and such other types of services as members of the Enlarged Group and members of the NWS Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the NWS Group will, from time to time during the term of the 2021 NWS Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 NWS Master Facility and Related Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to or from independent third parties.

2021 CTFE Master Facility and Related Services Agreement

The major terms of the 2021 CTFE Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) CTFE; and (2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 CTFE Master Facility and Related Services Agreement may be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.

Services to be provided by the Enlarged Group to the CTFE Group	:	Security Guarding & Event Services, Insurance Solutions and Landscaping Services and such other types of services as members of the Enlarged Group and members of the CTFE Group may agree upon from time to time in writing.
Services to be provided by the CTFE Group to the Enlarged Group	:	Leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services and such other types of services as members of the Enlarged Group and members of the CTFE Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the CTFE Group will, from time to time during the term of the 2021 CTFE Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 CTFE Master Facility and Related Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to or from independent third parties.

2021 CTFJ Master Facility and Related Services Agreement

The major terms of the 2021 CTFJ Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) CTFJ; and (2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 CTFJ Master Facility and Related Services Agreement may be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.

Services to be provided by the Enlarged Group to the CTFJ Group	:	Security Guarding & Event Services, Insurance Solutions and Landscaping Services and such other types of services as members of the Enlarged Group and members of the CTFJ Group may agree upon from time to time in writing.
Services to be provided by the CTFJ Group to the Enlarged Group	:	Leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces, and related services and such other types of services as members of the Enlarged Group and members of the CTFJ Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the CTFJ Group will, from time to time during the term of the 2021 CTFJ Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 CTFJ Master Facility and Related Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group and the CTFJ Group than terms available to or from independent third parties.

QUALIFICATIONS OF ENGAGEMENT

The engagement to be made pursuant to each of the 2021 Master Facility and Related Services Agreements is subject to the following qualifications:

(1) the engagement only applies to services required for businesses, projects and/or premises for which the relevant member(s) of the Enlarged Group or the counterparties to the 2021 Master Facility and Related Services Agreements (as the case may be) has (have) the right to select providers of the relevant Services;

(2) the engagement is not contrary to the terms of contracts governing the relevant businesses, projects or premises or any applicable laws, regulations or administrative directives promulgated by competent authorities to which the businesses, projects and/or premises of the relevant members of the Enlarged Group or the counterparties to the 2021 Master Facility and Related Services Agreements (as the case may be) may relate; and

(3) in the event that the provider of a particular Service is required to be selected through auction or tender or other similar process, the engagement shall only become effective as and when the relevant member(s) of the Enlarged Group or the counterparties to the 2021 Master Facility and Related Services Agreements (as the case may be) has (have) been selected by the relevant member(s) of the Enlarged

Group or counterparties to the 2021 Master Facility and Related Services Agreements (as the case may be) as the service provider as a result of the relevant auction or tender or other similar process.

Apart from the above, the engagement to be made pursuant to each of the 2021 CTFE Master Facility and Related Services Agreement and the 2021 CTFJ Master Facility and Related Services Agreement is also subject to the following qualifications apart from the above:

(1) CTFE and CTFJ and each member of the CTFE Group and the CTFJ Group shall have the sole and absolute right and discretion to decide whether to engage any member of the Enlarged Group to provide the services stipulated under the 2021 CTFE Master Facility and Related Services Agreement and the 2021 CTFJ Master Facility and Related Services Agreement respectively, and neither CTFE or CTFJ nor any member of the CTFE Group or the CTFJ Group shall be under any obligation or commitment to engage or procure the engagement of any member of the Enlarged Group to provide such services; and

(2) the Company shall have no claim or right whatsoever against CTFE or CTFJ and/or any member of the CTFE Group or the CTFJ Group in the event that any member(s) of the CTFE Group or the CTFJ Group does/do not engage any member(s) of the Enlarged Group to provide the services stipulated under the 2021 CTFE Master Facility and Related Services Agreement and the 2021 CTFJ Master Facility and Related Services Agreement respectively.

PRICING POLICIES

General principle

As a general principle, the prices and terms of the Definitive Agreements with respect to the Services Transactions to be entered into pursuant to each of the 2021 Master Facility and Related Services Agreements shall be determined in the ordinary and usual course of business of the Enlarged Group and counterparties to the 2021 Master Facility and Related Services Agreements, on normal commercial terms and negotiated on arm's length basis.

In addition, such prices and terms shall be:

(1) no less favourable to the Enlarged Group than those charged to independent third party customers of the Enlarged Group (in respect of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services);

(2) no less favourable to the Enlarged Group than those paid to any other independent third party landlords of similar properties in similar locations (in respect of the rental and related services as well as the leasing/licensing services) or independent service providers of similar services (in respect of the IT Support Services and the convention and exhibition facilities and related functions and services and food and beverage catering services); and

(3) no less favourable to the counterparties to the 2021 Master Facility and Related Services Agreements than those charged by and paid to their respective independent third party suppliers (in respect of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services) or those charged and provided to their respective independent third party customers or tenants/licensees (in respect of the rental and related services as well as the leasing and licensing services).

Should the 2021 Master Facility and Related Services Agreements be renewed, the Company will comply with the requirements under Chapter 14A of the Listing Rules applicable at that time.

Pricing policy and procedures

Subject to the general principle above, the pricing policy and procedures adopted and applied by the Enlarged Group in setting the contract prices and terms of the Services Transactions with counterparties to the 2021 Master Facility and Related Services Agreements (as the case may be) are as follows:

(1) as regards the rental and related services to be provided by members of the Doo's Associates Group to members of the Enlarged Group and the leasing/licensing services to be provided by members of the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group to members of the Enlarged Group, the rental or leasing/licensing fees payable by the Enlarged Group will be determined by reference to the market rental of the property concerned current at or close to the lease or license commencement date by reference to rentals comparable of similar properties in similar locations and where applicable, with comparable facilities, obtained from independent property agencies or parties;

(2) as regards the IT Support Services to be provided by members of the NWD Group to members of the Enlarged Group, the fees payable by the Enlarged Group will be determined by reference to the fee quotation* provided to the Enlarged Group by other independent suppliers, taking into account factors including the nature and type of services to be rendered;

(3) as regards the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to be provided by members of the Enlarged Group to members of counterparties to the 2021 Master Facility and Related Services Agreements, the fees payable by the counterparties to the Group will be determined by reference to comparable of fee quotations* provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered; and

(4) as regards the convention and exhibition facilities and related functions and services and food and beverage catering services and related services to be provided by members of the NWS Group to members of the Enlarged Group the fees payable by

**Note:* To determine the fees payable by the Enlarged Group, the Enlarged Group expects to obtain two quotations from other independent suppliers/customers.

the Group will be determined by reference to the market prices provided to the Group by other independent service providers, taking into account factors including the nature and type of services to be rendered.

The above policy and procedures ensures that the Enlarged Group will conduct a comparison of the terms of the Service Transactions (including the pricing terms) with the market terms before entering into such transactions and that the terms of Service Transactions will be comparable to market norm (or on terms more favourable than those available from independent third parties). In addition, the Company has established internal control measures for reporting and monitoring on continuing connected transactions, including the regular checks by the legal and company secretarial managers and the general managers of the Target Group to ensure the adherence to these policy and procedures, the annual assessment of the transactions conducted by internal audit department of the Group, etc., details of which are set out in the section headed ''Internal Control Measures'' below.

Therefore, the Directors are of the view that the above pricing methods and procedures can ensure that the Service Transactions will be conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

Payment Terms

The parties to each of the 2021 Master Facility and Related Services Agreements have not agreed on an overall payment mechanism (such as the manner and time of payment).

Based on the practice of previous transactions between the group members of the relevant parties to the 2021 Master Facility and Related Services Agreements, the payment terms for each type of Services are summarised as below, and the Company anticipates that the future transactions to be carried out pursuant to the 2021 Master Facility and Related Services Agreements will not significantly deviate from such past practice:

(1) as regards the Security Guarding & Event Services, the relevant members of the Target Group usually issue invoice by the end of each month and require payment to be made in arrears by the relevant members of the counterparties to the 2021 Master Facility and Related Services Agreements. Depending on the terms of each contract, the Target Group allows no credit term for the services;

(2) as regards the Insurance Solutions, debit notes are issued upon confirmation of the insurance placement and are due on presentation to the clients;

(3) as regards the Landscaping Services, the relevant members of the Target Group usually issue invoice by the end of each month and require payment to be made in arrears by the relevant members of the counterparties to the CCT Agreement. In general, no credit period would grant for the customers; as regards the rental and related services, payment was usually made on a monthly basis in advance by the relevant members of the Target Group to the relevant members of the Doo's Associates Group at the beginning of each month;

(4) as regards the IT Support Services, payment was usually made by the relevant members of the Target Group to the relevant members of the NWD Group upon receipt of invoice which was usually issued annually; and

(5) as regards the leasing/licensing services, payment was usually made on a monthly basis in advance by the relevant members of the Target Group to the relevant members of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group at the beginning of each month.

Security Guarding & Event Services

As the Security Guarding & Event Services are usually provided as a sub-contractor service ancillary to other services such as property management services, the Target Group normally secures its contracts by working with main contractors or tenderers to submit tender through a competitive tendering process.

Where the Target Group participates in a tender alongside a main contractor or a tenderer, the Target Group would conduct a detailed analysis which begins with a throughout study of the tender requirements. Factors that the Target Group takes into account include the number of staff required for the project, the qualifications of the staff required for the project (both academic qualification and experience), the location of the project, the nature of work and the type of premises (such as whether it is a residential estate, a commercial complex or a public facility). The Target Group would then analyse such factors and tailor the specific solution applicable for the tender. Once such solutions are prepared, the Target Group would be able to assess the costs related to such project.

In assessing the costs of the project, the labour cost plays a significant factor given the Security Guarding & Event Services business is labour intensive. The Target Group would consider the prevailing statutory minimum wage level and the wages offered by itself or its competitors for similar type of projects. For certain projects in certain geographical area or projects that require higher service standard, additional allowance and wage adjustments would be taken into account in assessing the cost base of the tender. The Target Group would also consider other costs such as equipment and other overheads.

The Target Group would also consider the proposed profit margin for the projects before the tender submission, which would include factors such as the geographical area of the project, the contract duration, the nature of work, the complexity of the project, the expectation of the service level and the historical profit margin for similar type of projects. The Target Group would also consider the recent tender submissions by its competitors in order to remain competitive in the market.

The tender requirements are examined with inputs from operations and marketing staff of the Target Group, the latter will also prepare a costing with all costs elements and profit margins as illustrated above. The proposal, including the costing, will then be approved and signed by a general manager/assistant general manager of the relevant business group.

For non-tendering contracts where the Target Group's customers invite it to provide fee quotations, the Target Group will assess the work required and the costs in a similar manner in a tendering process before confirming the service fees and the terms of the contracts.

The client's requirements are examined with inputs from operations and marketing staff of the Target Group, the latter will also prepare a costing with all costs elements and profit margins. The costing will then be approved and signed by a general manager/assistant general manager of the relevant business group.

The Target Group adopts the same pricing policy and procedures in the determination of the service charge across all of its customers (whether to its connected persons or to independent third party customers) for its Security Guarding & Event Services business in order to ensure that the service charge as may be submitted by the Target Group to such connected persons of the Target Group will be fair and reasonable and no less favourable to the Target Group than those offered to the independent third party customers.

Insurance Solutions

In most circumstances, the Target Group serves as an intermediary between the insurers and the end customers and its revenue arises from the commission received from the insurers. The Target Group is remunerated for our services by the receipt of the brokerage paid by the insurer. It is generally a certain percentage of the premium paid by the end consumer. The brokerage rate received by the Target Group is in line with the normal level of commission paid in the insurance market. On this basis, the Target Group does not charge its customers in providing its Insurance Solutions. The commission received by the Target Group from the insurers depend on various factors, including, among others, the amount of premium, the type of the insurance policy and the insurance market practice.

After understanding the customers' needs, the Target Group would prepare the quotation slips with proposed insurable terms and conditions and invite insurers to submit quotations. The Target Group would present the quotations received to the customers with its recommendations. The customers would then make their own choices accordingly. The internal documents (including but not limited clients' proposal, quotation slips, confirmation slips and debit notes) are prepared by the relevant account manager or executive, the document will then be reviewed by his or her supervisors as per the Target Group's policy. Reviewing record is documented in the form of a checklist in order to minimize any errors and/or omission incurred. Depending on the premium level and total insured values, approval from senior staff is needed as per the signing authority matrix of the Target Group.

Generally speaking, the amount of insurance premium is determined by the insurer, normally as a certain percentage of the sum insured or a flat premium after consideration of the risk exposure by the underwriters.

Notwithstanding the above, certain customers of the Target Group instructs the Target Group to provide Insurance Solutions or consultancy services and the Target Group would charge such customers for such services based on the scope of services, the complexity of the instructions, the time and manpower required for the Target Group to provide such services.

The Target Group adopts the same pricing policy and procedures in the determination of the service charge across all of its customers (whether to its connected persons or to independent third party customers) for its Insurance Solutions business in order to ensure that the service charge as may be submitted by the Target Group to such connected persons of the Target Group will be fair and reasonable and no less favourable to the Target Group than those offered to the independent third party customers.

Landscaping Services

In assessing the service fees for its Landscaping Services, factors that the Target Group would consider include the relevant costs, the market reference and its strategic development in the relevant contracts.

For its cost analysis, the Target Group would consider the labour costs, administrative costs, the required materials and the costs of the plantations. If specific plants are required by the customer that are harder to source or are more perishable, it would increase the costs in sourcing, acquiring and maintaining such plantations. Further, the Target Group would also consider more case specific factors, including the location of services (such as whether such location is easily reachable) and the potential risk exposure associated with extreme weather conditions as some locations in Hong Kong are more susceptible to natural hazards such as typhoons.

For market reference, given the landscaping industry has low entry barrier and is very competitive, the Target Group will need to stay on top of the competition and consider if its quotation is attractive comparing to other market players while maintaining an acceptable profit margin. The Target Group would consider its historical fee quotations and profit margin for similar type of projects as well as the recent fees charged by its competitors in coming into a competitive quotation.

Strategic consideration is also important for the Target Group in assessing its services fees in the Landscaping Services business, it will consider the contract size, the length of the contract and any potential business growth (such as whether there will be future opportunities in other sites from the customers) from a strategic perspective. For our strategic customers that entered into service contracts with us for a longer period and/or for a number of locations, we may offer more attractive terms in securing and strengthening such business relationships.

Procedural wise, the deputy general manager would calculate the expected costs as the base line for the tender proposal, depending on the tender requirement and the background of customers, the changes offered for existing client with similar nature will be compared. In most cases, the charges offered to two existing clients will be compared if available. Other factors include but not limited to nature and complexity of the relevant project, the expected competitiveness of the tender based on the previous experience and the historical profit margin of similar type of existing contract. Finally, proposal for tender is concluded by the deputy general manager after consolidation of all information mentioned above and the proposal will then be reviewed by the senior management and approved by the general manager of such business.

The Target Group adopts the same pricing policy and procedures in the determination of the service charge across all of its customers (whether to its connected persons or to independent third party customers) for its Landscaping Services business in order to ensure that the service charge as may be submitted by the Target Group to such connected persons of the Target Group will be fair and reasonable and no less favourable to the Target Group than those offered to the independent third party customers.

Rental and related services

Rental is usually determined based on arm's length negotiations between the lessor and the lessee, taking into account factors including the market rental of the property concerned current at or close to the lease commencement date by reference to rentals comparables of similar properties in similar locations and where applicable, with comparable facilities, obtained from independent property agencies or parties.

IT Support Services

The service charges for the IT Support Services would usually be determined based on arm's length negotiations between the service provider and the service recipient, taking into account factors including the number of users, types of functions and the replacement costs of the relevant IT systems or software. It is expected that where comparables are available for the type of service concerned, they would also be taken into account when the service charges are determined.

Leasing and licensing services

Leasing and licensing fees are usually determined based on arm's length negotiations between the lessor/licensor and the lessee/licensee, taking into account factors including the market rental of the space/area (such as spare spaces or car parking spaces) concerned current at or close to the lease/license commencement date by reference to rentals comparables of similar spaces/areas in similar locations and where applicable, with comparable facilities, obtained from independent property agencies or parties.

HISTORICAL AGGREGATE TRANSACTION AMOUNTS

Historical transaction amounts in respect of the Services Transactions for the two years ended 30 June 2019 and 30 June 2020 and the six months ended 31 December 2020 respectively are set out below:

	Transaction amounts		
	For the financial year ended 30 June		Six months ended 31 December
Categories	**2019**	**2020**	**2020**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Services between the Target Group and the Doo's Associates Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the Doo's Associates Group	2,341	4,769	2,702
Rental and related services provided by the Doo's Associates Group to the Target Group	3,844	3,855	2,144
Services between the Target Group and the NWD Group			
Security Guarding & Event Services, the Insurance and Related Services and the Landscaping Services provided by the Target Group to the NWD Group	178,793	188,148	100,168
IT Support Services provided by the NWD Group to the Target Group	31	31	15
Services between the Target Group and the NWS Group			
Security Guarding & Event Services, supply of security products, the Insurance Advisory Services and Landscaping Services provided by the Target Group to the NWS Group	88,155	60,695	15,493

Categories	Transaction amounts For the financial year ended 30 June 2019 *(HK$'000)*	 2020 *(HK$'000)*	 Six months ended 31 December 2020 *(HK$'000)*
Services between the Target Group and the CTFE Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the CTFE Group	3,042	2,912	1,349
Services between the Target Group and the CTFJ Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the CTFJ Group	3,452	2,937	1,587

ANNUAL CAPS

The proposed Annual Caps in respect of the Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreements for the period commencing from the Completion Date and ending on 30 June 2023 is as follows:

Categories	Proposed Annual Caps For the period from the Completion Date to 30 June 2021* *(HK$'000)*	For the financial year ending 30 June 2022 *(HK$'000)*	 2023 *(HK$'000)*
Services between the Enlarged Group and the Doo's Associates Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to the Doo's Associates Group	2,928	9,203	10,016
Rental and related services provided by the Doo's Associates Group to the Enlarged Group			
● Rental and related services with lease term not exceeding 12 months	4,106	11,257	899
● Rental and related services with lease term exceeding 12 months	—	56,530	—

Categories	Proposed Annual Caps For the period from the Completion Date to 30 June 2021* *(HK$'000)*	For the financial year ending 30 June 2022 *(HK$'000)*	 2023 *(HK$'000)*
Services between the Enlarged Group and the NWD Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to the NWD Group	60,346	321,512	550,231
IT Support Services and Rental Services provided by the NWD Group to the Target Group of the Enlarged Group	2,144	9,297	9,775
Services between the Enlarged Group and the NWS Group			
Security Guarding & Event Services, supply of security products, the Insurance Advisory Services and Landscaping Services provided by the Enlarged Group to NWS Group	16,864	109,600	123,328
Rental of properties, spare spaces, carparking spaces, vehicles and vessels and related services, provision of convention and exhibition facilities and related functions and services, and food and beverage catering services provided by the NWS Group to the Enlarged Group	395	2,160	2,308
Services between the Enlarged Group and the CTFE Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to CTFE Group	2,811	10,116	11,495
Leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services to be provided by the CTFE Group to the Enlarged Group	187	862	910

Categories	Proposed Annual Caps For the period from the Completion Date to 30 June 2021* *(HK$'000)*	For the financial year ending 30 June 2022 *(HK$'000)*	 2023 *(HK$'000)*
Services between the Enlarged Group and the CTFJ Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to CTFJ Group	2,559	10,565	12,242
Leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services to be provided by the CTFJ Group to the Enlarged Group	20	80	80

**Note:* The proposed Annual Caps for the period commencing from the Completion Date and ending on 30 June 2021 is estimated on the estimation that Completion will take place on or after 9 April 2021.

Bases of determination of the Annual Caps

The proposed Annual Caps in respect of the Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreements are determined with reference to:

(1) in relation to the rental and related services to be provided by the Doo's Associates Group to the Enlarged Group and the leasing/licensing services to be provided by members of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group to members of the Enlarged Group:

a. as to the leasing/licensing services to be provided by members of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group and rental and related services to be provided by the Doo's Associates Group with lease term not exceeding 12 months, the expected rentals or licensing fees as may be paid by the Enlarged Group under each of the 2021 Master Facility and Related Services Agreements taking into account the current rentals/licensing fees and expected market rentals/licensing fees of similar properties in similar locations;

b. as to the rental and related services to be provided by the Doo's Associates Group with lease term exceeding 12 months, the expected right-of-use assets to be recognized by the Enlarged Group for the renewal of tenancy agreements under the 2021 FSE Master Facility and Related Services Agreement;

c. the Enlarged Group's demand in floor spaces for office premises, warehouse, car parking spaces, spare spaces, car parking spaces and other business uses of the Enlarged Group to cope with the Enlarged Group's business growth; and

d. the business environment and the historical and expected inflation.

(2) in relation to the IT Support Services to be provided by the NWD Group to the Enlarged Group:

a. the historical annual or annualised amounts in respect of the IT Support Services provided by the NWD Group to the Target Group during the two years ended 30 June 2020 and the six months ended 31 December 2020; and

b. the projected annual or annualised amounts in respect of the IT Support Services to be provided by the NWD Group to the Enlarged Group during the period from the Completion Date and ending on 30 June 2021 and the years ending 30 June 2022 and 2023, having taken into account the following major factors:

i. the business growth and need of the Enlarged Group; and

ii. the estimated market prices of such services by reference to the current market prices after factoring into the expected increase in service costs as well as inflation.

(3) in relation to the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to be provided by the Enlarged Group to the counterparties to the 2021 Master Facility and Related services Agreements:

a. the historical annual or annualised amounts in respect of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the respective counterparties of the 2021 Master Facility and Related Services Agreements during the two years ended 30 June 2020 and the six months ended 31 December 2020;

b. the existing contracts in progress; and

c. the projected annual or annualised amount in respect of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to be provided by the Enlarged Group to the respective counterparties of the 2021 Master Facility and Related Services Agreements during the period from the Completion Date and ending on 30 June 2021 and the years ending 30 June 2022 and 2023, having taken into account the following major factors:

i. the estimated future demand for the relevant Security Guarding & Event Services, Insurance Solutions and Landscaping Services by members of the relevant counterparties of the 2021 Master Facility and Related Services Agreements;

ii. and the estimated market prices of such services by reference to the current market prices after factoring into the expected increase in service costs as well as inflation.

The estimated increase in the Annual Caps as compared with their historical transaction amounts is mainly due to the estimated future demand for the Security Guarding & Event Services, Insurance Solutions and Landscaping Services from the counterparties' group members under the 2021 Master Facility and Related Services Agreements, with which the Target Group has a long-term business relationship. As members of the Enlarged Group are amongst the handful few of reputable contractors or service providers for the Security Guarding & Event Services, Insurance Solutions and Landscaping Services industries which have extensive experience of over 20 years in their respective industries, it is expected that the Enlarged Group has high chance in succeeding in obtaining the tender for the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services.

The forecasted increase in the Annual Caps is primarily due to a number of new and potential security guarding and event services contracts, which are expected to commence during FY2022 and FY2023, which mainly cover potential contracts of security guarding services at two residential estates in Yuen Long and Tuen Mun, a business and entertainment complex in Chek Lap Kok and a multi-purpose sports venue in Kai Tak.

In addition, when estimating the Annual Caps, the Company has also applied an increment on the service charges for estimated renewal of the existing Security Guarding & Event Services, Insurance Solutions and Landscaping Services contracts under each of the 2021 Master Facility and Related Services Agreements, based on historical percentage of increase as well as historical and future general inflation.

More specifically, the increment in each Annual Cap is determined based on the following considerations:

2021 FSE Master Facility and Related Services Agreement

Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to the Doo's Associates Group

Regarding the Annual Cap for FY2021, the proposed Annual Cap of HK$2.9 million is estimated for a period of approximately three months from 9 April 2021 to 30 June 2021. The amount is based on the existing projects on hand and the historical transaction amounts for the six months ended 31 December 2020 of HK$2.7 million.

Regarding the Annual Caps for FY2022 and FY2023, the increase in Annual Caps is mainly due to potential sales of plants to members of the Doo's Associate Group with a transaction amount of approximately HK$1 million per financial year for FY2022 and FY2023.

Rental and related services provided by the Doo's Associates Group to the Enlarged Group

The Annual Caps for the rental and related services provided by the Doo's Associates Group to the Enlarged Group compose of (i) the rental expenses for FY2021, FY2022 and FY2023 in relation to the rental and related services with lease term not exceeding 12 months; and (ii) the total value of the addition of the right-of-use asset for FY2022 in relation to the rental and related services with lease term exceeding 12 months. Regarding the Annual Caps for FY2021 (a period of approximately three months from 9 April 2021 to 30 June 2021) and FY2022, there would be new tenancy agreements in respect of the Disposal Property and the properties held by the Property Holdcos (except for one of the industrial premises in Chai Wan, Hong Kong) to be entered into in April 2021 at the market rent under a short-term lease of one year, for which the associated rental payments of HK$3.1 million and HK$10.4 million will be recognised as operating lease rental expenses when it is incurred in FY2021 and FY2022, respectively. Such new tenancy agreements of the Disposal Property and such properties held by the Property Holdcos are assumed to be renewed in April 2022 under a three-year lease term, which will result in the addition of right-of-use assets for the three-year lease of HK$45.7 million to be recognised by the Enlarged Group in FY2022. At the same time, two existing tenancy agreements between the Target Group and the Doo's Associates Group for the premises of two Target Entities will expire in June 2021 and are assumed to be renewed in July 2021, which will result in the addition of right-of-use assets for such renewal in sum of HK$10.8 million to be recognised by the Enlarged Group in FY2022.

2021 NWD Master Facility and Related Services Agreement

Security Guarding & Event Services, the Insurance and Related Services and Landscaping Services provided by the Enlarged Group to the NWD Group

Regarding the Annual Cap for FY2021, the proposed Annual Cap of HK$60.3 million is estimated for a period of approximately three months from 9 April 2021 to 30 June 2021. The amount is based on the existing projects on hand and the historical transaction amounts for the six months ended 31 December 2020 of HK$100.2 million.

Regarding the Annual Caps for FY2022 and FY2023, the increase in Annual Caps is mainly due to (i) the increment of approximately HK$9.6 million and HK$10.4 million for FY2022 and FY2023 respectively for secured contracts of security guarding services at three residential estates in Clear water Bay, Yuen Long and North Point, a residential estate and a shopping centre at Tsuen Wan, a commercial building at Central, a commercial building and shopping mall in Tsim Sha Tsui, a shopping centre in Tsim Sha Tsui and a youth activities complex in Chai Wan; and (ii) the increment of approximately HK$32.7 million and approximately HK$102.2 million for FY2022 and FY2023 respectively for potential contracts of security guarding services at two residential estates in Yuen Long and Tuen Mun, a business and entertainment complex in Chek Lap Kok and a multi-purpose sports venue in Kai Tak.

IT Support Services and Rental Services provided by NWD Group to the Target Group of the Enlarged Group

The Annual Caps for the Rental Services provided by the NWD Group to the Enlarged Group represent the rental expenses for FY2021, FY2022 and FY2023 in relation to such Rental Services with lease term not exceeding 12 months. Regarding the Annual Caps for FY2021 (for a period of approximately three months from 9 April 2021 to 30 June 2021), FY2022 and FY2023, the increase in Annual Caps is mainly due to potential rental of carparks, training places and store rooms at a residential estates and a shopping centre at Tsuen Wan, two commercial buildings in Central and North Point, a commercial building and a shopping mall in Tsim Sha Tsui for operation use, and the increment amounts to approximately HK$0.9 million, HK$3.0 million and HK$0.2 million for FY2021, FY2022 and FY2023 respectively.

2021 NWS Master Facility and Related Services Agreement

Security Guarding & Event Services, supply of security products, the Insurance Advisory Services and Landscaping Services provided by the Enlarged Group to the NWS Group

Regarding the Annual Cap for FY2021, the proposed Annual Cap of HK$16.9 million is estimated for a period of approximately three months from 9 April 2021 to 30 June 2021. The amount is based on the existing projects on hand and the historical transaction amounts for the six months ended 31 December 2020 of HK$15.5 million.

Regarding the Annual Caps for FY2022 and FY2023, the increase in Annual Caps is mainly due to (i) the increment of approximately HK$2.4 million and HK$1.0 million for FY2022 and FY2023 respectively for secured contracts of security guarding services at the convention and exhibition centre in Wanchai; and (ii) the increment of approximately HK$36.2 million and HK$4.0 million for FY2022 and FY2023 respectively for secured contracts of ad hoc event services under the existing service contracts at the convention and exhibition centre in Wanchai.

Rental of properties, spare spaces, carparking spaces, vehicles and vessels and related services, provision of convention and exhibition facilities and related functions and services, and food and beverage catering services provided by the NWS Group to the Enlarged Group

The Annual Caps for such rental services provided by the NWS Group to the Enlarged Group represent the rental expenses for FY2021, FY2022 and FY2023 in relation to such rental services with lease term not exceeding 12 months. Regarding the Annual Caps for FY2021 (estimated for a period of approximately three months from 9 April 2021 to 30 June 2021), FY2022 and FY2023, the increase in Annual Caps is mainly due to potential rental of the carpark, training places and store rooms at the convention and exhibition centre in Wanchai for operation use and the increment amounts to approximately HK$0.16 million, HK$0.54 million and HK$0.03 million for FY2021, FY2022 and FY2023 respectively.

2021 CTFE Master Facility and Related Services Agreement

Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to the CTFE Group

Regarding the Annual Cap for FY2021, the proposed Annual Cap of HK$2.8 million is estimated for a period of approximately three months from 9 April 2021 to 30 June 2021. The amount is based on the existing projects on hand and the historical transaction amounts for the six months ended 31 December 2020 of HK$1.3 million.

Regarding the Annual Caps for FY2022 and FY2023, the increase in Annual Caps is mainly due to (i) the increment of approximately HK$1.2 million and HK$0.3 million for FY2022 and FY2023 respectively for secured contracts of security guarding services at a commercial and shopping centre in Mong Kok and eight private school at Western District, Causeway Bay, South Horizons, two in Kornhill, North Point, Homantin and Tak Kok Tsui; (ii) the increment of approximately HK$0.3 million and HK$0.2 million for FY2022 and FY2023 respectively for potential contracts of ad hoc event services at a commercial and shopping centre in Mong Kok.

Leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services to be provided by CTFE Group to the Enlarged Group

The Annual Caps for such leasing or licensing services provided by the CTFE Group to the Enlarged Group represent the rental expenses for FY2021, FY2022 and FY2023 in relation to such leasing or licensing services with a term of not exceeding 12 months. Regarding the Annual Caps for FY2021 (estimated for a period of approximately three months from 9 April 2021 to 30 June 2021), FY2022 and FY2023, the increase in Annual Caps is mainly due to potential rental of carparks, training places and store rooms at a commercial and shopping centre in Mong Kok for operation use and the increment amounts to approximately HK$0.16 million, HK$0.54 million and HK$0.03 million for FY2021, FY2022 and FY2023 respectively.

2021 CTFJ Master Facility and Related Services Agreement

Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to the CTFJ Group

Regarding the Annual Cap for FY2021, the proposed Annual Cap of HK$2.6 million is estimated for a period of approximately three months from 9 April 2021 to 30 June 2021. The amount is based on the existing projects on hand and the historical transaction amounts for the six months ended 31 December 2020 of HK$1.6 million.

Regarding the Annual Caps for FY2022 and FY2023, the increase in Annual Caps is mainly due to (i) the increment of approximately HK$0.9 million and HK$0.3 million for FY2022 and FY2023 respectively for secured contracts of security guarding services and alarm security services at a commercial building in Kwai Chung and a retail jewelry group and its branches in Hong Kong; (ii) the increment of approximately HK$1.9 million and HK$0.7 million for FY2022 and FY2023 respectively for potential contracts of alarm security services and ad hoc event services at a commercial building in Kwai Chung and a retail jewelry group and its branches in Hong Kong.

Leasing and licensing of properties, including, without limitation, spare spaces, car parking spaces and related services provided by CTFJ Group to the Enlarged Group

The Annual Caps for such leasing and licensing services provided by the CTFJ Group to the Enlarged Group represent the rental expenses for FY2021, FY2022 and FY2023 in relation to such leasing and licensing services with a term of not exceeding 12 months. Regarding the Annual Caps for FY2021 (estimated for a period of approximately three months from 9 April 2021 to 30 June 2021) and FY2022, the increase in Annual Caps is mainly due to potential rental of carparks and store rooms at a commercial building in Kwai Chung and a retail jewelry group and its branches in Hong Kong and the increments amounts to approximately HK$0.2 million and HK$0.6 million for FY2021 and FY2022 respectively.

Shareholders and potential investors should note that the Annual Caps should not be construed as an assurance or forecast by the Company of the future revenues of the Enlarged Group.

REASONS FOR AND THE BENEFITS OF ENTERING INTO THE 2021 MASTER FACILITY AND RELATED SERVICES AGREEMENTS

The Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreements are of a recurrent nature and, subject to the Completion of the Proposed Transactions having taken place, will occur on a regular and continuing basis in the ordinary and usual course of business of the Enlarged Group and the respective counterparties to each of the 2021 Master Facility and Related Services Agreements.

In line with the market practice and the Company's past practice, the Company considered it necessary for Listing Rules compliance purposes and administrative convenience to enter into a framework agreement with each of the holding companies of the relevant contract counterparties in order to better document and manage these continuing connected transactions. The 2021 Master Facility and Related Services Agreements serve to streamline the Services Transactions arise due to the Proposed Transactions between members of the Enlarged Group and members of the Doo's Associates Group, the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group respectively by providing a single basis upon which the Company could comply with the applicable reporting, announcement and (where applicable) independent shareholders' approval requirements under Chapter 14A of the Listing Rules and thereby reducing the administrative burden and costs of the Company in complying with these requirements.

Members of the Doo's Associates Group, the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group are with profound experience and reputation in their respective areas of businesses or services and solid financial standing and have demonstrated themselves as reliable services providers or customers of the Target Group over the years. The Directors believe that the maintenance of the strategic business relationships with them will not only allow the realisation of synergies and economies of scale but will also continue to bring sustainable contribution to the Enlarged Group's growth in the long run.

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 Directors who are considered to have a material interest in the Proposed Transactions as set out in the paragraph headed "Approval by the Board") are of the views that the terms of each of the 2021 Master Facility and Related Services Agreements as well as the proposed Annual Caps thereunder are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

The Group

The Company is an investment holding company and the holding company of the Group. The principal businesses of the Group are the provision of the Property and Management Services, City Essential Services and Technical and Management Services.

Doo's Associates Group

To the best knowledge of the Directors, the principal businesses of the Doo's Associates Group are property investment, the provision of property leasing, landscaping, project management, insurance consultancy and brokerage, and security and guarding services.

NWD Group

NWD is 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). As at the Latest Practicable Date and based on publicly available information, CTFE and its subsidiaries were interested in approximately 44.55% of the total issued share capital of NWD.

To the best knowledge of the Directors, the NWD Group is principally engaged in property development, property investment and investment in and/or operation of roads, commercial aircraft leasing, construction, insurance, hotels and other strategic businesses.

NWS Group

NWS is 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). As at the Latest Practicable Date and based on publicly available information, NWD and its subsidiaries were interested in approximately 60.86% of the total issued share capital of NWS and CTFE was interested in approximately 2.48% of the total issued share capital of NWS.

To the best knowledge of the Directors, the principal businesses of the NWS Group include: (i) the development of, investment in and/or operation of roads, commercial aircraft leasing and construction; and (ii) the investment in and/or operation of environmental, logistics and facilities management projects.

CTFE Group

CTFE is a company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date and based on publicly available information, CTFE is a wholly-owned subsidiary of Chow Tai Fook (Holding) Limited. Chow Tai Fook (Holding) Limited is a 81.03% owned subsidiary of Chow Tai Fook Capital Limited. Chow Tai Fook Capital Limited is owned as to 48.98% and 46.65% by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited, respectively.

To the best knowledge of the Directors, CTFE is principally engaged in investment holding.

CTFJ Group

CTFJ is 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). As at the Latest Practicable Date and based on publicly available information, Chow Tai Fook (Capital) Limited was interested in approximately 72.39% of the total issued share capital of CTFJ.

To the best knowledge of the Directors, the principal businesses of CTFJ and its subsidiaries include manufacturing and selling of high-end luxury, mass luxury and youth line jewellery products (including gem-set/platinum/karat gold jewellery and gold jewellery and products), and distributing watches of various brands.

INTERNAL CONTROL MEASURES

The Group has established internal control measures for reporting and monitoring on continuing connected transactions which will be complied by the Enlarged Group upon Completion to ensure the compliance with Chapter 14A of the Listing Rules.

According to the Group's prevailing internal accounting policy and procedure manual, the designated officer of operation department and supporting department, will immediately report to the legal and company secretarial manager and senior finance manager with details of the possible notifiable or connected transactions to be entered by the Group for review and checking in order to determine the appropriate type of disclosure in compliance with Chapter 14A of the Listing Rules. For a transaction that falls within the scope of continuing connected transactions in the ordinary and usual course of business of the Group, the legal and company secretarial manager will check with the actual monthly continuing connected transaction and ensure the transaction amounts of the potential connected transactions should not exceed the annual caps of the continued connected transaction.

Meanwhile, the internal audit department of the Group will carry out annual assessment of the continuing connected transactions conducted by the Group for each financial year and report to the board of Directors. One of the assessment objectives was to ensure that the continuing connected transactions were carried out at arm's length and the terms are comparable to those projects of independent third parties.

Furthermore, pursuant to Chapter 14A of the Listing Rules:

(1) the independent non-executive Directors of the Company shall, on an annual basis, review the transactions contemplated under the 2021 Master Facility and Related Services Agreements and confirm, among other matters, such transactions have been entered into according to the agreement governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole; and

(2) the external auditors of the Group shall, on an annual basis, report on the transactions contemplated under the 2021 Master Facility and Related Services Agreements and confirm, among other matters, whether anything has come to their attention that causes them to believe such transactions were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions.

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 thus constitutes a connected transaction for the Company.

As some of the applicable Percentage Ratios for the Proposed Acquisition exceed 5%, the Proposed Acquisition is subject to the reporting, announcement 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 Proposed Disposal

As FSE Holdings is a controlling shareholder of the Company and the Seller, being a wholly-owned subsidiary of FSE Holdings, is an associate of FSE Holdings, the Proposed Disposal also constitutes a connected transaction for the Company.

As some of the applicable Percentage Ratios for the Proposed Disposal exceed 5%, the Proposed Disposal is subject to the reporting, announcement 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 Disposal are 25% or more but all of those ratios are below 100%, the Proposed Disposal 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 2021 Master Facility and Related Services Agreements

Upon Completion of the Proposed Acquisition, each Target Entity (other than the Joint Venture Target Entity) will become an indirect wholly-owned subsidiary 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, each of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group is therefore treated as a connected person of the Company.

Mr. Doo is a connected person of the Company as an ultimate controlling shareholder. 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 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 Group on one side, and each of the Doo's Associate Group, the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group on the other will respectively become continuing connected transactions of the Company under the Listing Rules.

As the highest of the applicable Percentage Ratios in respect of the proposed Annual Caps of each of the 2021 NWD Master Facility and Related Services Agreement and the 2021 NWS Master Facility and Related Services Agreement exceeds 5%, the transactions under these agreements and the proposed Annual Caps for the same are subject to the reporting, annual review and announcement requirements and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the highest of the applicable Percentage Ratios in respect of the proposed Annual Caps of each of the 2021 FSE Master Facility and Related Services Agreement, 2021 CTFE Master Facility and Related Services Agreement and the 2021 CTFJ Master Facility and Related Services Agreement exceeds 0.1% but is below 5%, the transactions under these agreements and the proposed Annual Caps for the same are subject to the reporting, annual review and announcement requirements and exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Notwithstanding the above, the Company with a view to adhering to enhanced corporate governance practices will seek Independent Shareholders' approval for each of the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the proposed Annual Caps for the same, at the EGM.

Voting at EGM

At the EGM, any Shareholders with a material interest in the Proposed Transactions and the 2021 Master Facility and Related Services Agreements 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 holds 75% of the Ordinary Shares in issue 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 Transactions and the 2021 Master Facility and Related Services Agreements who are required to abstain from voting on the resolutions to be proposed for approving the same at the EGM as aforesaid.

Approval by the Board

Each of the Directors whose names are set out opposite to the Proposed Transactions and each of the 2021 Master Facility and Related 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 Transactions or the relevant 2021 Master Facility and Related Services Agreements and the transactions thereunder.

Proposed Transactions or Services Transactions contemplated under:	Director who is regarded as having a material interest or potential conflict of interest in the Proposed Transactions or the relevant 2021 Master Facility and Related Services Agreements	Basis upon which the Director is regarded as having a material interest or potential conflict of interest
Proposed Transactions	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. 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
2021 FSE Master Facility and Related Services Agreements	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

Proposed Transactions or Services Transactions contemplated under:	Director who is regarded as having a material interest or potential conflict of interest in the Proposed Transactions or the relevant 2021 Master Facility and Related Services Agreements	Basis upon which the Director is regarded as having a material interest or potential conflict of interest
	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
2021 NWD Master Facility and Related Services Agreements	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
2021 NWS Master Facility and Related Services Agreements	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 an alternate director to Mr. Doo William Junior Guilherme of NWS
	Mr. Kwong Che Keung, Gordon	• He is an independent non-executive director of NWS
2021 CTFE Master Facility and Related Services Agreements	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

Proposed Transactions or Services Transactions contemplated under:	Director who is regarded as having a material interest or potential conflict of interest in the Proposed Transactions or the relevant 2021 Master Facility and Related Services Agreements	Basis upon which the Director is regarded as having a material interest or potential conflict of interest
2021 CTFJ Master Facility and Related Services Agreements	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 Transactions, the relevant 2021 Master Facility and Related Services Agreements had abstained from voting on the resolutions approving the Proposed Transactions, the relevant 2021 Master Facility and Related Services Agreements and the transactions and proposed Annual Caps contemplated thereunder 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. In addition to the above and for the practice of good corporate governance, Mr. Doo William Junior Guilherme, as the son of Mr. Doo, 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.

PROPOSED CHANGE OF COMPANY NAME AND STOCK SHORT NAME

Proposed Change of Company Name

The Group's exposure in integrated services continue to increase over the years and has become an important growth driver of the Group with more significant profit contribution. In view of the Group's exposure in integrated services and its continued diversification in services related to servicing the city community, the Company proposed to change its name into FSE Lifestyle Services Limited (豐盛生活服務有限公司).

Conditions to the Proposed Change of Company Name

The Proposed Change of Company name is conditional upon:

(1) the passing of a special resolution by the Shareholders at the EGM to approve the Proposed Change of Company name; and

(2) the Registrar of Companies in the Cayman Islands granting approval for the Proposed Change of Company Name and entering the new names on the register of companies.

Subject to the satisfaction of the conditions set out above, the Proposed Change of Company Name will take effect on the date on which the Registrar of Companies in the Cayman Islands issues a Certificate of Incorporation on Change of Name confirming that the new names have been entered on the register of companies. The Company will then carry out the necessary filing procedures with the Registrar of Companies in Hong Kong.

Reasons for the Proposed Change of Company Name

The Group's exposure in integrated services continue to increase over the years and has become an important growth driver of the Group with more significant profit contribution. In view of the Group's exposure in integrated services and its continued diversification in services related to servicing the city community, the Company proposed to change its name into FSE Lifestyle Services Limited (豐盛生活服務有限公司).

The Board believes that the proposed new English and Chinese names will provide the Company with better identification of the business of the Group. As such, the Board is of the view that the Proposed Change of Company Name is in the interests of the Company and the Shareholders as a whole.

Effect of the Change of Company Name

The Proposed Change of Company Name will not affect any of the rights of the Shareholders. All existing share certificates in issue bearing the Company's existing name shall, after the Proposed Change of Company Name having become effective, continue to be evidence of the title of the shares of the Company and will continue to be valid for trading, settlement, registration and delivery purposes. There will not be any arrangements for free exchange of existing share certificates for new share certificates bearing the new names of the Company. Once the Proposed Change of Company Name has become effective, new share certificates will be issued only in the new names of the Company.

Change of stock short name

In addition, subject to the confirmation of the Stock Exchange, the stock short name for trading in the shares of the Company will also be changed after the Proposed Change of Company Name becoming effective.

PROPOSAL FOR RE-ELECTION OF THE RETIRING DIRECTOR

Pursuant to article 109 of the articles of association of the Company, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Dr. Cheng Chun Fai, who was appointed as a Director on 1 January 2021, shall retire from office and, being eligible, shall offer himself for re-election at the EGM and his details are set out below:

Dr. Cheng Chun Fai ("**Dr. C.F. Cheng**"), aged 63, was appointed as an executive Director on 1 January 2021. He is also a member of the sustainability committee of the Board and the director of operations and corporate development of the Company. Dr. C.F. Cheng was a director of a laundry group, which became a member of the Group in April 2018, since February 2011. Dr. C.F. Cheng ceased to be a director of the laundry group when the Group subsequently disposed of the group in December 2020. Dr. C.F. Cheng is also a director of operations and corporate development in FSE Holdings, a controlling shareholder of the Company. He obtained a Master of Business Administration from the University of South Australia in 2008, a Master of Laws in Chinese Business Law from the Open University of Hong Kong in 2010 and a Doctor of Philosophy in Business Administration from the Bulacan State University in 2012. He has over 20 years' experience in operational management in different industries. He is also a chairman of The Council of Hong Kong Professional Associations and a member of the executive committee and vice chairperson of the committee on social enterprise and employment of The Hong Kong Society for Rehabilitation.

Dr. C.F. Cheng has entered into a service contract with the Company with a term of three years commenced from 1 January 2021 and renewable automatically for successive terms of one year upon expiry of the then current term of his appointment, unless terminated in accordance with the terms of his service contract. He is also subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association. Pursuant to the service contract, Dr. C.F. Cheng receives a salary of HK$269,100 per month and such other emoluments and/or discretionary bonus as may be determined by, and at the discretion of, the Board from time to time. Dr. C.F. Cheng's emolument was determined and will be reviewed by the Board annually with reference to his qualifications, experience, duties and responsibilities with the Company, as well as the Company's performance and the prevailing market conditions.

Save as disclosed above, as at the Latest Practicable Date, Dr. C.F. Cheng:

(a) did not hold any other position with the Company or other members of the Group;

(b) did not hold any directorships in other listed public companies in Hong Kong or overseas in the three years immediately preceding the Latest Practicable Date;

(c) does not have any relationships with any directors, senior management or substantial or controlling shareholders (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) of the Company;

(d) did not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); and

(e) had not been involved in any of the matters mentioned under paragraphs (h) to (v) of Rules 13.51(2) of the Listing Rules.

RECOMMENDATION

Your attention is drawn to (i) the advice of the Independent Board Committee set out in its letter on pages 74 to 76 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 77 to 163 of this Circular in respect of the Proposed Transactions, the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the proposed Annual Caps for the same.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Proposed Transactions (including the Consideration) on terms of the Sale and Purchase Agreement and the terms of each of the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the proposed Annual Caps for the same 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 Proposed Transactions, each of the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the proposed Annual Caps for the same.

The Directors also consider that the Proposed Change of Company Name and the proposed re-election of the retiring Director as set out in this Circular are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Change of Company Name and the proposed re-election of the retiring Director.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlement of the Shareholders to attend and vote at the EGM (or at any adjournment thereof), the Company's branch register of members will be closed from **Thursday, 1 April 2021** to **Friday, 9 April 2021** (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 **Wednesday, 31 March 2021**.

EGM

The EGM will be held at 17th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 9 April 2021 at 4:30 p.m., 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-7 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 Transactions 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 Transactions 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 Transactions is subject to the fulfilment (or, as the case may be, waiver) of the conditions precedent under the Sale and Purchase Agreement, respectively. As the Proposed Transactions may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the 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)

19 March 2021

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET GROUP ENGAGED IN THE PROVISION OF SECURITY GUARDING & EVENT SERVICES, INSURANCE SOLUTIONS AND LANDSCAPING SERVICES;
(2) MAJOR AND CONNECTED TRANSACTION: DISPOSAL OF PROPERTIES;
(3) CONTINUING CONNECTED TRANSACTIONS: 2021 MASTER FACILITY AND RELATED SERVICES AGREEMENTS;
(4) PROPOSED CHANGE OF COMPANY NAME AND STOCK SHORT NAME;
(5) RE-ELECTION OF THE RETIRING DIRECTOR; AND
(6) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular dated 19 March 2021 (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 Transactions, the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated under those agreements and the Annual Caps for the same, and to advise the Independent Shareholders as to whether, in our opinion, the Proposed Transactions (including the Consideration), the terms of each of the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated under those agreements and the Annual Caps for the same are on normal commercial terms and in the ordinary and usual course of business of the Enlarged 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 Proposed Transactions, the 2021 Master Facility and Services Agreements, the Services Transactions contemplated under these agreements and the Annual

Caps for the same and whether the Proposed Transactions are on normal commercial terms and in the ordinary and usual course of business of the Enlarged 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 11 to 73 of the Circular as well as the letter from the Independent Financial Adviser as set out on pages 77 to 163 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 Transactions, the 2021 FSE Master Facility and Related Services Agreement, the 2021 NWD Master Facility and Related Services Agreement, the 2021 CTFE Master Facility and Related Services Agreement and the Services Transactions contemplated under those agreements consider that:

(1) the Proposed Transactions (including the Consideration) is not in the ordinary and usual course of business of the Group;

(2) the 2021 FSE Master Facility and Related Services Agreement, the 2021 NWD Master Facility and Related Services Agreement, the 2021 CTFE Master Facility and Related Services Agreement, and the Services Transactions contemplated under those agreements are in the ordinary and usual course of business of the Enlarged Group;

(3) having taken into account the advice of the Independent Financial Adviser, the Proposed Transactions (including the Consideration), the 2021 FSE Master Facility and Related Services Agreement, the 2021 NWD Master Facility and Related Services Agreement, the 2021 CTFE Master Facility and Related Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same 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

(4) 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 Transactions, the 2021 FSE Master Facility and Related Services Agreement, the 2021 NWD Master Facility and Related Services Agreement, the 2021 CTFE Master Facility and Related Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same.

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 2021 NWS Master Facility and Related Services Agreement and the 2021 CTFJ Master Facility and Related Services Agreement, and the Services Transactions contemplated under those agreements consider that:

(1) the 2021 NWS Master Facility and Related Services Agreement and the 2021 CTFJ Master Facility and Related Services Agreement, and the Services Transactions contemplated under those agreements are in the ordinary and usual course of business of the Enlarged Group;

(2) having taken into account the advice of the Independent Financial Adviser, the 2021 NWS Master Facility and Related Services Agreement and the 2021 CTFJ Master Facility and Related Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same 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 2021 NWS Master Facility and Related Services Agreement and the 2021 CTFJ Master Facility and Related Services Agreement, the Services Transactions contemplated under those agreements and the Annual Caps for the same.

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

19 March 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF THE TARGET GROUP ENGAGED IN THE PROVISION OF SECURITY GUARDING & EVENT SERVICES, INSURANCE SOLUTIONS AND LANDSCAPING SERVICES; (2) MAJOR AND CONNECTED TRANSACTION: DISPOSAL OF PROPERTIES; AND (3) CONTINUING CONNECTED TRANSACTIONS: 2021 MASTER FACILITY AND RELATED SERVICES AGREEMENTS

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 Transactions, 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 19 March 2021, 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 26 February 2021 (after trading hours of the Stock Exchange), the Company, the Buyer Co and the Seller entered into the Sale and Purchase Agreement pursuant to which the Company has conditionally agreed to nominate the Buyer Co to acquire from the Seller the Sale Share at a total consideration of HK$840,600,000 (subject to adjustments, if any), comprising (i) a non-cash consideration of HK$442,650,000 settled through the Proposed Disposal of the Disposal Property and the entire issued share capital in the Property Holdcos to the Seller Group; and (ii) a cash consideration of HK$397,950,000 payable in cash by the Company.

The Target Group is principally engaged in the provision of Security Guarding & Event Services, Insurance Solutions and Landscaping Services.

Completion of the Proposed Acquisition and the Proposed Disposal shall take place simultaneously on the Completion Date, and the Completion is subject to the fulfilment of the Conditions. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company, and the Group will cease to hold any right, title and interest in the Property Holdcos and the Disposal Property and each of the Property Holdcos will cease to be a wholly-owned subsidiary of the Company.

The Buyer Co is a wholly-owned subsidiary of the Company. FSE Holdings, which holds 75% of the Ordinary Shares in issue in the Company as at the Latest Practicable Date, is a controlling 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 of the Company. As some of the applicable Percentage Ratios for the Proposed Acquisition exceed 5%, the Proposed Acquisition is subject to the reporting, announcement 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.

In addition, the Proposed Disposal constitutes a connected transaction for the Company. As some of the applicable Percentage Ratios for the Proposed Disposal exceed 5%, the Proposed Disposal is subject to the reporting, announcement 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 Disposal are 25% or more but all of those ratios are below 100%, the Proposed Disposal 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.

Members of the Target Group, in their ordinary course of business, regularly entered into continuing transactions with the Doo's Associates Group, the NWD Group, the NWS Group, CTFE Group and the CTFJ Group in relation to facility and related services including Security Guarding & Event Services, Insurance Solutions and Landscaping Services. It is expected that such continuing transactions will continue after the completion of the Proposed Transactions. 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 Group on one side, and each of the Doo's Associate Group, the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group on the other will respectively become continuing connected transactions of the Company under the Listing Rules.

As the highest of the applicable Percentage Ratios in respect of the proposed Annual Caps of each of the 2021 NWD Master Facility and Related Services Agreement and the 2021 NWS Master Facility and Related Services Agreement exceeds 5%, the transactions under these agreements and the proposed Annual Caps for the same are subject to the reporting, annual review and announcement requirements and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the highest of the applicable Percentage Ratios in respect of the proposed Annual Caps of each of the 2021 FSE Master Facility and Related Services Agreement, 2021 CTFE Master Facility and Related Services Agreement and the 2021 CTFJ Master Facility and Related Services Agreement exceeds 0.1% but is below 5%, the transactions under these agreements and the proposed Annual Caps for the same are subject to the reporting, annual review and announcement requirements and exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Notwithstanding the above, the Company with a view to adhering to enhanced corporate governance practices will seek Independent Shareholders' approval for each of the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the proposed Annual Caps for the same, at the EGM.

The Independent Board Committee has been established to consider the terms of the Proposed Transactions, the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same, and to advise and provide recommendation to the Independent Shareholders as to whether the same are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INDEPENDENCE DECLARATION

We are not associated or connected with the Company, the Buyer Co, the Seller, the Target Group or their respective core connected persons or associates. In the two years immediately preceding the Latest Practicable Date, save for the appointment as the independent financial adviser by the Company in relation to (i) 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); (ii) 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; (iii) the Company's acquisition of the target entities engaged in the provision of property management services and the issue of convertible securities as disclosed in the Company's circular dated 15 November 2019; and (iv) the Group's sale of the subsidiaries engaged in the provision of cleaning and laundry services (which did not constitute a connected transaction or discloseable transaction) as disclosed in the announcement of the Company dated 31 December 2020; and (v) this appointment, we did not have any other relationship with or interests in the Company, the Buyer Co, the Seller, the Target Group or their respective core connected persons or associates. Apart from normal professional fees paid or payable to us in connection with the said appointments as the independent financial adviser, no other arrangements exist whereby we have received or will receive any fees or benefits from the Company or any other parties to the relevant transactions that could reasonably be regarded as relevant to our independence as defined under Rule 13.84 of the Listing Rules. Given the independence of the engagements, we consider we are eligible to give advice on the terms of the Proposed Transactions, the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same.

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 a responsibility statement set out 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, the Buyer Co, the Seller, 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:

1. Information of the Group

1.1. Background of the Group

The Company is an investment holding company and the holding company of the Group. The principal business of the Group are the provision of the Property Management Services, City Essential Services and Technical and Management Services.

1.2. Historical financial performance of the Group

Set out below is a summary of the financial results of the Group for the years ended 30 June 2018, 2019 and 2020, and six months ended 31 December 2019 and 2020, as extracted from the (i) annual report of the Company for the year ended 30 June 2019 (the "**FY2019 Annual Report**"); (ii) annual report of the Company for the year ended 30 June 2020 (the "**FY2020 Annual Report**"); and (iii) interim results announcement for the six months ended 31 December 2020 (the "**6M2021 Interim Results Announcement**"), respectively.

	For the year ended 30 June				For the six months ended 31 December	
	2018 ("**FY2018**") *HK$'million* (audited)	2019 ("**FY2019**") *HK$'million* (audited)	2019 ("**FY2019**") *HK$'million* (restated)* (audited)	2020 ("**FY2020**") *HK$'million* (audited)	2019 ("**6M2020**") *HK$'million* (restated)** (unaudited)	2020 ("**6M2021**") *HK$'million* (unaudited)
Revenue						
— E&M engineering & environmental services	N/A	N/A	3,736.9	3,085.5	1,520.6	1,777.6
— Integrated property & facility services	N/A	N/A	1,685.8	1,796.6	899.7	981.2
— E&M engineering	3,694.2	3,665.8	N/A	N/A	N/A	N/A
— Environmental management services	61.8	71.1	N/A	N/A	N/A	N/A
— Facility services	1,170.5	1,193.6	N/A	N/A	N/A	N/A
Total revenue	4,926.5	4,930.5	5,422.7	4,882.1	2,420.3	2,758.8
Gross profit	591.0	599.8	769.5	760.4	372.9	553.9
Profit before taxation	288.3	297.5	368.6	363.5	176.2	352.3
Profit for the period/year	236.8	247.5	307.4	309.6	144.0	329.1

* *As disclosed in the FY2020 Annual Report, comparative figures for FY2019 have been restated for the Group's application of merger accounting for business combinations under common control.*

** *As disclosed in the 6M2021 Interim Results Announcement, the Group's 6M2020 corresponding segment information that is presented for comparative purpose has been restated due to the Group's chief operating decision-makers has reorganised the Group's business into E&M engineering & environmental services and integrated property & facility services following the acquisition of the property and facility management service business.*

6M2021 vs 6M2020 (restated)

The Group's revenue increased by approximately HK$338.5 million, or approximately 14.0%, from approximately HK$2,420.3 million (restated) for 6M2020 to approximately HK$2,758.8 million for 6M2021. According to the

6M2021 Interim Results Announcement, such increase was attributable by the increase in revenue from the E&M engineering & environmental services segment of approximately HK$257.0 million, and the increase in revenue from the integrated property & facility services segment of approximately HK$81.5 million.

The Group's net profit increased significantly by approximately HK$185.1 million, or approximately 128.5%, from approximately HK$144.0 million (restated) for 6M2020 to approximately HK$329.1 million for 6M2021. As noted from the 6M2021 Interim Results Announcement, such increase mainly resulted from an increase in new contracts awarded in facility/property management, and ad-hoc cleaning and disinfection projects following the outbreak of COVID-19; and (ii) the receipt of subsidies under the Employment Support Scheme of the Hong Kong SAR Government; which are offset by (i) the loss recognised by the Group during the period under review in relation to its disposal of laundry business and (ii) a decrease in gross profit from the Group's E&M engineering installation projects in Hong Kong and Macau in the prior year which are not repeated in 6M2021. The net profit margin of the Group improved to 11.9% for 6M2021 from 6.0% for 6M2020.

FY2020 vs FY2019 (restated)

The Group's revenue decreased by approximately HK$540.6 million, or approximately 10.0%, from approximately HK$5,422.7 million (restated) for FY2019 to approximately HK$4,882.1 million for FY2020. According to the FY2020 Annual Report, such decrease mainly reflected the decrease in revenue from the E&M engineering & environmental services segment of approximately HK$651.4 million, partly mitigated by the increase in revenue from the integrated property & facility services segment of approximately HK$110.8 million.

The Group's net profit slightly increased by approximately HK$2.2 million, or approximately 0.7%, from approximately HK$307.4 million (restated) for FY2019 to approximately HK$309.6 million for FY2020. As noted from the FY2020 Annual Report, such increase mainly reflected the overall savings in general and administrative expenses and lower income tax expenses, partly offset by a slight decrease in gross profit contribution, an impairment loss on non-current assets of the Group's laundry business and one-off professional fees and finance costs incurred for the acquisition of the property and facility management services business.

FY2019 vs FY2018

The Group's revenue remained relatively stable at approximately HK$4,930.5 million for FY2019 as compared to that of HK$4,926.5 million for FY2018, with revenue from each segment remaining relatively stable.

The Group's net profit increased by approximately HK$10.7 million, or approximately 4.5%, from approximately HK$236.8 million for FY2018 to approximately HK$247.5 million for FY2019. As noted from the FY2019 Annual Report, such increase mainly reflected higher gross profit contribution mostly from the E&M engineering segment and the decrease in general and administrative expenses, which was partly offset by lower finance income.

1.3. Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2020 as extracted from the 6M2021 Interim Results Announcement.

	As at 31 December 2020 *HK$'000* (unaudited)
Non-current assets	510,575
Current assets	2,647,737
Total assets	**3,158,312**
Non-current liabilities	77,059
Current liabilities	2,363,928
Total liabilities	**2,440,987**
Net current assets	**283,809**
Net assets	**717,325**

As at 31 December 2020, total assets of the Group amounted to approximately HK$3,158.3 million, which mainly comprised (i) trade and other receivables of approximately HK$1,451.3 million (representing approximately 46.0% of total assets); (ii) cash and bank balances of approximately HK$822.0 million (representing approximately 26.0% of total assets); (iii) contract assets of approximately HK$349.3 million (representing approximately 11.1% of total assets); and (iv) property, plant and equipment of approximately HK$331.9 million (representing approximately 10.5% of total assets).

As at 31 December 2020, total liabilities of the Group amounted to approximately HK$2,441.0 million, which mainly comprised (i) trade and other payables of approximately HK$1,605.5 million (representing approximately 65.8% of total liabilities); (ii) contract liabilities of approximately HK$422.1 million (representing approximately 17.3% of total liabilities); and (iii) borrowings of approximately HK$263.7 million (representing approximately 10.8% of total liabilities).

As at 31 December 2020, the Group recorded net assets of approximately HK$717.3 million.

2. Information of the Target Group

2.1. Background information of the Seller and the Target Group

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.

The Target Group

The Target Company is a limited company incorporated in the British Virgin Islands on 29 December 2020. 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 is principally engaged in the provision of three different segments namely Security Guarding & Event Services (''**Security Services Segment**''), Insurance Solutions (''**Insurance Solutions Segment**'') and Landscaping Services (''**Landscape Segment**'').

For FY2018, FY2019, FY2020 and 6M2021, the respective revenue contribution of each of the Security Services Segment, Insurance Solutions Segment and the Landscape Segment to the Target Group are set out below:

	FY2018	FY2019	FY2020	6M2020	6M2021
Revenue contribution					
Security Services Segment	83.7%	83.6%	85.5%	85.5%	85.3%
Insurance Solutions Segment	12.0%	12.2%	11.1%	11.2%	11.3%
Landscape Segment	4.3%	4.2%	3.4%	3.3%	3.4%
	100.0%	100.0%	100.0%	100.0%	100.0%

Business of the Target Group — Security Services Segment

The Target Group's Security Guarding & Event Services arm of business is ranked as the No. 2 in Type I securities services provider in Hong Kong in terms of revenue for the financial year ended 30 June 2020 according to Frost & Sullivan. It is operated through FSE S & G Limited and its subsidiaries, which is commonly known as "General Security" and mainly offers security guarding services such as physical guarding of property and person, security management and planning, and armoured transportation. Event services are also provided that combine security guarding services and customer services to optimise the guest experience without compromising the safety of event participants or the integrity of critical assets. Other related services include concierge services, alarm installation and maintenance. The customers of the Security Services Segment mainly comprise public transport providers, property management companies, clubhouses and exhibition centers. The Target Group's Securities Services Segment has been in operation for approximately 43 years.

Business of the Target Group — Insurance Solutions Segment

The Target Group's Insurance Solutions arm of business is ranked as the No. 1 (among local insurance brokers) and No. 5 (among local and international insurance brokers) general insurance brokers in Hong Kong in terms of gross insurance brokerage income for the financial year ended 30 June 2020 according to Frost & Sullivan. It is operated through FSE Ins Limited (formerly known as Double Luck Ventures Limited) and its subsidiaries, which is more commonly known as "Nova Insurance" and mainly offers general insurances brokerage services related to property and casualty, construction projects, and employee benefits. Other insurance brokerage services include director and officers liability, prospectus liability, cyber risk liabilities. The customers of the Insurance Solutions Segment mainly comprise property developers, hotels, property management companies, and airport. The Target Group's Insurance Solutions Segment has been in operation for approximately 32 years.

Business of the Target Group — Landscape Segment

The Target Group's Landscaping Services arm of business is one of the more sizeable leaders in the fragmented industry in Hong Kong. It is operated through FSE C & L Limited and its subsidiaries, which is more commonly known as "Hong Kong Island Landscape" and offers services related to planting and maintenance of landscapes and sales of plants and related materials. The customers of the Landscape Segment mainly comprise exhibition centers, property management companies, hotels and international theme park. The Target Group's Landscape Segment has been in operation for approximately 38 years.

2.2. Historical financial performance of the Target Group

Set out below is a summary of the key combined financial information of the Target Group for FY2018, FY2019, FY2020, 6M2020 and 6M2021 as extracted from Appendix II to this Circular:

Table 1

	FY2018	**FY2019**	**FY2020**	**6M2020**	**6M2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Revenue					
Security Services Segment	536,979	618,824	664,866	342,792	338,341
Insurance Solutions Segment	76,981	90,113	86,198	45,048	44,933
Landscape Segment	27,870	31,431	26,105	13,366	13,609
	641,830	**740,368**	**777,169**	**401,206**	**396,883**
Cost of operations	(495,445)	(576,790)	(594,735)	(318,168)	(217,439)
Gross profit	**146,385**	**163,578**	**182,434**	**83,038**	**179,444**
Other income, net	898	125	8,725	4	909
Administrative expenses	(66,255)	(71,030)	(74,775)	(39,654)	(29,420)
Operating profit	**81,028**	**92,673**	**116,384**	**43,388**	**150,933**
Finance income	30	295	629	159	321
Finance cost	(461)	—	(104)	(59)	(26)
Share of result of an associate	436	376	180	90	80
Profit before income tax	**81,033**	**93,344**	**117,089**	**43,578**	**151,308**
Income tax expenses	(13,068)	(15,338)	(14,491)	(7,162)	(8,968)
Profit for the year/period	**67,965**	**78,006**	**102,598**	**36,416**	**142,340**
Security Services Segment	37,906	40,521	71,478	20,418	118,121
Insurance Solutions Segment	27,466	35,999	28,856	15,172	20,746
Landscape Segment	2,593	1,486	2,264	826	3,473

	FY2018	FY2019	FY2020	6M2020	6M2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Adjustments for non-recurring and non-operating items:					
(1) Less: wage subsidies under the Employment Support Scheme	—	—	(19,185)	—	(96,219)
(2) Less/add: gain/loss on disposal of property, plant, equipment	23	125	(8,240)	(5)	—
(3) Less: bank interest income	(30)	(295)	(629)	(159)	(321)
(4) Less: government grants	—	—	(322)	—	—
(5) Less/add: exchange gain/loss	(725)	(33)	221	192	(508)
(6) Add: management fee in relation to services provided by FSE Management (Note)	4,700	5,100	5,700	2,850	—
(7) Add: donation	2,741	2,996	5,475	5,468	2,378
Adjusted profit before income tax	**74,674**	**85,899**	**85,618**	**44,752**	**47,670**

Note: After Completion, the existing management functions provided by the Seller in consideration of the management fee will be performed by the senior management of the Company. Therefore, such management fee will not need to be paid after Completion.

6M2021 vs 6M2020

As illustrated in the table above, revenue generated from the Security Services Segment accounted for approximately 85.5% and 85.3% of the Target Group's revenue in 6M2020 and 6M2021, respectively. Revenue generated from the Insurance Solutions Segment accounted for approximately 11.2% and 11.3% of the Target Group's revenue in 6M2020 and 6M2021, respectively, whereas revenue generated from the Landscape Segment accounted for approximately 3.3% and 3.4% of the Target Group's revenue in 6M2020 and 6M2021, respectively.

The revenue of the Target Group was approximately HK$396.9 million in 6M2021, which remained relatively stable as compared to that of approximately HK$401.2 million in 6M2020. The revenue for each of the Security Services Segment, the Insurance Solutions Segment and the Landscape Segment all remained relatively stable for 6M2021.

The gross profit of the Target Group amounted to approximately HK$179.4 million for 6M2021, which represented a significant increase of approximately 116.1% as compared to that of approximately HK$83.0 million for 6M2020. Such significant increase in gross profit in 6M2021 was mainly due to the increase in gross profit margin from approximately 20.7% in 6M2020 to approximately 45.2% in 6M2021, which was a result of the significant decrease in cost of operations by approximately 31.7% from approximately HK$318.2 million for 6M2020 to approximately HK$217.4 million in 6M2021 mainly due to the significant decrease in staff costs of approximately HK$97.3 million, or approximately 32.0%, from approximately HK$303.9 million in 6M2020 to approximately HK$206.6 million in 6M2021. Such significant decrease in staff cost in 6M2021 was mainly attributable to the wage subsidies of approximately HK$93.9 million received by the Target Group under the Employment Support Scheme in 6M2021. Excluding such one-off wage subsidies, the Target Group would have recorded cost of operations and gross profit of approximately HK$311.3 million and HK$85.5 million, respectively in 6M2021, being similar to the amount of cost of operations and gross profit recorded in 6M2020, and the Target Group would have recorded gross profit margin of approximately 21.5% in 6M2021, being similar to that of 20.7% in 6M2020.

The net profit of the Target Group increased by approximately HK$105.9 million, or approximately 290.9% from approximately HK$36.4 million in 6M2020 to approximately HK$142.3 million in 6M2021. Such significant increase in net profit was mainly due to the significant increase in net profit of Security Services Segment of approximately HK$97.7 million, or approximately 478.5%, from approximately HK$20.4 million in 6M2020 to HK$118.1 million in 6M2021 mainly as a result of the wage subsidies received under the Employment Support Scheme as mentioned above. As illustrated in Table 1, excluding the adjustments for non-recurring and non-operating items, the Target Group would have recorded adjusted profit before tax of approximately HK$47.7 million in 6M2021, representing an increase of approximately 6.5% as compared to the adjusted profit before tax of approximately HK$44.8 million in 6M2020.

FY2020 vs FY2019

As illustrated in the table above, revenue generated from the Security Services Segment accounted for approximately 83.6% and 85.5% of the Target Group's revenue in FY2019 and FY2020, respectively. Revenue generated from the Insurance Solutions Segment accounted for approximately 12.2% and 11.1% of the Target Group's revenue in FY2019 and FY2020, respectively, whereas revenue generated from the Landscape Segment accounted for approximately 4.2% and 3.4% of the Target Group's revenue in FY2019 and FY2020, respectively.

The revenue of the Target Group was approximately HK$777.2 million in FY2020, representing a slight increase of approximately 5.0% from approximately HK$740.4 million in FY2019. Such increase was the net effect of (i) the increase in revenue attributable to the Security Services Segment by approximately HK$46.0 million, or approximately 7.4%, from approximately HK$618.8 million in FY2019 to approximately HK$664.9 million in FY2020 mainly due to the increase in Security Guarding & Event Services income as a result of the award of new contracts and price increment of existing contracts; (ii) the decrease in revenue attributable to the Landscape Segment by approximately HK$5.3 million, or approximately 16.9%, from approximately HK$31.4 million in FY2019 to approximately HK$26.1 million in FY2020 mainly due to the decrease in Landscaping Services income as a result of the increase in ad-hoc services required for emergency tree pruning and repairing services due to the bad weather in FY2019; and (iii) the decrease in revenue attributable to the Insurance Solutions Segment by approximately HK$3.9 million, or approximately 4.3%, from approximately HK$90.1 million in FY2019 to approximately HK$86.2 million in FY2020 mainly due to the decrease in insurance brokerage service as a result of the award of certain construction related contracts in FY2019.

The gross profit of the Target Group amounted to approximately HK$182.4 million for FY2020, which represented an increase of approximately 11.5% as compared to that of approximately HK$163.6 million for FY2019. Such increase in gross profit was mainly due to the increase in revenue of the Target Group for FY2020 and the slight improvement in gross profit margin for the Target Group from approximately 22.1% for FY2019 to approximately 23.5% for FY2020, which was contributed by the wage subsidies of approximately HK$18.7 million received by the Target Group under the Employment Support Scheme in FY2020 which reduced the Target Group's cost of operations in FY2020. Excluding the wage subsidies received by the Target Group in FY2020, the Target Group would have recorded gross profit margin of approximately 21.1% in FY2020.

The net profit of the Target Group increased by approximately HK$24.6 million, or approximately 31.5%, from approximately HK$78.0 million in FY2019 to approximately HK$102.6 million in FY2020, which was mainly due to (i) the increase in revenue and gross profit as mentioned above; (ii) the other income of approximately HK$8.7 million in FY2020 (as compared to other income of approximately HK$0.1 million in FY2019) which mainly related to gain on disposal of property, plant and equipment for the Security Services Segment of approximately HK$8.2 million in FY2020. As illustrated in Table 1, excluding the adjustments for non-recurring and non-operating items, the Target Group would have recorded adjusted profit before tax of approximately HK$85.6 million in FY2020, which is comparable to the adjusted profit before tax of approximately HK$85.9 million in FY2019.

FY2019 vs FY2018

As illustrated in the table above, revenue generated from the Security Services Segment accounted for approximately 83.7% and 83.6% of the Target Group's revenue in FY2018 and FY2019, respectively. Revenue generated from the Insurance Solutions Segment accounted for approximately 12.0% and 12.2% of the Target Group's revenue in FY2018 and FY2019, respectively, whereas revenue generated from the Landscape Segment accounted for approximately 4.3% and 4.2% of the Target Group's revenue in FY2018 and FY2019, respectively.

The revenue of the Target Group was approximately HK$740.4 million in FY2019, representing an increase of approximately 15.4% from approximately HK$641.8 million in FY2018. Such increase was the combined effect of (i) the increase in revenue attributable to the Security Services Segment by approximately HK$81.8 million, or approximately 15.2% from approximately HK$537.0 million in FY2018 to approximately HK$618.8 million in FY2019 mainly due to the increase in Security Guarding & Event Services income due to new contracts and price increment of existing contracts, and the increase in concierge services income due to new contracts; (ii) the increase in revenue attributable to the Insurance Solutions Segment by approximately HK$13.1 million, or approximately 17.1% from approximately HK$77.0 million in FY2018 to approximately HK$90.1 million in FY2019 mainly due to the increase in insurance brokerage service income as a result of the award of certain construction related contracts in FY2019; and (iii) the increase in revenue attributable to the Landscape Segment by approximately HK$3.6 million, or approximately 12.8%, from approximately HK$27.9 million in FY2018 to approximately HK$31.4 million in FY2019 mainly due to the increase in Landscaping Services income as a result of the increase in ad-hoc services required for emergency tree pruning and repairing services due to the bad weather in FY2019.

The gross profit of the Target Group amounted to approximately HK$163.6 million for FY2019, which represented an increase of approximately 11.7% as compared to that of approximately HK$146.4 million for FY2018. Such increase in gross profit was mainly due to the increase in revenue of the Target Group for FY2019. The gross profit margin of the Target Group remained stable at approximately 22.8% and 22.1% for FY2018 and FY2019, respectively.

The net profit of the Target Group increased by approximately HK$10.0 million, or approximately 14.8%, from approximately HK$68.0 million in FY2018 to approximately HK$78.0 million in FY2019, which was mainly due to increase in revenue and gross profit as mentioned above. As illustrated in Table 1, excluding the adjustments for non-recurring and non-operating items, the Target Group would have recorded adjusted profit before tax of approximately HK$85.9 million in FY2019, representing an increase of approximately 15.0% as compared to the adjusted profit before tax of approximately HK$74.7 million in FY2018.

2.3. Financial position of the Target Group

Set out below is a summary of the financial position of the Target Group as at 31 December 2020 as extracted from Appendix II to this circular.

	As at 31 December 2020
	HK$'000
	(audited)
Non-current assets	37,427
Current assets	445,368
Current liabilities	388,658
Non-current liabilities	16,426
Net assets	**77,711**

As at 31 December 2020, the Target Group recorded net assets of approximately HK$77.7 million.

The assets of the Target Group mainly comprised (i) trade and other receivables, net of approximately HK$248.3 million (representing approximately 51.4% of total assets); (ii) cash and cash equivalents of approximately HK$161.2 million (representing approximately 33.4% of total assets); (iii) amount due from FSE Management Company Limited of approximately HK$33.0 million (representing approximately 6.8% of total assets) relating to the Insurance Solutions Segment and the Landscape Segment; and (iv) other intangible assets of approximately HK$32.1 million (representing approximately 6.6% of total assets) representing goodwill of approximately HK$16.8 million and trademarks and brand names of approximately HK$15.2 million.

The liabilities of the Target Group mainly comprised (i) trade and other payables and receipt in advance/contract liabilities of approximately HK$209.8 million (representing approximately 51.8% of total liabilities); and (ii) amount due to FSE Management Company Limited of approximately HK$166.3 million (representing approximately 41.1% of total liabilities) relating to the Security Services Segment.

3. Industry overview

3.1. Suitability and qualification of Frost & Sullivan

In preparing the industry overview of the (i) security guarding services market in Hong Kong, (ii) insurance brokerage services market in Hong Kong, and (iii) landscape services market in Hong Kong, we have relied on the industry report (the "**Industry Report**") prepared by Frost & Sullivan with market research on the security guarding services market in Hong Kong, the insurance brokerage services market in Hong Kong and landscape services market in Hong Kong (collectively, the "**Market Research**"). We have reviewed the Industry Report and interviewed the relevant team members of Frost & Sullivan with particular attention to: (i) the terms of engagement of Frost & Sullivan with the Company; and (ii) the experience of Frost & Sullivan and the qualifications of their team members. Based on our review of the engagement letter between the Company and Frost & Sullivan, we are satisfied that the scope of work performed by Frost & Sullivan provides the market research on the respective markets of the Target Group. We are not aware of any limitation on the scope of work which might have a negative impact on the Market Research provided by Frost & Sullivan. Frost & Sullivan has confirmed that it is independent from the Company, the Target Group and the Seller. The person-in-charge of the Market Research has over 10 years in conducting industry research to a wide range of clients in different industries. We also note that Frost & Sullivan mainly conducted its own market research and has relied on public information obtained through its own research as well as the financial information provided by the Management.

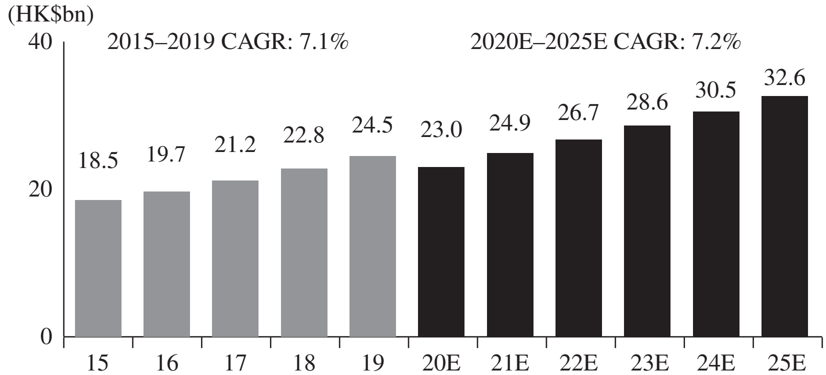
In light of the above, we are not aware of any matters that would cause us to question Frost & Sullivan's competence and independence and we consider that Frost & Sullivan has sufficient expertise and is independent to provide the Market Research.

3.2. Security guarding services market in Hong Kong

The security and guarding services industry in Hong Kong is regulated by the Security and Guarding Services Industry Authority. Security work is categorised mainly into three categories, namely (i) Type 1: provision of security guarding services; (ii) Type 2: provision of armoured transportation services; and (iii) Type 3: installation, maintenance and/or repairing security devices.

The Security Service Segment of the Target Group is mainly engaged in Type 1 security guarding services. Set out below is the chart showing the market size of Type 1 security guarding services market in Hong Kong by revenue from 2015 to 2025.

Market Size of Type I Security Guarding Services (Hong Kong), 2015–2025E



Source: Frost & Sullivan

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

Steady growth in the security services market

Type 1 security service market in Hong Kong has witnessed a steady growth in the past years. The total revenue of the security guarding services industry in Hong Kong was approximately HK$18.5 billion in 2015 and experienced a compound annual growth rate ("**CAGR**") of approximately 7.1% to approximately HK$24.5 billion in 2019.

Due to the outbreak of COVID-19, the demand of manned guarding and event management has diminished due to temporarily closure of facilities, and therefore the Hong Kong Type 1 security guarding service market is expected to experience a slight decrease from approximately HK$24.5 billion in 2019 to approximately HK$23.0 billion in 2020. The market size is projected to expand and reach approximately HK$32.6 billion by 2025, representing a CAGR of approximately 7.2% from 2020 to 2025, attributable to continuous development of property market, higher requirement on security guarding services and the increasing awareness on safety and security services.

Competitive landscape

According to Frost & Sullivan, the Security Guarding Services Segment of the Target Group is ranked as the No. 2 in securities services provider in Hong Kong in terms of revenue with an estimated market share of approximately 2.9% for the year ended 30 June 2020. The top 5 players in the security services market in Hong Kong for the year ended 30 June 2020 in aggregate accounted for approximately 13.0% of total market share.

3.3. Insurance brokerage market in Hong Kong

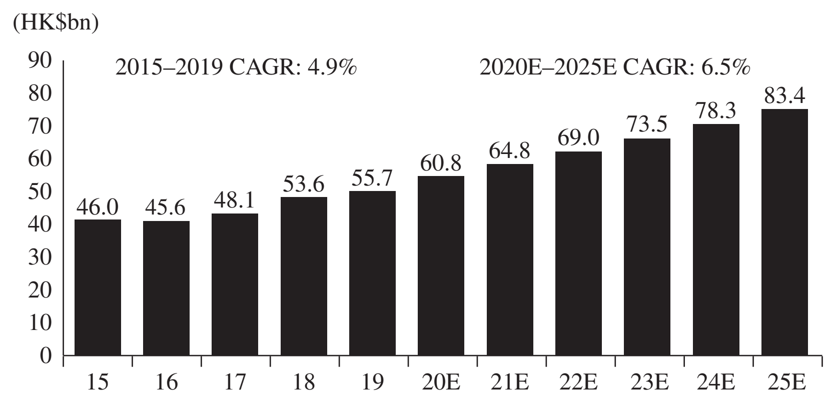
Insurance products are primarily distributed through insurance intermediaries including (i) agents and banks; and (ii) brokers in Hong Kong, which in aggregate accounted for over 99% of premium of direct individual new business of long-term business in Hong Kong.

The types of insurance could typically be broken down into (i) long term business of which accounted for approximately 90%; and (ii) general business of which accounted for approximately 10% of the Hong Kong insurance market in terms of total premiums in 2019.

3.4. General insurance market size in Hong Kong

As the Target Group mainly engages in offering general insurances brokerage services, we focus on analysing the general insurance market. Set out below is the chart showing the market size of general business market in Hong Kong by total premium from 2015 to 2025.

Gross premium of general business (Hong Kong), 2015–2025E



Source: Frost & Sullivan
Note: Market size above is aligned with the financial year ended 30 June.

Along with the steady growth of population and economy in Hong Kong, the gross premium of general insurance business in Hong Kong increased from approximately HK$46.0 billion in 2015 to HK$55.7 billion in 2019, representing a CAGR of approximately 4.9%. The outbreak of COVID-19 in early 2020 has accelerated the growth in the general business market in 2020, which contributed to (i) a surge of approximately 65.4% in pecuniary loss business; and (ii) an increase of approximately 27.3% in property damage business (with all corresponding period). In particular, the social unrest incidences in Hong Kong and the overall rise in rates in coverage of global losses of insurer and reinsurers has attributed to the increase in property damage premium rates. In addition, the new profits tax concessions for insurance-related business to be commenced on 19 March 2021 is expected to have a positive impact towards the insurance brokerage industry by reducing profits tax rate by 50% to 8.25% on selected businesses and corporations. By 2025, the gross premium of general business in Hong Kong is projected to increase to HK$83.4 billion at a CAGR of approximately 6.5% from 2020 to 2025 based on Frost & Sullivan.

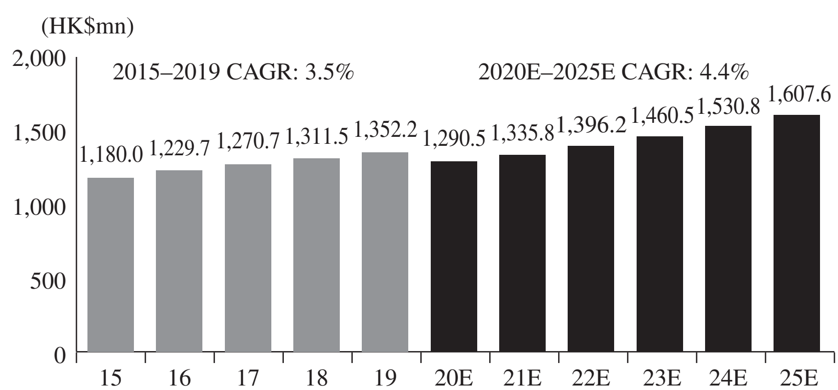
Competitive landscape

According to Frost & Sullivan, the Insurance Solutions Segment of the Target Group is ranked as the No. 1 (among local insurance brokers) and No. 5 (among local and international insurance brokers) general insurance brokers in Hong Kong in terms of gross insurance brokerage income with a gross insurance brokerage income of approximately HK$86.2 million for the financial year ended 30 June 2020. The participants which ranked from first to fourth among general insurance brokers in Hong Kong in terms of gross insurance brokerage income are insurance brokerage companies based overseas which have expanded their business to Hong Kong. Of the top 5 general insurance brokers in Hong Kong, the Target Group's general insurance brokerage segment is the only company founded and based in Hong Kong. The top 5 participants among general insurance brokers in Hong Kong for the financial year ended 30 June 2020 recorded in aggregate of approximately HK$1,508.2 million in terms of gross insurance brokerage income.

3.5. Landscaping services market size in Hong Kong

Set out below is the chart showing the market size of the landscaping services market in Hong Kong by revenue from 2015 to 2025.

Market Size of Landscaping Services (Hong Kong), 2015–2025E



Source: Frost & Sullivan
Note: Market size above is aligned with the financial year ended 30 June.

The total revenue of the landscaping services industry in Hong Kong was approximately HK$1,180.0 million in 2015 and experienced a CAGR of approximately 3.5% to HK$1,352.2 million in 2019. It benefited from the continuous rollout of new town development and urban renewal projects initiated by government, including Kai Tak Development Area, Kwu Tung North, Fanling North etc. The market size is expected to further expand and reach HK$1,607.6 million by 2025, representing a CAGR of approximately 4.4% from 2020 to 2025.

4. Reasons for and benefits of the Proposed Transactions

The principal businesses of the Group are the provision of the Property Management Services, City Essential Services and Technical and Management Services. As stated in the Letter of the Board, the Group consistently seeks opportunities to increase its scale and profitability with the aim to optimise return for its Shareholders. The Directors believe that the Proposed Transactions would increase the Group's overall competitiveness and add to its growth momentum by expanding its service line offerings to meet the ever-changing demands which is crucial amid increasing competitions.

As a long-term development strategy, the Group has decided to re-position its business into a large scale and unique lifestyle services company which has have the capability to offer a comprehensive range of services (e.g. property management services, essential services, technical services, etc.) to its clients including corporate and household, and become their ''go-to'' services provider whereby the Group can directly service their needs or provide them guidance to immediate solutions. Hence, the Directors believe that the Proposed Transactions would be a good complementary add on to such initiative and strengthen its service line offerings. Below sets forth the reasons for and the benefits of the Proposed Transaction:

(i) Increase the Group's scale and profit

As stated in the Letter from the Board, the Directors believe that the Proposed Acquisition represents a good investment for the Group by utilising its existing cash on hand, and leveraging on the Proposed Disposal of the Property Holdcos and the Disposal Property, which will allow the Group to engage in businesses that could enhance recurring profit in long term and lead to an accretion to the Company's earnings per share. The benefits of using the Proposed Disposal of the Property Holdcos and the Disposal property as part of the Consideration would also provide the Group more flexibility in managing its cashflow, maintain a good capital structure and better utilise less liquid assets in its balance sheet.

(ii) Mitigate cyclical risks by diversifying revenue streams and expanding financial scale

As stated in the Letter from the Board, the Directors believe that the Proposed Transactions would enable the Group to further mitigate cyclical risks typically associated with the E&M engineering segment by diversifying its revenue streams. Moreover, the Target Group has a diversified service line offerings and client base, which could potentially improve the stability of operation of the Enlarged Group with more diversified revenue streams.

Based on the financial information of the Target Group as illustrated in the above section ''B. Information of the Target Group'', we note that the Target Group as a whole has recorded steady revenue growth from approximately HK$641.8 million in FY2018 to approximately HK$740.4 million in FY2019, which further increased to approximately HK$777.2 million in FY2020. The Target Group maintained stable revenue of approximately HK$396.9 million in 6M2021 as compared to that of approximately HK$401.2 million in 6M2020. We note that the Target Group generates its revenue from a diversified customer base, with its business segments comprising customer base including public transport providers, property management companies, exhibition centers, hotels and property developers. The Target Group had also been profitable in each of FY2018, FY2019, FY2020 and 6M2021, recording growing net profit of approximately HK$68.0 million, HK$78.0 million, HK$102.6 million and HK$142.3 million, respectively. After adjusting for non-recurring and non-operating items, which mainly represented wage subsidies under employment support scheme and gain on disposal of property plant and equipment, the Target Group still recorded strong adjusted profit before income tax of approximately HK$74.7 million, HK$85.9 million, HK$85.6 million and HK$47.7 million, in each of FY2018, FY2019, FY2020 and 6M2021, respectively. In view of the stable and positive market outlook of each of the security services market, general insurance market and landscaping market in Hong Kong, being the principal markets the Target Group engages in, we concur with the Director's view that the Proposed Transactions would bring in businesses with sustainable income and proven growth, further enhancing the financial performance of the Enlarged Group.

(iii) Increase cross-selling synergies and customer loyalty

As stated in the Letter from the Board, the Directors believe that there will be more cross-selling synergies that would allow the Group to offer comprehensive "one-stop-shop" services that differentiate the Group from its competitors. The inclusion of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services will directly enhance the Group's ability to provide high quality complementary services and create more cross-selling opportunities. The Proposed Transactions also allow the Enlarged Group to have better insights of the customer needs and would have unique capabilities to offer a wide range of services that its competitors could not match. Upon Completion, the Enlarged Group will expand its client base with the addition of the clientele of the Target Group which will benefit the existing businesses of the Group. As the Enlarged Group will garner experience and expertise in all of the aforementioned business segments, the Enlarged Group will be able to offer "one-stop-shop" comprehensive solutions to clients.

(iv) Enhance the Group's leading position

The combination of the Group's existing business operations and the Target Group's business operations will allow the Enlarged Group to re-position itself as a leading diversified lifestyle services provider in Hong Kong with industry leading positions in different segments. According to Frost & Sullivan, the Target Group is (i) ranked No.2 in Type I security services provider in Hong Kong in terms of revenue for FY2020; (ii) ranked No. 1 (among local insurance brokers) and No. 5 (among local and international insurance brokers) amongst general business line insurance provider in Hong Kong in terms of gross insurance brokerage income for

FY2020; and (iii) one of the more sizeable leaders in the fragmented industry in Hong Kong. Please refer to the section headed "3. Industry Overview" in this letter for more information on the industry of the Target Group.

(v) Re-position the Group into a comprehensive lifestyle services company

The Proposed Transactions would enhance the Group's service line offering to differentiate the Group from its competitors to meet the industry's ever-changing lifestyle services demand. The Enlarged Group would also be able to offer the clients more comprehensive and integrated "one-stop-shop" high-quality services solutions through a collection of its market-leading branded subsidiaries. Moreover, the Enlarged Group will become a comprehensive solution provider with in-house technical capabilities supporting its clients when such clients decide to outsource multiple services. As the Target Group comprises the Security Services Segment, Insurance Solutions Segment and the Landscape Segment, all being lifestyle services, we concur with management of the Group that addition of such businesses would enhance the Group's service line offerings.

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 stable financial performance and market outlook 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.

5. Principal terms of the Sale and Purchase Agreement

Date and parties involved

Date : 26 February 2021

Parties

- Seller : FSE Management Company Limited
- Buyer : the Company
- Buyer Co : FSE City Essential Services Limited (a wholly-owned subsidiary of the Company)

Assets to be acquired by the Group

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to nominate the Buyer Co to acquire from the Seller the Sale Share, representing the entire issued share capital of the Target Company.

Assets to be disposed of by the Group

As part of the Consideration for the Proposed Acquisition, pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to procure the relevant members of the Group to sell the entire share capital in the Property Holdcos and all right, title and interest in the Disposal Property to the Seller.

Consideration

The Consideration for the Proposed Acquisition is HK$840,600,000, (subject to adjustments, if any), which is based on arm's length negotiations between the Company and the Seller with reference to the Business Valuation. Pursuant to the business valuation report prepared by the independent professional valuer, the fair value of the Target Group is HK$840,600,000 as at 31 December 2020 and was determined on basis of market approach. Such Consideration implies a P/E Multiple of approximately 10.0x based on the adjusted net profit of the Target Group for the financial year ended 30 June 2020.

Pursuant to the Sale and Purchase Agreement, the Consideration is subject to adjustment, if any, by reference to the amount of the NTAV of the Target Group as at the Completion Date as follows (the "**NTAV Adjustment Mechanism**"):

(1) if the NTAV of the Target Group as at the Completion Date is greater than the NTAV of the Target Group as at 31 December 2020, 100% of the difference shall be payable in cash and added to the 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 31 December 2020, 100% of the difference shall be deducted from the cash portion of the Consideration for the Sale Share.

Conditions precedent

Completion of the Proposed Acquisition will be conditional upon the satisfaction or (as the case may be) waiver of the conditions as set out in the paragraph headed "Conditions precedent to Completion" in the Letter from the Board.

Completion

Subject to the fulfilment (or, as the case may be, waiver) of the Conditions, completion of the Proposed Acquisition and the Proposed Disposal shall take place simultaneously on the Completion Date.

Upon Completion, (i) 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; and (ii) the Group will cease to hold any right, title and interest in the Property Holdcos and the Disposal Property and each of the Property Holdcos will cease to be a wholly-owned subsidiary of the Company.

Corporate guarantees and counter-indemnity

Prior to the execution of the Sale and Purchase Agreement, the Seller has provided certain corporate guarantees and undertaking (i) for securing the granting of credit facilities to certain members of the Target Group in favour of certain lending banks amounting to approximately HK$100 million and (ii) for performance of some contractual obligations by certain members of the Target Group in favour of 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, 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).

At Completion, the Company and the Seller will enter into the deed 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.

6. Fairness and reasonableness of the Consideration, the NTAV Adjustment Mechanism and the settlement term

6.1. The Consideration

As set out in the Letter from the Board, the Consideration for the Proposed Acquisition is HK$840,600,000 (subject to adjustments, if any), which is based on arm's length negotiations between the Company and the Seller with reference to the Business Valuation.

In assessing the fairness and reasonableness of the Consideration, we have relied on the Business Valuation of the Target Group conducted by the Valuer. We have obtained the business valuation report prepared by the Valuer as set out in Appendix V of the Circular (the "**Business Valuation Report**") and note that the valuation of the Target Group as at 31 December 2020 (the "**Valuation Date**") was HK$840,600,000. Details of our work performed in relation to the Business Valuation Report are set out below.

(i) Suitability and qualification of the Valuer

We have reviewed the Business Valuation Report and the Property Valuation Report and interviewed the relevant team members of the Valuer with particular attention to: (i) the terms of engagement of the Valuer with the Company; (ii) the qualifications and experience of the Valuer; and (iii) the steps and due diligence measures taken by the Valuer in performing the Business Valuation and the Property Valuation. After our review of the engagement letter between the Company and the Valuer, we are satisfied that the scope of work performed by the Valuer is appropriate to perform the Business Valuation and the Property Valuation. We are not aware of any limitation on the scope of work which might have a negative impact on the degree of assurance given by the Valuer. The Valuer has confirmed that it is independent from the Company, the Target Group and the Seller. We further understand that the Valuer is certified with the relevant professional qualifications required to perform the Business Valuation and the Property Valuation. The person-in-charge of the Business Valuation has over 17 years in conducting business valuation while the person-in-charge of the Property Valuation has over 38 in conducting property valuation, to a wide range of clients in different industries. We also note that the Valuer mainly conducted its due diligence through its own research and has relied on public information obtained through its own research as well as the financial information provided by the Management.

In light of the above, we are not aware of any matters that would cause us to question the Valuer's competence and independence and we consider that the Valuer has sufficient expertise and is independent to perform the Business Valuation and the Property Valuation.

(ii) Valuation methodology of the Business Valuation

We understand that the common valuation approaches include asset approach, income approach and market approach. Asset approach provides an indication of value by aggregating the market values of the subject company's assets and liabilities. Market approach provides an indication of value by comparing the asset with identical or comparable assets for which price information is available. Income approach provides an indication of value by converting future economic benefits to a present value.

As discussed with the Valuer, the Valuer considers that the market approach to be the most appropriate valuation approach over the income approach and the asset approach as: (i) the income approach requires relatively subjective assumptions to which the valuation is largely influenced by any inappropriate assumptions made; (ii) the asset approach is unlikely to capture the future earning potential of the Target Group; and (iii) the application of market approach is relatively more objective as publicly available data is used which reflects the market consensus on the pricing of similar assets. Under market approach, the Valuer adopted the guideline public company method where the valuation was performed by comparing each of the principal business segments that the Target Group is engaged in, namely (a) the provision of security services; (b) the provision of the insurance brokerage services; and (c) the provision of landscaping, plant rental and maintenance services and the sale of plant and materials in Hong Kong with comparable listed companies (the "**Valuation Comparable Companies**").

As explained by the Valuer, the guideline transaction method, which is another commonly adopted valuation methodology under the market approach, was not selected because there were insufficient recent acquisition/disposal transactions involving private companies engaged in business similar to that of the businesses engaged by the Target Group.

(iii) Comparable companies selection

From the discussion with the Valuer, we understand that they have exhaustively identified 5, 7 and 4 Valuation Comparable Companies for each of the Security Services Segment, the Insurance Solutions Segment and the Landscape Segment.

For the Security Services Segment, we understand that the Valuer exhaustively identified 5 Valuation Comparable Companies (with one comparable company listed in Hong Kong and the remaining comparable companies listed overseas) based on the following criteria: (i) publicly listed; (ii) have more than 60% of revenue generated from security and guarding services; (iii) have market transactions that inferred its fair value on the valuation date; and (iv) profit-making in its latest financial year. For criteria (ii) above, we understand that the Valuer has excluded security companies engaged in online centralised security, central monitor and electronic security (the "**Excluded Online Security Companies**"), and focused on security guarding companies that utilise human resources (i.e. human security guard) for its security guarding services, being in line with the operations of the Security Services Segment of the Target Group. As explained by the Valuer, the security guarding business of the Target Group is human-resource intensive while the Excluded Security Companies focus on online/electronic/cyber security which is not relevant to the Target Group's Security Service Segment. Based on the explanation of the Valuer, we agree with the Valuer's approach to exclude the Excluded Online Security Companies from the comparable selection.

For the Insurance Solutions Segment, we understand that the Valuer exhaustively identified 7 Valuation Comparable Companies (all of which are listed overseas) based on the following criteria: (i) publicly listed; (ii) have more than 60% revenue generated from insurance brokerage services; (iii) have market transactions that inferred in fair value on the valuation date; and (iv) profit-making in its latest financial year. For criteria (ii) above, we understand that the Valuer has excluded insurance brokerage companies with main customer base of retail clients (the "**Excluded Insurance Brokerage**

Companies"), and focused on insurance brokerage companies with main customer base of corporate clients, being the main customer base of the Insurance Solutions Segment of the Target Group. We agree with the Valuer's approach to exclude the Excluded Insurance Brokerage Companies that do not have a similar customer base as the Target Group.

For the Landscape Segment, we understand that the Valuer exhaustively identified 4 Valuation Comparable Companies (three of which are listed in China and Hong Kong and the remaining one listed overseas) based on the following criteria: (i) publicly listed; (ii) have more than 60% of revenue generated from soft landscaping (generally defined to be the horticulture element of landscaping, such as flowers, plants and trees) services; (iii) have market transactions that inferred in fair value on the valuation date; and (iv) profit-making in its latest financial year. For criteria (ii) above, we understand that the Valuer excluded companies engaged in hard landscape (generally defined to be the inanimate element of landscaping, such as cements, concretes and stones) construction, given the Landscape Segment of the Target Group principally provides plant rental and maintenance service and soft landscaping service and does not provide hard landscape construction.

We understand from the Valuer that the information of the Valuation Comparable Companies was extracted from Bloomberg and the published annual/interim/quarterly reports/results of the Valuation Comparable Companies. For details of the Valuation Comparable Companies, please refer to the Business Valuation Report as set out in Appendix V to this Circular. In addition, with respect to the Valuation Comparable Companies selected by the Valuer, we have extracted the published annual/interim/quarterly reports/results referred to by the Valuer of each of the Valuation Comparable Companies and reviewed their business activities, products and segment revenue. We understand that each of them met the Revenue Requirements. As such, we consider the operating business of all the Valuation Comparable Companies are sufficiently comparable to the respective Security Guarding & Event Services business, Insurance Solutions business or Landscaping Services business of the Target Group.

Furthermore, among the 5, 7, and 4 Valuation Comparable Companies identified by the Valuer for each of the Security Services Segment, the Insurance Solutions Segment and the Landscape Segment, we note that most of the Valuation Comparable Companies are listed and operate in various overseas countries. We have discussed with the Valuer and understand that based on the Valuer's exhaustive research on relevant comparable companies, comparable companies from various overseas countries were considered taking into account that there are a limited number of comparable companies (only one comparable company in the Security Services Segment) that principally operate in Hong Kong, being the principal operating region of the Target Group. We have discussed and agreed with the valuer that the identified overseas comparable companies are considered to be representative, taking into account their listing status in open and established markets, similarity in business operation models as those of the Target Group, and that substantial portion of their revenue was generated from business comparable to those of the Target Group. In addition, we understand that the Valuer has considered the market differences of countries the overseas comparable companies are listed in and has adjusted for such market differences to the valuation multiple of the overseas comparable companies to arrive at their valuation of the Target Group (please see the sub-section headed "*Note 2. Average Adjusted P/E Multiple of the Valuation Comparable Companies*" below for our assessment on adjustments adopted by the Valuer to adjust for market differences of the Valuation Comparable Companies which we consider to be fair and reasonable*)*. Given the above, we consider that the selected Valuation Comparable Companies are fair and representative.

Having considered the selection criteria and particulars of the Valuation Comparable Companies, we are not aware of any factor that casts doubt on the reasonableness of adoption of the Valuation Comparable Companies by the Valuer to derive the Business Valuation.

(iv) Choice of valuation multiples

In carrying out the Business Valuation, the valuation multiple adopted by the Valuer was the price-to-earnings multiple (the "**P/E Multiple**"). Given the stable profitable track record of the Target Group in each of FY2018, FY2019, FY2020 and 6M2021 as set out under the section headed "B. Background information of the Target Group" in this letter, we concur with the view of the Valuer that the P/E Multiples of the Valuation Comparable Companies, as adjusted for market differences (please see sub-section below for analysis on adjustments adopted by the Valuer to adjust for market differences of the Valuation Comparable Companies), to be a suitable and appropriate valuation multiple for the valuation of the Target Group.

(v) Calculation of the business valuation

We understand from the Valuer that the business valuation of each business segment of the Target Group is arrived by first deriving its equity value. A discount on lack of marketability and a control premium adjustment are applied to the equity value to obtain the business valuation. The business valuations of the respective business segments of the Target Group are added together to arrive at the business valuation of the Target Group.

Based on the Business Valuation Report set out in Appendix V to this Circular and our discussions with the Valuer, the table below sets out the method of calculation of the business valuation of each business segment of the Target Group.

		Security Services Segment	Insurance Solutions Segment	Landscape Segment	Target Group
		HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
	Net profit of respective business segments of the Target Group for FY2020	71.5	28.9	2.3	102.6
	Adjustments for non-recurring and non-operating items *(Note 1)*				
	Less: Non-operating income				
	— Wage subsidies under Employment Support Scheme	(18.3)	(0.4)	(0.5)	(19.2)
	— Gain on disposal of property, plant and equipment	(8.2)	—	—	(8.2)
	— Bank interest income	(0.4)	(0.2)	—	(0.6)
	— Government grant	(0.1)	—	(0.3)	(0.4)
	— Exchange gain	—	(0.1)	—	(0.1)
	Add: Non-operating expenses				
	*— Management fee in relation to the services provided by FSE Management Company Limited ("**FSE Management**")*	2.2	3.0	0.5	5.7
	— Donation	1.5	4.0	—	5.5
	— Net exchange loss	—	—	0.2	0.2
	Less: Combined tax effect of the non-operating income and expenses	(0.6)	(1.2)	(0.1)	(1.9)
a	Adjusted net profit of respective business segment of the Target Group	47.6	34.0	2.1	83.7
b	Average Adjusted P/E Multiple of the Valuation Comparable Companies of each business segment *(Note 2)*	10.7x	15.3x	9.1x	
c = a * b	**Equity value (operating)**	510.2	520.1	19.7	1,050.0

		Security Services Segment *HK$'million*	Insurance Solutions Segment *HK$'million*	Landscape Segment *HK$'million*	Target Group *HK$'million*
	Adjustments for non-operating assets and liabilities *(Note 3)*				
	Add: cash and cash equivalents	110.7	16.0	7.4	134.2
	Add: non-operating assets	—	25.7	7.3	33.0
	Less: non-operating liabilities	(166.3)	—	—	(166.3)
d	**Equity value**	454.6	561.8	34.3	1,050.7
e	DLOM *(Note 4)*	30%	30%	30%	30%
f	Control premium *(Note 5)*	14.3%	14.3%	14.3%	14.3%
g = d * (1-e) * (1+f)	**Business valuation**	**363.7**	**449.4**	**27.5**	**840.6**
h = g/a	Implied P/E Multiple of the Proposed Acquisition	7.6x	13.2x	12.7x	10.0x

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

Note 1: Adjustments for non-recurring items

We understand from the Valuer that adjustments for non-recurring and non-operating items were made to the net profits of the Target Group for FY2020 in order to measure its operating profit. Set out below is our analysis on the adjustments for the non-recurring and non-operating items.

- Wage subsidies under Employment Support Scheme

  As the wage subsidies under Employment Support Scheme of approximately HK$18.3 million, HK$0.4 million and HK$0.5 million for the Security Services Segment, the Insurance Solutions Segment and the Landscape Segment, respectively, are non-recurring in nature, we concur with the Valuer to exclude the wage subsidies from the calculation of operating profit.

- Gain on disposal of property, plant and equipment

  We have discussed with the Valuer and understand from the management of the Target Group that gain on disposal of property, plant and equipment of approximately HK$8.2 million for the Security Services Segment mainly represents the sale of a property located in Hong Kong during FY2020. As such gain is not an operating income, we concur with the Valuer to exclude it from the calculation of operating profit.

- Bank interest income

As the bank interest income of approximately HK$0.4 and HK$0.2 million for the Security Services Segment and the Insurance Solutions Segment, respectively, are non-operating income in nature, we concur with the Valuer to exclude it from the calculation of operating profit.

- Government grant

We have discussed with the Valuer and understand from the management of the Target Group that government grant of approximately HK$0.1 million and HK$0.3 million for the Security Services Segment and the Landscape Segment, respectively, represents (i) one-off subsidy from the Anti-epidemic Fund; and (ii) subsidy for phasing out per-Euro IV diesel commercial vehicles under the Ex-gratia Payment Scheme. As such government grants received are non-recurring in nature, we concur with the Valuer to exclude it from the calculation of operating profit.

- Exchange gain/Net exchange loss

We have discussed with the Valuer and understand from the management of the Target Group that the exchange gain of approximately HK$0.1 million for the Insurance Solutions Segment and the net exchange loss of approximately HK$0.2 million for the Landscape Segment were incurred during currency translation of assets/liabilities located in the PRC. As such exchange gain and net exchange loss are non-operating in nature, we concur with the Valuer to exclude it from the calculation of operating profit.

- Management fee in relation to the services provided by FSE Management

We have discussed with the Valuer and understand from the management of the Target Group that after Completion, the existing management functions provided by the Seller in consideration of the management fee will be performed by the senior management of the Company. Therefore, such management fee will not need to be paid after Completion. We concur with the Valuer that the management fee in relation to the services provided by FSE Management of approximately HK$2.2 million, HK$3.0 million and HK$0.5 million for the Security Services Segment, the Insurance Solutions Segment and the Landscape Segment, respectively, is excluded from the calculation of operating profit.

- Donation

  We have discussed with the Valuer and understand from management of the Target Group that the donation of approximately HK$1.5 million and HK$4.0 million for the Security Services Segment and the Insurance Solutions Segment, respectively, are non-operating in nature. We concur with the Valuer to exclude it from the calculation of operating profit.

Based on our discussions with the Valuer and understanding from the management of the Target Group on the nature of each of the non-operating and non-recurring items, we concur with the Valuer to adjust for the non-recurring and non-operating items to the net profits of the Target Group for FY2020 in order to measure its normalized earnings. In addition, we have obtained and reviewed the income statement of each business segments of the Target Group and consider that the aforesaid adjustments represented all the material items on non-operating and non-recurring charges or gains. As such, we consider the Valuer's adjustment for non-operating items and non-recurring items to arrive at the Target Group's normalized earnings to be sufficient and fair and reasonable.

Note 2: Average Adjusted P/E Multiple of the Valuation Comparable Companies

We understand from the Valuer that the average adjusted P/E Multiple of the Valuation Comparable Companies of the respective business segments of the Target Group is based on (i) the P/E multiple of each Valuation Comparable Company which is calculated by its market capitalization as at 31 December 2020 obtained from Bloomberg divided by the net profit (as adjusted for non-recurring and non-operating income and expenses) of the Valuation Comparable Company based on its latest published annual results; adjusted by (ii) an adjustment factor to reflect the difference in required return between different markets, which is calculated by dividing the median of the P/E Multiple of Hang Seng Index, being the principal place of business of the Target Group, divided by the median of the P/E Multiple of the market indices of the respective listing venue of the Valuation Comparable Companies (the "**Market Difference Adjustment Factor**"). As an illustrative example, for a company listed in the United States of America with a P/E Multiple of 30x as at the Valuation Date, an adjustment factor of 0.52, calculated by dividing the median of the P/E Multiple of Hang Seng Index of approximately 15.5x as at the Valuation Date over the median of the P/E Multiple of S&P 500 Index of approximately 29.9x as at the Valuation Date, will be applied to arrive at the adjusted P/E Multiple of 15.6x (being P/E Multiple of 30x multiplied by adjustment factor of 0.52).

Set out below is the list of countries in which the Valuation Comparable Companies are listed, the respective reference index and the adjustment factor applied by the Valuer in arriving at the average adjusted P/E Multiple of the Valuation Comparable Companies:

Country *(in alphabetical order)*	**Reference index**	**Adjustment factor**
Australia	S&P/ASX 200	0.36
Hong Kong	Hong Kong Hang Seng Index	1.00
Japan	Tokyo Stock Exchange Tokyo Price Index TOPIX	0.49
PRC	Shenzhen Stock Exchange A Share Index	0.45
Sweden	OMX Stockholm 30 Index	0.92
United States of America	S&P 500	0.52

As discussed with the Valuer, such methodology of adjustment is based on a research paper ''Market Multiples Adjustments for Differences in Risk Profile'' by Nina Milenkovic (the ''**First Research Paper**''), published in the International Journal for Traffic and Transport Engineering (''**IJTTE**''). We have obtained the First Research Paper and note that, according to the First Research Paper, in order to adjust for the market differences, relative ratios between average multiples for the entire economy for two countries can be applied and is considered representative as long as the country where the valuation subject is located has (i) an active securities market; (ii) comparable accountings standards; and (iii) sufficiently large number of companies to be included. As discussed with the Valuer, all the Valuation Comparable Companies are listed in mature markets with active securities market. In addition, all research papers on the IJTTE are evaluated by members of the editorial board, which consists of over 50 professors from 19 countries, and are peer-reviewed by different experts at least twice before publication, we consider the First Research Paper a credible source. In addition, we understand from the Valuer that they also referenced from another research paper ''An Empirical Study of Country Risk Adjustments to Market Multiples Valuation in Emerging Markets: the case for Russia'' (the ''**Second Research Paper**''), published in The Journal of Corporate Finance Research (''**TJCFR**''). We have obtained the Second Research Paper and note that, the same methodology of adjustment (i.e. the application of the Market Difference Adjustment Factor) is also suggested to adjust for the difference in required return between different markets. As all research papers on the TJCFR are peer-reviewed by members of the editorial board, which consists of over 20 professors from 11 countries, we consider the Second Research Paper a credible source. Furthermore, based on our review of the First Research Paper and Second Research Paper and our discussion with the Valuer, we understand that the application of the

Market Difference Adjustment Factor adjusts for the difference in required return between different markets to address the difference in valuation among different countries, in order to provide representative valuation multiples for the Valuation Comparable Companies. Based on the above, we consider the Valuer's application of the Market Difference Adjustment Factor to be appropriate for adjusting the difference in required return between different markets, and consider the Market Difference Adjustment Factor to be an appropriate adjustment in addressing market differences and is fair and reasonable.

Note 3: Adjustments for non-operating assets and liabilities

We understand from the Valuer that the equity value (operating) obtained from multiplying the adjusted net profit of respective business segment of the Target Group and the average of Adjusted P/E Multiple of the Valuation Comparable Companies only takes into account the value of the operating assets and liabilities of the Target Group. Therefore, the non-operating asset and liabilities of the Target Group which were not related to operations were added back and deducted from the equity value (operating), respectively, to account for the value of non-operating asset and liabilities of the Target Group and arrive at the equity value of the Target Group.

Based on our review of the Business Valuation Report and the financial statements of the Target Group, we note that the (i) adjusted non-operating assets of HK$25.7 million and HK$7.3 million for the Insurance Solutions Segment and the Landscape Segment, respectively, represent amount due from FSE Management, which mainly relates to the advances to FSE Management; (ii) whereas the non-operating liabilities of HK$166.3 million for the Security Services Segment represents amount due to FSE Management, which mainly relates to the dividend payable to FSE Management, being non-operating balances in nature. In addition, based on our review of the balance sheet of each business segments of the Target Group, we consider that the aforesaid items represented all the material non-operating assets and liabilities of the Target Group as at 31 December 2020. As such, we consider the Valuer's adjustment for non-operating assets and liabilities to be sufficient and fair and reasonable.

Note 4: Discount on lack of marketability

As the Target Company is privately held, the Valuer has applied a DLOM of 30% due to its lack of marketability as compared to public companies. We have discussed with the Valuer and understand that the DLOM was adopted with reference to "Updated Suggestions for the Selection of a Baseline Marketability Discount for Holding Companies" by Paul R. Hyde published in the Business Appraisal Practice: Journal of The Institute of Business Appraisers, Inc.. We have obtained the relevant extract of the study and note that, according to the study, the appropriate baseline DLOM for interests in privately held companies with regular, strong cash distribution is 30%. Given that (i) Business Appraisal Practice: Journal of The Institute of Business Appraiser, Inc. is an independent research study report which is designed to assist the valuation professional charged with determining DLOM; (ii) as set out in the accountants' report on the Target Group as set out in Appendix II to this circular, we note that the Target Group has regular cash distribution with cash dividend of approximately HK$21.5 million, HK$16.5 million and HK$27.5 million for FY2018, FY2019 and FY2020, respectively; and (iii) as advised by the Valuer, a higher DLOM is generally applied to non-listed smaller-sized companies, we concur with the view of the Valuer that the DLOM of 30% as set out in "Updated Suggestions for the Selection of a Baseline Marketability Discount for Holding Companies" by Paul R. Hyde published in the Business Appraisal Practice: Journal of The Institute of Business Appraisers, Inc. is a valid reference for determining the DLOM for the Target Group and the DLOM of 30% applied by the Valuer to be reasonable.

Note 5: Control premium

We note that the Valuer has applied a control premium of approximately 14.3% to reflect the Company's majority control over corporate policies of the Target Group like election of directors or selection of management, acquisition or liquidation of assets, control over dividend policy, ability to set corporate strategies, ability to affect future earnings, etc. The control premium of approximately 14.3% was determined by the Valuer with reference to the exhaustive list of acquisitions of majority control and/or privatisations on the Stock Exchange from 1 January 2018 to 31 December 2020 with control premium of 3% to 30% (excluding outliers with control premium below 3% and above 30%). Based on our discussion with the Valuer, we understand that such screening criteria is added to remove outliers that might indicate substantial deviation from the average value. We have reviewed the list of relevant transactions and note that the average control premium of the relevant transactions was approximately 14.3%. Given the statistics on recent acquisition of majority control and/or privatisations, we concur with the view of the Valuer that the average control premium of the relevant transactions is a valid reference for determining the control premium for the Target Group and the control premium of approximately 14.3% applied by the Valuer to be reasonable.

Our view

Having discussed the above market approach adopted by the Valuer and reviewed the details of their valuation methodology, bases and assumptions, we are of the view that the chosen valuation methodology in establishing the Business Valuation is in line with market practices to value businesses of a similar nature. During our discussion with the Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Business Valuation Report. Having considered our independent work performed on the Business Valuation Report and that the Consideration of HK$840,600,000 is equal to the Business Valuation of the Target Group of HK840,600,000, we are of the view that the Consideration is fair and reasonable as far as the Company and the Shareholders as a whole are concerned.

6.2. The NTAV Adjustment Mechanism

With regards to the NTAV Adjustment Mechanism, we consider that it is a common consideration adjustment for acquisition and disposal transactions. As the NTAV Adjustment Mechanism adjusts the Consideration dollar-for-dollar the difference between the NTAV of the Target Group as at the Completion Date and the NTAV of the Target Group as at 31 December 2020 by adding (if the NTAV of the Target Group as at the Completion Date is greater than the NTAV of the Target Group as at 31 December 2020) or subtracting (if the NTAV of the Target Group as at the Completion Date is smaller than the NTAV of the Target Group as at 31 December 2020) such difference to or from the Consideration, it enhances protection for both the purchaser and seller as it accounts for any increase or decrease in the net asset value of the Target Group between 31 December 2020 and the Completion Date.

6.3. The settlement term

Pursuant to the Sale and Purchase Agreement, of the Consideration of HK$840,600,000, (i) HK$442,650,000 (representing approximately 52.7% of the Consideration) will be settled through the Proposed Disposal of the Disposal Property and the entire issued share capital in the Property Holdcos by the Group to the Seller Group (the ''**Disposal Consideration**'') and (ii) the remaining HK$397,950,000 (representing approximately 47.3% of the Consideration) will be settled by cash (the ''**Cash Consideration**''). As stated in the Letter from the Board, the Cash Consideration will be funded by the Group's internal resources.

As discussed with the Company, the Directors are of the view that the proposed settlement method for the Consideration, being partially through the Disposal Consideration, will help preserve the cash balance of the Group and allow sufficient cashflow for financing the general working capital use of the Group. Based on the 6M2021 Interim Results Announcement, we note that the Group has cash and bank balances of approximately HK$822.0 million as at31 December 2020, which would be insufficient to settle the full amount of the Consideration.

We have discussed with management of the Company that other fund-raising methods such as share placement or bank financing are not preferred by the Company as time required for negotiation and finalisation of the terms of share placement or bank financing might be uncertain. In addition, share placement by the Company would lead to earnings dilution while bank financing would lead to additional finance cost and negatively impact the gearing ratio of the Group.

Despite the fact that settlement of the Consideration partially via the Disposal Consideration will result in the Group ceasing to hold the interest in the Property Holdcos and the Disposal Property as a result of the Proposed Disposal, given that the terms of the Proposed Disposal are fair and reasonable (please refer to the section headed below for our analysis on the fairness of the terms of the Proposed Disposal), we concur with the management of the Company that the Disposal Consideration is a suitable alternative method to other debt and equity fund-raising methods for settling part of the Consideration.

Based on the above, in particular (i) the Disposal Consideration, being non-cash consideration to partially settle the Consideration will help reduce cash outflow from the Company; (ii) the cash balance of the Group of approximately HK$822.0 million as at 31 December 2020 is insufficient to settle the full amount of Consideration; and (iii) other fund raising activities might be more time-consuming and may incur additional cost, we concur with the Directors that the arrangement to settle the Consideration by the Disposal Consideration and Cash Consideration is in the interest of the Company and the Shareholders as a whole.

7. Analysis on the fairness of the terms of the Proposed Disposal

As set out in the Letter of the Board, the (i) Property Holdcos to be transferred currently hold three industrial properties in Hong Kong, one office property in Hong Kong, two commercial properties in Macau and one residential property in Macau; and (ii) the Disposal Property to be transferred consists of one industrial property in Hong Kong.

7.1. Valuation of the properties

We have obtained the property valuation report prepared by the Valuer as set out in Appendix VI of the Circular (the "**Property Valuation Report**") and noted that the valuation of properties directly or indirectly held by the Property Holdcos and the Disposal Property (the "**Disposal Properties**") as at 31 December 2020 was HK$442,650,000 million.

To assess the fairness and reasonable of the Consideration, we have reviewed the Property Valuation Report and discussed with the Valuer regarding the methodology adopted for and the basis and assumptions used in arriving at the Property Valuation. It is noted that the Valuer carried a site visit to the Disposal Properties in Hong Kong on 28 January 2021. In valuing the Disposal Properties, the Valuer has (i) adopted direct comparison approach and (ii) complied with "HKIS Valuation Standards 2020" published by "The Hong Kong Institute of Surveyors" ("**HKIS**") and "RICS Valuation — Global Standards" published by the "Royal Institution of Chartered Surveyors" ("**RICS**").

In relation to the suitability and qualification of the Valuer, please refer to the section headed "*6. Fairness and reasonableness of the Consideration, the NTAV Adjustment Mechanism and the settlement term — 6.1. The Consideration — (i) suitability and qualification of the valuer*" for our assessment on the suitability and qualification of the valuer. We are not aware of any matters that would cause us to question the Valuer's competence and independence and we consider that the Valuer has sufficient expertise and is independent to perform the Property Valuation.

Based on our discussion with the Valuer, the valuation methodology in accordance with "HKIS Valuation Standards 2020" published by HKIS of any asset can be broadly classified into one of three approaches, namely the direct comparison approach, the cost approach and the income approach. As advised by the Valuer, the direct comparison approach was considered as an appropriate methodology in assessing the value of the Disposal Properties given the availability of the market information of actual sales transactions of comparable properties, which is considered to be the best indicator of the fair value of the Disposal Properties. We understand the Valuer has also considered other valuation approaches including cost approach and income approach. Under the cost approach, the value is established based on the land costs and the costs of construction in reproducing the property, without taking into account the market conditions. Under the income approach, the value is established based on historical and/or forecasted cash flow, discounted to present value with an appropriate risk-adjusted discount rate. Considering the Disposal Properties are not under construction and the estimation of future economic benefit stream of the Disposal Properties and the discount rate are subject to various assumptions and uncertainties, the Valuer has considered cost approach and income approach less appropriate for valuing the Disposal Properties. We understand that the direct comparison approach is commonly used in arriving at the market value of properties. In view of the above, we concur with the Valuer in adopting the direct comparison approach for the purpose of the Property Valuation.

Furthermore, we note that in determining the market value of the Disposal Properties, the Valuer has adopted the direct comparison approach and made reference to the recent comparable sales transactions as available in the relevant market. Comparable properties of similar size, nature and location were analysed and carefully selected of each property in order to arrive at a fair comparison of market value. We have conducted desktop research and noted that the comparable properties are located in the same building or in the same district of the Disposal Properties. Based on our discussion with the Valuer, the Valuer has included all of the most suitable comparables which meet their selection criteria as identified by them based on their best information, knowledge and belief. Furthermore, we have discussed with the Valuer to understand the assumptions which they have taken into consideration. We understand that adjustments have been made by the Valuer to the comparable properties in terms of, among others, time of transaction, location, floor, and view and then carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of the market value of the Disposal Properties.

During our review of the Property Valuation Report and discussion with the Valuer, we did not note any unusual matter in relation to the Property Valuation Report nor we did have any disagreements on the methodologies and assumptions used in the Property Valuation Report. Based on the above, we are of the view that the bases, assumptions and methodologies adopted in arriving at the Property Valuation are fair and reasonable. Hence, we consider it reasonable that the Seller and the Company to make reference to the Property Valuation when determining the Disposal Consideration.

Given that the Proposed Disposal allows the Group to realise its investment in the Disposal Properties at a fair price and will be used to partially settle the Consideration for the Proposed Acquisition, we concur with the view of the Directors that although the Proposed Disposal does not fall within the ordinary and usual course of business of the Group, the Disposal is in the interest of the Company and the Shareholders as a whole.

7.2. Consideration for the Proposed Disposal

The consideration represented by the Proposed Disposal of the entire issued share capital in the Property Holdcos and the Disposal Property is HK$442,650,000 ("**Disposal Consideration**"), which is used to settle part of the Consideration of the Proposed Acquisition. Given that the Disposal Consideration equals to the valuation of the properties conducted by the Valuer, we consider that the Disposal Consideration is fair and reasonable.

8. Financial effects of the Proposed Transactions

8.1. Overall accounting presentation

Upon Completion, (i) 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; and (ii) the Group will cease to hold any right, title and interest in the Property Holdcos and the Properties and each of the Property Holdcos will cease to be a wholly-owned subsidiary of the Company.

8.2. Earnings

Based on the net profit of the Group for the six months ended 31 December 2020 of approximately HK$329.1 million and taking account the net profit of the Target Group for the six months ended 31 December 2020 of approximately HK$142.3 million in the financial statements of the Target Company, the earnings of the Enlarged Group is expected to enhance after Completion.

In respect of the Proposed Disposal, as set out in the Letter from the Board, the net book value (netted with related deferred tax) of the properties directly or indirectly held by the property Holdcos and the Disposal Property as at 31 December 2020 amounted to approximately HK$294.7 million. The difference between the fair value and the net book value of the properties directly or indirectly held by the Property Holdcos and the Disposal Property is expected to be approximately HK$148.0 million.

8.3. Net assets

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular (the "**Pro Forma Statements**"), assuming Completion to have occurred on 31 December 2020, the total assets of the Group of approximately HK$3,158.3 million will decrease to total assets of the Enlarged Group of approximately HK$2,941.7 million as at 31 December 2020 and total liabilities of the Group of approximately HK$2,441.0 million will increase to total liabilities of the Enlarged Group of approximately HK$2,844.9 million as at 31 December 2020. Net assets of the Group of approximately HK$717.3 million will decrease to net assets of the Enlarged Group of approximately HK$96.8 million as at 31 December 2020. The decrease in net assets mainly arises from the net effect of (i) the consolidation of the assets and liabilities of the Target Group of approximately HK$77.7 million as at 31 December 2020; (ii) the decrease in cash and bank balances of approximately HK$397.9 million arising from the cash settlement of part of the Consideration; and (iii) the disposal of the Disposal Properties with total carrying values of approximately HK$300.9 million as at 31 December 2020 as settlement of the remaining part of the Consideration.

Despite the decrease in net assets of the Enlarged Group upon Completion mainly arising from the reduction in cash and bank balances and disposal of the carrying values of the Disposal Properties to satisfy the Consideration, taking into account the (i) expected increase in earnings of the Enlarged Group after Completion as set out in the sub-section above, which the Proposed Acquisition provides the Group the opportunity to take advantage of the strong financial performance of the Target Group; (ii) the Proposed Acquisition would diversify the Group's revenue stream with additional client base of the Target Group's business service lines to improve the stability of operation of the Group; (iii) the Proposed Disposal allows the Group to realise its investment in the Disposal Properties at their fair value of approximately HK$442.6 million, which represents a positive difference of approximately HK$148.0 million as compared to the net book value (netted with related deferred tax) of the Disposal Properties of approximately HK$294.7 million, and the Proposed Disposal as a method to partially settle the Consideration would not strain the Group's working capital; and (iv) other methods of financing to satisfy the Consideration such as share placement by the Company would lead to earnings dilution while bank financing would lead to additional financial cost and negatively impact the gearing ratio of the Group, we consider that decrease in the Enlarged Group's net assets upon Completion is acceptable.

8.4. Working capital

Pursuant to the Sale and Purchase Agreement, the Proposed Acquisition will be paid for by the Company through (i) a non-cash consideration of HK$442,650,000 settled through the Proposed Disposal of the Disposal Property and the entire issued share capital in the Property Holdcos by the Group to the Seller Group; and (ii) a cash consideration of HK$397,950,000 payable in cash by the Company. As stated in the Letter from the Board, the payment of cash consideration will be funded the Group's internal resources. Assuming that the Proposed Transactions was completed on 31 December 2020, the Group would have cash and bank balances of approximately HK$585.2 million remaining as at 31 December 2020, based on the cash and cash equivalents of the Group of approximately HK$822.0 million as at 31 December 2020, after (i) deducting the cash consideration of approximately HK$398.0 million, and (ii) including the cash and bank balances of the Target Group of approximately HK$161.2 million as at 31 December 2020.

8.5. Gearing

The Group's gearing ratio as at 31 December 2020 (representing net debt (total bank borrowings of approximately HK$263.7 million less cash and cash equivalents of approximately HK$822.0 million) divided by total equity) was zero due to net cash position. Based on the Pro Forma Statements, assuming that the Proposed Transactions was completed on 31 December 2020, the gearing ratio of the Enlarged Group is expected to remain at zero due to net cash position (based on total bank borrowings of approximately HK$263.7 million and cash and cash equivalents of approximately HK$585.2 million (the "**Pro-forma Cash Balance**") as at 31 December 2020 assuming that the Proposed Transactions was completed on 31 December 2020).

With reference to "Note 32 Subsequent Events" in the Financial Information of the Target Group as set out in appendix II of this circular, the Target Group had drawn down bank borrowings of approximately HK$130 million (the "**Additional Borrowings**") in February 2021. Taking into account the Additional Borrowings of approximately HK$130 million and the Enlarged Group's bank borrowings of approximately HK$263.7 million as at 31 December 2020, the Enlarged Group's borrowings would amount to approximately HK$393.7 million (the "**Aggregate Borrowings**"). The Group's gearing ratio, taking into account the Additional Borrowings, is expected to remain at zero due to net cash position (based on the Aggregate Borrowings of approximately HK$393.7 million and Pro-forma Cash Balance of approximately HK$585.2 million).

As set out in the Letter from the Board, the Company and the Seller will enter into the deed of counter indemnity (the "**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 which may result or which the Seller may suffer as a result of the enforcement of existing corporate guarantees and undertaking relating to credit facilities and contractual obligations of certain members of the Target Group. Given that (i) the Counter Indemnity arrangement itself has no accounting impact on the financial position of the Enlarged Group; (ii) the liabilities of the Target Group as at 31 December 2020 had already been reflected in the Pro-forma Statements, which the gearing ratio of zero as illustrated above was calculated based on the Pro Forma Statements; and (iii) based on our discussion with management of the Company, as at the Latest Practicable Date, the Company had not identified likely events that may potentially trigger the Counter Indemnity resulting in additional liabilities (including additional borrowings) to the Enlarged Group, the Counter Indemnity arrangement is not expected to impact the gearing ratio of the Enlarged Group.

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 will enhance the Enlarged Group's earnings but will not have a material adverse impact on the Enlarged Group's financial position, taking into account (i) the Enlarged Group's Pro-forma Cash Balance of approximately HK$585.2 million as if the Proposed Acquisition had taken place at 31 December 2020; and (ii) the gearing ratio of the Enlarged Group is expected to remain at zero given the Enlarged Group's net cash position.

9. Information on the counterparties to the 2021 Master Facility and Related Services Agreements

9.1. Information on the Doo's Associates Group

As disclosed in the Letter from the Board, to the best knowledge of the Directors, the principal businesses of the Doo's Associates Group are property investment, the provision of property leasing, landscaping, project management, insurance consultancy and brokerage, and security and guarding services.

9.2. Information on the NWD Group

NWD is 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). As at the Latest Practicable Date and based on publicly available information, CTFE and its subsidiaries were interested in approximately 44.55% of the total issued share capital of NWD.

As disclosed in the Letter from the Board, to the best knowledge of the Directors, the NWD Group is principally engaged in property development, property investment and investment in and/or operation of roads, commercial aircraft leasing, construction, insurance, hotels and other strategic businesses.

9.3. Information on the NWS Group

NWS is 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). As at the Latest Practicable Date and based on publicly available information, NWD and its subsidiaries were interested in approximately 60.86% of the total issued share capital of NWS and CTFE was interested in approximately 2.48% of the total issued share capital of NWS.

As disclosed in the Letter from the Board, to the best knowledge of the Directors, the principal businesses of the NWS Group include: (i) the development of investment in and/or operation of roads, commercial aircraft leasing and construction; and (ii) the investment in and/or operation of environmental, logistics and facilities management projects.

9.4. Information on the CTFE Group

CTFE is a company incorporated in Hong Kong with limited liability. As at the date of this announcement and based on publicly available information, CTFE is a wholly-owned subsidiary of Chow Tai Fook (Holding) Limited. Chow Tai Fook (Holding) Limited is a 81.03% owned subsidiary of Chow Tai Fook Capital Limited. Chow Tai Fook Capital Limited is owned as to 48.98% and 46.65% by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited, respectively.

As disclosed in the Letter from the Board, to the best knowledge of the Directors, CTFE is principally engaged in investment holding.

9.5. Information on the CTFJ Group

CTFJ is 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). As at the date of this announcement and based on publicly available information, Chow Tai Fook (Capital) Limited was interested in approximately 72.39% of the total issued share capital of CTFJ.

As disclosed in the Letter from the Board, to the best knowledge of the Directors, the principal businesses of CTFJ and its subsidiaries include manufacturing and selling of high-end luxury, mass luxury and youth line jewellery products (including gem-set/platinum/karat gold jewellery and gold jewellery and products), and distributing watches of various brands.

10. Principal terms of the 2021 Master Facility and Related Services Agreements

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

(1) the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to and receipt of the rental and related services from the Doo's Associates Group;

(2) the provision of the Security Guarding & Event Services, the Insurance and Related Services and the Landscaping Services to and receipt of IT Support Services and Rental Services from the NWD Group; and

(3) the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to members of each of the NWS Group, the CTFE Group and the CTFJ Group and receipt of the rental and related services from the NWS Group, the CTFE Group and the CTFJ Group and receipt of convention and exhibition facilities and related functions and services and food and beverage catering services from the NWS Group.

It is expected that the above continuing connected transactions will continue after the completion of the Proposed Transactions. 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 Group on one side, and each of the Doo's Associate Group, the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group on the other will respectively become continuing connected transactions of the Company under the Listing Rules.

10.1. 2021 FSE Master Facility and Related Services Agreement

The major terms of the 2021 FSE Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) the Seller; and (2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive).

		Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 FSE Master Facility and Related Services Agreement shall be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.
Services to be provided by the Enlarged Group to Doo's Associates Group	:	Security Guarding & Event Services, Insurance Solutions and Landscaping Services and such other types of services as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing.
Services to be provided by Doo's Associates Group to the Enlarged Group	:	Rental and related services, and such other types of services as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing. The Group has been using certain properties to be disposed under the Proposed Disposal for office premises, staff accommodation and industrial purposes. Upon completion of the Proposed Disposal, the Group will cease to hold any right, title and interest in the Property Holdcos and the Disposal Property. In order for the Enlarged Group to continue to use such properties, it is proposed that, upon Completion, the Seller will provide the rental related services to the Group and lease certain properties to the Enlarged Group. The premises to be leased by the Doo's Associates Group to the Enlarged Group include: (1) Unit A on 8/F, Chai Wan Industrial Centre, No. 20 Lee Chung Street, Hong Kong;

(2) Portion B on 6/F, Hop Shi Factory Building, Nos. 29–31 Lee Chung Street & Nos. 22–24 Cheung Lee Street, Hong Kong;

(3) Unit D on 2/F including Flat Roof, Golden Bear Industrial Centre, Nos. 66–82 Chai Wan Kok Street, Tsuen Wan, New Territories, Hong Kong;

(4) 17/F., Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong;

(5) Em Macao, Rua Nova da Areia Preta No 456, Edf. Tong Wa Block XII, Rés-Do-Chão A;

(6) Em Macao, Rua do Almirante Costa Cabral No S 17–17-A, Holland Garden (Phase 4), Rés-Do-Chão A (Com Sobreloja);

(7) Em Macao, Rua do Ouvidor Arriaga No 39, Holland Garden (Phase 4), 1o Andar A;

and such other premises as members of the Enlarged Group and members of the Doo's Associates Group may agree upon from time to time in writing.

Definitive Agreements : Members of the Enlarged Group and members of the Doo's Associates Group will, from time to time during the term of the 2021 FSE Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 FSE Master Facility and Related Services Agreement.

Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to or from independent third parties.

10.2. 2021 NWD Master Facility and Related Services Agreement

The major terms of the 2021 NWD Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) NWD; and (2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 NWD Master Facility and Related Services Agreement may be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.
Services to be provided by the Enlarged Group to the NWD Group	:	Security Guarding & Event Services, the Insurance and Related Services and the Landscaping Services and such other types of services as members of the Enlarged Group and members of the NWD Group may agree upon from time to time in writing.
Services to be provided by the NWD Group to the Target Group of the Enlarged Group	:	IT Support Services, Rental Services and such other types of services as members of the Enlarged Group and members of the NWD Group may agree upon from time to time in writing.

Definitive Agreements	:	Members of the Enlarged Group and members of the NWD Group will, from time to time during the term of the 2021 NWD Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 NWD Master Facility and Related Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to or from independent third parties.

10.3. 2021 NWS Master Facility and Related Services Agreement

The major terms of the 2021 NWS Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) NWS; and (2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 NWS Master Facility and Related Services Agreement may be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.

Services to be provided by the Enlarged Group to the NWS Group	:	Security Guarding & Event Services, supply of security products, the Insurance Advisory Services and the Landscaping Services and such other types of services as members of the Enlarged Group and members of the NWS Group may agree upon from time to time in writing.
Services to be provided by the NWS Group to the Enlarged Group	:	Rental of properties, spare spaces, car parking spaces, vehicles and vessels and related services, provision of convention and exhibition facilities and related functions and services and food and beverage catering services and such other types of services as members of the Enlarged Group and members of the NWS Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the NWS Group will, from time to time during the term of the 2021 NWS Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 NWS Master Facility and Related Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to or from independent third parties.

10.4. 2021 CTFE Master Facility and Related Services Agreement

The major terms of the 2021 CTFE Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) CTFE; and (2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 CTFE Master Facility and Related Services Agreement may be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.
Services to be provided by the Enlarged Group to the CTFE Group	:	Security Guarding & Event Services, Insurance Solutions and Landscaping Services and such other types of services as members of the Enlarged Group and members of the CTFE Group may agree upon from time to time in writing.
Services to be provided by the CTFE Group to the Enlarged Group	:	Leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services and such other types of services as members of the Enlarged Group and members of the CTFE Group may agree upon from time to time in writing.

Definitive Agreements	:	Members of the Enlarged Group and members of the CTFE Group will, from time to time during the term of the 2021 CTFE Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 CTFE Master Facility and Related Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to or from independent third parties.

10.5. 2021 CTFJ Master Facility and Related Services Agreement

The major terms of the 2021 CTFJ Master Facility and Related Services Agreement are set out below:

Date	:	Completion Date
Parties	:	(1) CTFJ; and (2) the Company
Duration	:	An initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive). Subject to compliance with the applicable requirements of the Listing Rules at the relevant time, the 2021 CTFJ Master Facility and Related Services Agreement may be automatically renewed at the end of its initial term for a successive period of three years (or such other period as required under the Listing Rules or by the Stock Exchange) upon expiration of its initial term or any subsequently renewed term.

Services to be provided by the Enlarged Group to the CTFJ Group	:	Security Guarding & Event Services, Insurance Solutions and Landscaping Services and such other types of services as members of the Enlarged Group and members of the CTFJ Group may agree upon from time to time in writing.
Services to be provided by the CTFJ Group to the Enlarged Group	:	Leasing and licensing of properties, including, without limitation, spare spaces, car parking spaces and related services and such other types of services as members of the Enlarged Group and members of the CTFJ Group may agree upon from time to time in writing.
Definitive Agreements	:	Members of the Enlarged Group and members of the CTFJ Group will, from time to time during the term of the 2021 CTFJ Master Facility and Related Services Agreement, enter into separate Definitive Agreements in respect of the Services Transactions contemplated thereunder which shall always be in compliance with the Listing Rules and the 2021 CTFJ Master Facility and Related Services Agreement.
Pricing	:	On normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group and the CTFJ Group than terms available to or from independent third parties.

11. Reasons for entering into the 2021 Master Facility and Related Services Agreements

As stated in the Letter from the Board, the Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreements are of a recurrent nature and, subject to the Completion of the Proposed Transactions having taken place, will occur on a regular and continuing basis in the ordinary and usual course of business of the Enlarged Group and the respective counterparties to each of the 2021 Master Facility and Related Services Agreements.

In line with the market practice and the Company's past practice, the Company considered it necessary for Listing Rules compliance purposes and administrative convenience to enter into a framework agreement with each of the holding companies of the relevant contract counterparties in order to better document and manage these continuing connected transactions. The 2021 Master Facility and Related Services Agreements serve to streamline the Services Transactions arise due to the Proposed Transactions between members of the Enlarged Group and members of the Doo's Associates Group, the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group respectively by providing a single basis upon which the Company could comply with the applicable reporting, announcement and (where applicable) independent shareholders' approval requirements under Chapter 14A of the Listing Rules and thereby reducing the administrative burden and costs of the Company in complying with these requirements.

Members of the Doo's Associates Group, the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group are with profound experience and reputation in their respective areas of businesses or services and solid financial standing and have demonstrated themselves as reliable services providers or customers of the Target Group over the years. The Directors believe that the maintenance of the strategic business relationships with them will not only allow the realisation of synergies and economies of scale but will also continue to bring sustainable contribution to the Enlarged Group's growth in the long run.

Given the above, in particular the recurrent nature of the transactions as contemplated under the 2021 Master Facility and Related Services Agreements and its purpose to streamline the Services Transactions and maintain the strategic business relationships, we concur with the view of the management of the Company that the entering into of the 2021 Master Facility and Related Services Agreements falls within the ordinary and usual course of business of the Enlarged Group and is in the interests of the Company and the Shareholders as a whole.

11.1. 2021 FSE Master Facility and Related Services Agreement

Pursuant to the 2021 FSE Master Facility and Related Services Agreement, the Doo's Associates Group and the Enlarged Group will provide each other with the Services for an initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive).

11.1.1. Services provided by the Enlarged Group to the Doo's Associates Group

Based on the information provided by the management of the Target Group, we note that the relevant Annual Caps for the term of the 2021 FSE Master Facility and Related Services Agreement are relatively insignificant of less than HK$11 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023 and the Services provided by the Enlarged Group to the Doo's Associates Group are mainly expected to be the provision of Security Guarding & Event Services and Landscaping Services by the Enlarged Group to the Doo's Associates Group.

For Security Guarding & Event Services to be provided by members of the Enlarged Group to members of the Doo's Associates Group, as stated in the Letter from the Board, the fees payable by the Doo's Associates Group will be determined by reference to comparable fee quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered.

We understand from management of the Target Group that for the Security Guarding & Event Services provided by the Target Group, customers would first invite them to a quotation or tender (or similar processes) for the security service, and the services provider who wins the quotation or tender will secure the service contract to provide the required Security Guarding & Event Services. We further understand from management of the Target Group that as part of the internal procedures (the "**Security Internal Procedures**"), the Target Group will prepare a detailed costing listing out all cost elements for the number and type of staff required, such costing is subsequently approved by the general manager or the assistant general manager of the Target Group. In pricing a quotation or tender, the management of the Target Group will take into account the detailed costing and factors such as the estimated profit margin of the potential contract, length of business relationship and any potential development of strategic partnerships in the future with the customer. The Target Group will also make reference to similar existing contracts entered into by the Target Group with other independent third party customers. These measures/procedures are designed to ensure that the quotation or tender price and the terms of the quotation or tender to be offered by the Target Group are fair and reasonable and comparable to those offered by the Target Group to independent third parties, and are adhered to by the Target Group for contracts obtained by the Target Group through quotation or tender.

We note that the Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the Doo's Associates Group were less than HK$5 million in each of FY2019, FY2020 and the six months ended 31 December 2020. Having considered the contribution of each category of the Services under the 2021 FSE Master Facility and Related Services Agreement as well as their respective number of transactions (i.e. population size) made during FY2019, FY2020 and the six months ended 31 December 2020 (the "**Review Period**"), we have selected two sample transactions on a random basis in relation to Security Guarding & Event Services engagements provided by member of the Target Group to member of the Doo's Associates Group and reviewed the relevant documents, including the Security Guarding & Event Services contracts, the detailed costing and the contracts entered into by the Target Group with other independent third parties referred to by the Target Group. We note that the Target Group has complied with the Security Internal Procedures and its price and terms are no less favourable to the Target Group than those offered by the Target Group to independent third parties. We understand from the Company that for contracts to be entered into between the Enlarged Group and its customers for the provision of Security Guarding & Event Services after Completion, the Enlarged Group will follow the Security Internal Procedures. We consider the Enlarged Group will have internal procedures in place to ensure the Security Guarding & Event Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

For Landscaping Services to be provided by members of the Enlarged Group to members of the Doo's Associates Group, as stated in the Letter from the Board, the fees payable by the Doo's Associates Group will be determined by reference to comparable fee quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered. In pricing a quotation or tender, the management of the Target Group will take into account factors such as major cost components involved (e.g. labour, materials and plants required etc.), length of business relationship, market competition and any potential development of strategic partnerships in the future with the customer. We understand from management of the Target Group that as part of the internal procedures (the "**Landscaping Internal Procedures**"), the general manager and/or the representative of corporate office of the Target Group will review and approve the quotation or tender. The Target Group will also make reference to two similar existing contracts entered into by the Target Group with other independent third party customers. We note that the transactions related to the Landscaping Services provided by the Target Group to the Doo's Associates Group were less than HK$100,000 in total for the Review Period. We consider the Enlarged Group will have internal procedures in place to ensure the Landscaping Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

11.1.2. Services provided by the Doo's Associates Group to the Enlarged Group

Based on the information provided by the management of the Target Group, we note that the Services provided by the Doo's Associates Group to the Target Group mainly attributable to the provision of rental and related services.

For rental and related services to be provided by members of the Doo's Associates Group to members of the Enlarged Group, as stated in the Letter from the Board, the rental or leasing/licensing fees payable by the Enlarged Group will be determined by reference to the market rental of the property concerned current at or close to the lease or license commencement date by reference to rentals comparable of similar properties in similar locations and where applicable, with comparable facilities, obtained from independent property agencies or parties.

We further understand from management of the Target Group that as part of its rental internal procedures (the "**Rental Internal Procedures**"), the Target Group would compare the then market rental rate of properties with similar features including but not limited to location, usable space, building conditions, available facilities, quality and rental period and consider the business environment and the historical and expected inflation rate before entering into rental agreement with the Doo's Associates Group to ensure the terms are no less favourable to the Target Group than those offered by independent third parties.

Having considered the contribution of each category of the Services under the 2021 FSE Master Facility and Related Services Agreement as well as their respective number of transactions (i.e. population size) made during the Review Period, we have selected two sample transactions on a random basis in relation to rental of properties owned by the Doo's Associates Group and reviewed the relevant documents, including the rental analysis comparing the market rental rate of at least two properties with similar features before entering into tenancy agreement and the respective tenancy agreements. We note that the Target Group has complied with the Rental Internal Procedures. We have also conducted our own research on the rental property market by comparing the prevailing market rate of properties with similar location, usable space, available facilities and quality to the rental rate and terms offered by the Doo's Associates Group and note that the rental rate and terms offered by the Doo's Associates Group are no less favourable than the prevailing market rate. In performing our own research on the rental property market and prevailing market rate, we have reviewed the rental rate of comparable properties located in the same district that are listed on the websites of real estate agencies, and compared the listed market rental rate to the rental rate offered by the Doo's Associates Group. In addition, we have reviewed the past rental transaction records for comparable properties and compared these to the rental rate offered by the Doo's Associates Group. We understand from the Company that for rental agreements to be entered into between the Enlarged Group and the Doo's Associates Group after Completion, the Enlarged Group will have to follow the Rental Internal Procedures. We consider the Enlarged Group will have internal procedures in place to ensure the rental and related services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available from independent third parties after Completion.

Given the above, in particular that (i) the entering into the 2021 FSE Master Facility and Related Services Agreement falls within the ordinary and usual course of business of the Enlarged Group after Completion; (ii) the internal control procedures in place to monitor the Services Transactions contemplated under the 2021 FSE Master Facility and Related Services Agreement; (iii) 2021 FSE Master Facility and Related Services Agreement does not restrict the Group from, receiving the Services from, providing the Services to, its independent third parties; and (iv) the major terms of each of the

2021 FSE Master Facility and Related Services Agreement are fair and reasonable, we concur with the view of the Directors that the terms of the 2021 FSE Master Facility and Related Services Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

11.2. 2021 NWD Master Facility and Related Services Agreement

Pursuant to the 2021 NWD Master Facility and Related Services Agreement, the NWD Group and the Enlarged Group will provide each other with the Services for an initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive).

11.2.1. Services provided by the Enlarged Group to the NWD Group

Based on the information provided by the management of the Target Group, we note that the Services provided by the Target Group to the NWD Group substantially attributable to the provision of Security Guarding & Event Services by the Enlarged Group to the NWD Group.

For Security Guarding & Event Services to be provided by members of the Enlarged Group to members of the NWD Group, as stated in the Letter from the Board, the fees payable by the NWD Group will be determined by reference to comparable fee quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered.

In respect of Security Guarding & Event Services engagements, we understand that the Target Group is required to follow the Security Internal Procedures as mentioned under the section headed "11.1.1. Services provided by the Enlarged Group to the Doo's Associates Group" in this letter to ensure the price and terms offered to the NWD Group are no less favourable to the Target Group than those offered by the Target Group to independent third parties.

Having considered the contribution of each category of the Services under the 2021 NWD Master Facility and Related Services Agreement as well as their respective number of transactions (i.e. population size) made during the Review Period, we have selected three sample transactions on a random basis in relation to Security Guarding & Event Services engagements provided by member of the Target Group to member of the NWD Group and reviewed the relevant documents, including the Security Guarding & Event Services contracts, the detailed costing and the contracts entered into by the Target Group with other independent third parties referred to by the Target Group. We note that the Target Group has complied with the Security Internal Procedures and its price and terms are no less favourable to the Target Group than those offered by the Target Group to independent third parties. We understand from the Company that for contracts to be entered into between the Enlarged Group and its customers for the provision of Security Guarding & Event Services after Completion, the Enlarged Group will follow the Security Internal Procedures. We consider the Enlarged Group will have internal procedures in place to ensure the Security Guarding & Event Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

11.2.2. Services provided by the NWD Group to the Enlarged Group

Based on the information provided by the management of the Target Group, we note that the Services provided by the NWD Group to the Enlarged Group during the Review Period is the IT Support Services provided by the NWD Group to the Target Group. The amount was immaterial and less than HK$100,000 in total. However, we note that the Services provided by the NWD Group to the Enlarged Group for the term of the 2021 NWD Master Facility and Related Services Agreement are expected to be mainly attributable to the provision of Rental Services. The relevant Annual Caps for the term of the 2021 NWD Master Facility and Related Services Agreement are relatively insignificant of less than HK$10 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023.

In respect of the Rental Services provided by the NWD Group to the Enlarged Group, the Target Group is required to follow the Rental Internal Procedures as mentioned under the section headed "11.1.2. Services provided by the Doo's Associates Group to the Enlarged Group" in this letter to ensure the price and terms offered by the NWD Group are no less favourable to the Target Group than those offered by independent third parties to the Target Group. We note that there were no transactions during the Review Period relating to the Rental Services provided by the NWD Group to the Target Group. We consider the Enlarged Group will have internal procedures in place to ensure the Rental Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available from independent third parties after Completion.

Given the above, in particular that (i) the entering into the 2021 NWD Master Facility and Related Services Agreement falls within the ordinary and usual course of business of the Enlarged Group after Completion; (ii) the internal control procedures in place to monitor the Services Transactions contemplated under the 2021 NWD Master Facility and Related Services Agreement; (iii) 2021 NWD Master Facility and Related Services Agreement does not restrict the Group from, receiving the Services from, providing the Services to, its independent third parties; and (iv) the major terms of each of the 2021 NWD Master Facility and Related Services Agreement are fair and reasonable, we concur with the view of the Directors that the terms of the 2021 NWD Master Facility and Related Services Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

11.3. 2021 NWS Master Facility and Related Services Agreement

Pursuant to the 2021 NWS Master Facility and Related Services Agreement, the NWS Group and the Enlarged Group will provide each other with the Services for an initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive).

11.3.1. Services provided by the Enlarged Group to the NWS Group

Based on the information provided by the management of the Target Group, we note that the relevant Annual Caps for the term of the 2021 NWS Master Facility and Related Services Agreement are expected to be mainly attributable to the provision of Security Guarding & Event Services and Insurance Advisory Services by the Enlarged Group.

For Security Guarding & Event Services to be provided by members of the Enlarged Group to members of the NWD Group, as stated in the Letter from the Board, the fees payable by the NWD Group will be determined by reference to comparable fee quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered.

In respect of Security Guarding & Event Services engagements, we understand that the Target Group is required to follow the Security Internal Procedures as mentioned under the section headed "11.1.1. Services provided by the Enlarged Group to the Doo's Associates Group" in this letter to ensure the price and terms offered to the NWS Group are no less favourable to the Target Group than those offered by the Target Group to independent third parties.

Having considered the contribution of each category of the Services under the 2021 NWS Master Facility and Related Services Agreement as well as their respective number of transactions (i.e. population size) made during the Review Period, we have selected three sample transactions on a random basis in relation to Security Guarding & Event Services engagements provided by member of the Target Group to member of the NWS Group and reviewed the relevant documents, including the Security Guarding & Event Services contracts, the detailed costing and the contracts entered into by the Target Group with other independent third parties referred to by the Target Group. We note that the Target Group has complied with the Security Internal Procedures and its price and terms are no less favourable to the Target Group than those offered by the Target Group to independent third parties. We understand from the Company that for contracts to be entered into between the Enlarged Group and its customers for the provision of Security Guarding & Event Services after Completion, the Enlarged Group will follow the Security Internal Procedures. We consider the Enlarged Group will have internal procedures in place to ensure the Security Guarding & Event Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

For Insurance Advisory Services to be provided by members of the Enlarged Group to members of the NWS Group, as stated in the Letter from the Board, the fees payable by the NWS Group will be determined by reference to comparable quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered. In pricing a quotation, the management of the Target Group will determine the fee to charge the insured party taking into account factors including scope of services to be provided and the time and manpower required. We understand from management of the Target Group that as part of the internal procedures (the "**Insurance Internal Procedures**"), the determined fee requires the approval of different level of management staff of the Target Group, according to the level of sum insured or insurance premium charged. The Target Group will also make reference to quotations of similar insurance requirements offered to independent third parties (subject to practical availability and feasibility) in determining the fee to charge the insured party. We note that the transactions related to the Insurance Advisory Services provided by the Target Group to the NWS Group were less than HK$300,000 in total for the Review Period. We consider the Enlarged Group will have internal procedures in place to ensure the Insurance Advisory Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

11.3.2. Services provided by the NWS Group to the Enlarged Group

Based on the information provided by the management of the Target Group, we note that the relevant Annual Caps for the term of the 2021 NWS Master Facility and Related Services Agreement are relatively insignificant of less than HK$3 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023 and the Services provided by the NWS Group to the Enlarged Group are mainly expected to be the rental of properties, spare spaces, car parking spaces, vehicles and vessels and related services provided by the NWS Group to the Enlarged Group.

In respect of the rental of properties, spare spaces, car parking spaces, vehicles and vessels and related services provided by the NWS Group to the Enlarged Group, the Target Group is required to follow the Rental Internal Procedures as mentioned under the section headed "11.1.2. Services provided by the Doo's Associates Group to the Enlarged Group" in this letter to ensure the price and terms offered by the NWS Group are no less favourable to the Target Group than those offered by independent third parties to the Target Group. We note that there were no transactions during the Review Period relating to the rental of properties, spare spaces, car parking spaces, vehicles and vessels and related services provided by the NWS Group to the Target Group. We consider the Enlarged Group will have internal procedures in place to ensure the rental of properties, spare spaces, car parking spaces, vehicles and vessels and related services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available from independent third parties after Completion.

Given the above, in particular that (i) the entering into the 2021 NWS Master Facility and Related Services Agreement falls within the ordinary and usual course of business of the Enlarged Group after Completion; (ii) the internal control procedures in place to monitor the Services Transactions contemplated under the 2021 NWS Master Facility and Related Services Agreement; (iii) 2021 NWS Master Facility and Related Services Agreement does not restrict the Group from, receiving the Services from, providing the Services to, its independent third parties; and (iv) the major terms of each of the 2021 NWS Master Facility and Related Services Agreement are fair and reasonable, we concur with the view of the Directors that the terms of the 2021 NWS Master Facility and Related Services Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

11.4. 2021 CTFE Master Facility and Related Services Agreement

Pursuant to the 2021 CTFE Master Facility and Related Services Agreement, the CTFE Group and the Enlarged Group will provide each other with the Services for an initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive).

11.4.1. Services provided by the Enlarged Group to the CTFE Group

Based on the information provided by the management of the Target Group, we note that the relevant Annual Caps for the term of the 2021 CTFE Master Facility and Related Services Agreement are relatively insignificant of less than HK$12 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023 and the Services provided by the Enlarged Group to the CTFE Group are mainly attributable to the provision of Security Guarding & Event Services, Insurance Solutions and Landscaping Services by the Enlarged Group to the CTFE Group.

For Security Guarding & Event Services to be provided by members of the Enlarged Group to members of the NWD Group, as stated in the Letter from the Board, the fees payable by the NWD Group will be determined by reference to comparable fee quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered.

In respect of Security Guarding & Event Services engagements, we understand that the Target Group is required to follow the Security Internal Procedures as mentioned under the section headed "11.1.1. Services provided by the Enlarged Group to the Doo's Associates Group" in this letter to ensure the price and terms offered to the CTFE Group are no less favourable to the Target Group than those offered by the Target Group to independent third parties.

We note that the Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the CTFE Group were less than HK$4 million in each of FY2019, FY2020 and the six months ended 31 December 2020. Having considered the contribution of each category of the Services under the 2021 CTFE Master Facility and Related Services Agreement as well as their respective number of transactions (i.e. population size) made during the Review Period, we have selected two sample transactions on a random basis in relation to Security Guarding & Event Services engagements provided by member of the Target Group to member of the CTFE Group and reviewed the relevant documents, including the Security Guarding & Event Services contracts, the detailed costing and the contracts entered into by the Target Group with other independent third parties referred to by the Target Group. We note that the Target Group has complied with the Security Internal Procedures and its price and terms are no less favourable to the Target Group than those offered by the Target Group to independent third parties. We understand from the Company that for contracts to be entered into between the Enlarged Group and its customers for the provision of Security Guarding & Event Services after Completion, the Enlarged Group will follow the Security Internal Procedures. We consider the Enlarged Group will have internal procedures in place to ensure the Security Guarding & Event Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

In respect of Insurance Solutions engagements, the Target Group is required to follow the Insurance Internal Procedures as mentioned under the section headed "11.3.1. Services provided by the Enlarged Group to the NWS Group" in this letter to ensure the price and terms offered to the CTFE Group are no less favourable to the Target Group than those offered by the Target Group to independent third parties. We note that there were no transactions during the Review Period relating to Insurance Solutions provided by the Target Group to the NWS Group. We consider the Enlarged Group will have internal procedures in place to ensure the Insurance Solutions will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

In respect of Landscaping Services engagements, the Target Group is required to follow the Landscaping Internal Procedures as mentioned under the section headed "11.1.1. Services provided by the Enlarged Group to the Doo's Associates Group" in this letter to ensure the price and terms offered to the CTFE Group are no less favourable to the Target Group than those offered by the Target Group to independent third parties. We note that the transactions related to the Landscaping Services provided by the Target Group to the CTFE Group were less than HK$10,000 in total for the Review Period. We consider the Enlarged Group will have internal procedures in place to ensure the Landscaping Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

11.4.2. Services provided by the CTFE Group to the Enlarged Group

Based on the information provided by the management of the Target Group, we note that the relevant Annual Caps for the term of the 2021 CTFE Master Facility and Related Services Agreement are relatively insignificant of less than HK$1 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023 and the Services provided by the CTFE Group to the Enlarged Group are mainly expected to be the leasing or licensing properties, including, without limitation, spare spaces, car parking spaces and related services provided by the CTFE Group to the Enlarged Group.

In respect of the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services provided by the CTFE Group to the Enlarged Group, the Target Group is required to follow the Rental Internal Procedures as mentioned under the section headed "11.1.2. Services provided by the Doo's Associates Group to the Enlarged Group" in this letter to ensure the price and terms offered by the CTFE Group are no less favourable to the Target Group than those offered by independent third parties to the Target Group. We note that there were no transactions during the Review Period relating to the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services provided by the CTFE Group to the Target Group. We consider the Enlarged Group will have internal procedures in place to ensure the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available from independent third parties after Completion.

Given the above, in particular that (i) the entering into the 2021 CTFE Master Facility and Related Services Agreement falls within the ordinary and usual course of business of the Enlarged Group after Completion; (ii) the internal control procedures in place to monitor the Services Transactions contemplated under the 2021 CTFE Master Facility and Related Services Agreement; (iii) 2021 CTFE Master Facility and Related Services Agreement does not restrict the Group from providing the Services Transactions to its independent third parties; and (iv) the major terms of each of the 2021 CTFE Master Facility and Related services Agreement are fair and reasonable, we concur with the view of the Directors that the terms of the 2021 CTFE Master Facility and Related Services Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

11.5. 2021 CTFJ Master Facility and Related Services Agreement

Pursuant to the 2021 CTFJ Master Facility and Related Services Agreement, the CTFJ Group and the Enlarged Group will provide each other with the Services with for an initial term commencing on the Completion Date and ending on 30 June 2023 (both days inclusive).

11.5.1. Services provided by the Enlarged Group to the CTFJ Group

Based on the information provided by the management of the Target Group, we note that the relevant Annual Caps for the term of the 2021 CTFJ Master Facility and Related Services Agreement are relatively insignificant of less than HK$13 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023 and the Services provided by the Enlarged Group to the CTFJ Group are mainly attributable to the provision of Security Guarding & Event Services and Landscaping Services by the Enlarged Group to the CTFJ Group.

For Security Guarding & Event Services to be provided by members of the Enlarged Group to members of the NWD Group, as stated in the Letter from the Board, the fees payable by the NWD Group will be determined by reference to comparable fee quotations provided by the Enlarged Group to other independent customers, taking into account factors including the nature and type of services to be rendered.

In respect of Security Guarding & Event Services engagements, we understand that the Target Group is required to follow the Security Internal Procedures as mentioned under the section headed "11.1.1. Services provided by the Enlarged Group to the Doo's Associates Group" in this letter to ensure the price and terms offered to the CTFJ Group are no less favourable to the Target Group than those offered by the Target Group to independent third parties.

We note that the Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the CTFJ Group were less than HK$4 million in each of FY2019, FY2020 and the six months ended 31 December 2020. Having considered the contribution of each category of the Services under the 2021 CTFJ Master Facility and Related Services Agreement as well as their respective number of transactions (i.e. population size) made during the Review Period, we have selected two sample transactions on a random basis in relation to Security Guarding & Event Services engagements provided by member of the Target Group to member of the CTFJ Group and reviewed the relevant documents, including the Security Guarding & Event Services contracts, the detailed costing and the contracts entered into by the Target Group with other independent third parties referred to by the Target Group. We note that the Target Group has complied with the Security Internal Procedures and its price and terms are no less favourable to the Target Group than those offered by the Target Group to independent third parties. We understand from the Company that for contracts to be entered into between the Enlarged Group and its customers for the provision of Security Guarding & Event Services after Completion, the Enlarged Group will follow the Security Internal Procedures. We consider the Enlarged Group will have internal procedures in place to ensure the Security Guarding & Event Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

In respect of Landscaping Services engagements, the Target Group is required to follow the Landscaping Internal Procedures as mentioned under the section headed "11.1.1. Services provided by the Enlarged Group to the Doo's Associates Group" in this letter to ensure the price and terms offered to the CTFJ Group are no less favourable to the Target Group than those offered by the Target Group to independent third parties. We note that there were no transactions during the Review Period relating to the Landscaping Services provided by the Target Group to the CTFJ Group. We consider the Enlarged Group will have internal procedures in place to ensure the Landscaping Services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available to independent third parties after Completion.

11.5.2. Services provided by the CTFJ Group to the Enlarged Group

Based on the information provided by the management of the Target Group, we note that the relevant Annual Caps for the term of the 2021 CTFJ Master Facility and Related Services Agreement are insignificant of less than HK$100,000 for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023 and the Services provided by the CTFJ Group to the Enlarged Group are mainly expected to be the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces, and related services provided by the CTFJ Group to the Enlarged Group.

In respect of the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces, and related services provided by the CTFJ Group to the Enlarged Group, the Target Group is required to follow the Rental Internal Procedures as mentioned under the section headed "11.1.2. Services provided by the Doo's Associates Group to the Enlarged Group" in this letter to ensure the price and terms offered by the CTFJ Group are no less favourable to the Target Group than those offered by independent third parties to the Target Group. We note that there were no transactions during the Review Period relating to the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces, and related services provided by the CTFJ Group to the Target Group. We consider the Enlarged Group will have internal procedures in place to ensure the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces, and related services will be conducted on normal commercial terms and at prices and on terms no less favourable to the Enlarged Group than terms available from independent third parties after Completion.

Given the above, in particular that (i) the entering into the 2021 CTFJ Master Facility and Related Services Agreement falls within the ordinary and usual course of business of the Enlarged Group after Completion; (ii) the internal control procedures in place to monitor the Services Transactions contemplated under the 2021 CTFJ Master Facility and Related Services Agreement; (iii) 2021 CTFJ Master Facility and Related Services Agreement does not restrict the Group from providing the Services Transactions to its independent third parties; and (iv) the major terms of each of the 2021 CTFJ Master Facility and Related Services Agreement are fair and reasonable, we concur with the view of the Directors that the terms of the 2021 CTFJ Master Facility and Related Services Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

12. Proposed Annual Caps for the transactions

12.1. Historical transaction amounts

Historical transaction amounts in respect of the service transactions for the FY2019, FY2020 and the six months ended 31 December 2020 are set out below:

	Transaction amounts		
	For the year/period		**Six months ended 31 December**
Categories	**FY2019**	**FY2020**	**2020**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Services between the Target Group and the Doo's Associates Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the Doo's Associates Group	2,341	4,769	2,702
Rental and related services provided by the Doo's Associates Group to the Target Group	3,844	3,855	2,144

	Transaction amounts		
	For the year/period		Six months ended 31 December
Categories	**FY2019**	**FY2020**	**2020**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Services between the Target Group and the NWD Group			
Security Guarding & Event Services, the Insurance and Related Services and the Landscaping Services provided by the Target Group to the NWD Group	178,793	188,148	100,168
IT Support Services provided by the NWD Group to the Target Group	31	31	15
Services between the Target Group and the NWS Group			
Security Guarding & Event Services, supply of security products, the Insurance Advisory Services and Landscaping Services provided by the Target Group to the NWS Group	88,155	60,695	15,493
Services between the Target Group and the CTFE Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the CTFE Group	3,042	2,912	1,349
Services between the Target Group and the CTFJ Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the CTFJ Group	3,452	2,937	1,587

12.2. Proposed Annual Caps under the 2021 Master Facility and Related Services Agreements

The proposed Annual Caps in respect of the Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreements for the period commencing from the Completion Date and ending on 30 June 2023 is as follows:

	Proposed Annual Caps		
	For the period from the Completion Date to 30 June	For the year ending 30 June	
Categories	**2021***	**2022 ("FY2022")**	**2023 ("FY2023")**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Services between the Enlarged Group and the Doo's Associates Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to the Doo's Associates Group ("**Doo Sales Caps**")	2,928	9,203	10,016
Rental and related services provided by the Doo's Associates Group to the Enlarged Group ("**Doo Purchase Caps**")			
● Rental and related services with lease term not exceeding 12 months	4,106	11,257	899
● Rental and related services with lease term exceeding 12 months	—	56,530	—
Services between the Enlarged Group and the NWD Group			
Security Guarding & Event Services, the Insurance and Related Services and the Landscaping Services provided by the Enlarged Group to the NWD Group ("**NWD Sales Caps**")	60,346	321,512	550,231

Categories	Proposed Annual Caps For the period from the Completion Date to 30 June 2021* *(HK$'000)*	For the year ending 30 June 2022 (“**FY2022**”) *(HK$'000)*	 2023 (“**FY2023**”) *(HK$'000)*
IT Support Services and Rental Services provided by the NWD Group to the Enlarged Group (“**NWD Purchase Caps**”)	2,144	9,297	9,775
Services between the Enlarged Group and the NWS Group			
Security Guarding & Event Services, supply of security products, the Insurance Advisory Services and Landscaping Services provided by the Enlarged Group to NWS Group (“**NWS Sales Caps**”)	16,864	109,600	123,328
Rental of properties, spare spaces, car parking spaces, vehicles and vessels and related services, provision of convention and exhibition facilities and related functions and services and food and beverage catering services provided by the NWS Group to the Enlarged Group (“**NWS Purchase Caps**”)	395	2,160	2,308
Services between the Enlarged Group and the CTFE Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to CTFE Group (“**CTFE Sales Caps**”)	2,811	10,116	11,495

Categories	Proposed Annual Caps For the period from the Completion Date to 30 June 2021* *(HK$'000)*	For the year ending 30 June 2022 (“FY2022”) *(HK$'000)*	2023 (“FY2023”) *(HK$'000)*
Leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services to be provided by the CTFE Group to the Enlarged Group (“**CTFE Purchase Caps**”)	187	862	910
Services between the Enlarged Group and the CTFJ Group			
Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Enlarged Group to CTFJ Group (“**CTFJ Sales Caps**”)	2,559	10,565	12,242
Leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services to be provided by the CTFJ Group to the Enlarged Group (“**CTFJ Purchase Caps**”)	20	80	80

**Note:* The proposed Annual Caps for the period commencing from the Completion Date and ending on 30 June 2021 is estimated on the assumption that Completion will take place on or after 9 April 2021.

The proposed Annual Caps in respect of the Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreements are determined with reference to:

(1) in relation to the rental and related services to be provided by the Doo's Associates Group to the Enlarged Group and the leasing/licensing services to be provided by members of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group to members of the Enlarged Group:

a. as to the leasing/licensing services to be provided by members of the NWD Group, the NWS Group, the CTFE Group and the CTFJ Group and rental and related services to be provided by the Doo's Associates Group with lease term not exceeding 12 months, the expected rentals or licensing fees as may be paid by the Enlarged Group under each of the 2021 Master Facility and Related Services Agreements taking into account the current rentals/licensing fees and expected market rentals/licensing fees of similar properties in similar locations;

b. as to the rental and related services to be provided by the Doo's Associate Group with lease term exceeding 12 months, the expected right-of-use assets to be recognized by the Enlarged Group for the renewal of tenancy agreements under the 2021 FSE Master Facility and Related Services Agreement;

c. the Enlarged Group's demand in floor spaces for office premises, warehouse, car parking spaces, spare spaces, car parking spaces and other business uses of the Enlarged Group to cope with the Enlarged Group's business growth; and

d. the business environment and the historical and expected inflation.

(2) in relation to the IT Support Services to be provided by the NWD Group to the Enlarged Group:

a. the historical annual or annualised amounts in respect of the IT Support Services provided by the NWD Group to the Target Group during the two years ended 30 June 2020 and the six months ended 31 December 2020; and

b. the projected annual or annualised amounts in respect of the IT Support Services to be provided by the NWD Group to the Enlarged Group during the period from the Completion Date and ending on 30 June 2021 and the years ending 30 June 2022 and 2023, having taken into account the following major factors:

i. the business growth and need of the Enlarged Group; and

ii. the estimated market prices of such services by reference to the current market prices after factoring into the expected increase in service costs as well as inflation.

(3) in relation to the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to be provided by the Enlarged Group to the counterparties to the 2021 Master Facility and Related Services Agreements:

a. the historical annual or annualised amounts in respect of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services provided by the Target Group to the respective counterparties of the 2021 Master Facility and Related Services Agreements during the two years ended 30 June 2020 and the six months ended 31 December 2020;

b. the existing contracts in progress; and

c. the projected annual or annualised amount in respect of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services to be provided by the Enlarged Group to the respective counterparties of the 2021 Master Facility and Related Services Agreements during the period from the Completion Date and ending on 30 June 2021 and the years ending 30 June 2022 and 2023, having taken into account the following major factors:

i. the estimated future demand for the relevant Security Guarding & Event Services, Insurance Solutions and Landscaping Services by members of the relevant counterparties of the 2021 Master Facility and Related Services Agreements; and

ii. the estimated market prices of such services by reference to the current market prices after factoring into the expected increase in service costs as well as inflation.

In assessing the fairness and reasonableness of the Annual Caps, we have reviewed and discussed with the Company with regards to the underlying calculations. Set out below is our analysis on the respective Annual Caps for each of the 2021 Master Facility and Related Services Agreements based on the underlying calculations we reviewed.

12.2.1. *Annual Caps in relation to the 2021 FSE Master Facility and Related Services Agreement*

Doo Sales Caps

We note that the Doo Sales Caps are relatively insignificant of less than HK$11 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Based on the information provided by and the discussion with the management of the Target Group, we note that more than 70% of the Doo Sales Caps relate to the provision of Security Guarding & Event Services by the Target Group to Doo's Associates Group (the "**Doo Security Caps**") while the remaining Doo Sales Caps mainly relate to the provision of Landscaping Services (the "**Doo Landscaping Caps**").

In order to assess the fairness and reasonableness of the proposed Doo Security Caps, we have discussed with the management of the Target Group and understand that the provision of Security Guarding & Event Services by the Target Group, where the Doo's Associates Group may engage the Target Group under the proposed Doo Security Caps, are arrived at mainly based on (i) the contract value of the existing/secured contracts of the FSE S & G Limited and its subsidiaries; and (ii) the expected increment in contract value for the renewal/extension of existing/secured contracts of the FSE S & G Limited and its subsidiaries. As discussed with the management of the Target Group, the contract value is determined based on estimated number and type of security staff required and their corresponding hourly/shift rate and the duration of security service required. We have reviewed the relevant calculations and note that a substantial portion of the Doo Security Caps is attributable to the existing contracts and the corresponding potential renewal for a commercial property in Central and a residential property in the Peak. As discussed with the management of the Target Group, we understand that the projected increase of 8% in annual contract value for the renewal of existing contracts is with reference to existing transactions. In this regard, we obtained and reviewed the renewal of three existing contracts with various independent third parties and note that the increases in contract value for such contracts are in line with the projected increase of 8%. As the FSE S & G Limited (together with its subsidiaries) is one of the largest security services providers in the market and has long term business relationships with the Doo's Associates Group, we concur with the management of the Target Group that the Enlarged Group will have a good chance in successfully renewing a majority of its existing contracts in the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Given the above, we consider that the Doo Security Caps are fair and reasonable.

We understand from the management of the Target Group that the Doo Landscaping Caps in the period from the Completion Date to 30 June 2021, FY2022 and FY2023 will provide the flexibility for the Enlarged Group to capture business opportunities in the event that members of the Enlarged Group are engaged to provide Landscaping Services to the Doo's Associates Group. The Doo Landscaping Caps are arrived at mainly based on (i) the estimated scope of works of the Landscaping Services to be provided; (ii) the estimated number and type of staff required and (iii) the estimated number of plants to be supplied, We have reviewed the relevant calculations and consider that the Doo Landscaping Caps are fair and reasonable. As such, we consider the Doo Sales Caps are fair and reasonable.

Doo Purchase Caps

Based on the information provided by and the discussion with the management of the Target Group, we note that the Doo Purchase Caps relate to the provision of rental and related services provided by the Doo's Associates Group to the Enlarged Group and is composed of (i) the rental expenses for FY2021, FY2022 and FY2023 in relation to the rental and related services with lease term not exceeding 12 months; and (ii) the total value of the addition of the right-of-use asset for FY2022 in relation to the rental and related services with lease term exceeding 12 months.

In order to assess the fairness and reasonableness of the proposed Doo Purchase Caps, we have reviewed the relevant calculations and discussed with the management of the Target Group and understand that the provision of rental and related services by the Doo's Associates Group under the proposed Doo Purchase Caps are arrived at mainly based on (i) the expected rentals or licensing fees as may be paid by the Enlarged Group under each of the 2021 Master Facility and Related Services Agreements taking into account the current rentals/licensing fees and expected market rentals/licensing fees of similar properties in similar locations with reference to the opinion of an independent property valuer; and (ii) the Enlarged Group's demand in floor spaces for office premises, warehouse, car parking spaces, spare space and other business uses of the Enlarged Group to cope with the Enlarged Group's business growth. We note that the projected rental cost mainly relate to the rental of the Disposal Properties. We have also conducted our own research on the rental property market and note that the unit rental rates adopted in the calculation of the FSE Rental Caps are in line with the market rental rate of comparable properties. We further note that the Doo Purchase Caps were particularly significant in FY2022 amounting to approximately HK$67.7 million, which is due to the addition of right-of-use assets to be recognised by the Group in respect of leases to be entered into after the Group's adoption of HKFRS16 which will result in an increment in transaction amount of approximately HK$56.5 million. The insignificant

Doo Purchase Caps of approximately HK$0.9 million for FY2023 is mainly relate to the rental of an office in an industrial center in Kowloon Bay. Given the above, we consider the Doo Purchase Caps are fair and reasonable.

12.2.2. *Annual Caps in relation to the 2021 NWD Master Facility and Related Services Agreement*

NWD Sales Caps

Based on the information provided by and the discussion with the management of the Target Group, we note that more than 90% of the NWD Sales Caps relate to the provision of Security Guarding & Event Services by the Enlarged Group to NWD Group. We also note that the NWD Sales Caps for FY2022 of approximately HK$321.5 million represent an increase of approximately HK$133.4 million, or approximately 70.9%, as compared to the historical transaction amount for FY2020 of approximately HK$188.1 million. We further note that the NWD Sales Caps for FY2023 of approximately HK$550.2 million represent an increase of approximately HK$228.7 million, or approximately 71.1%, as compared to the NWD Sales Caps for FY2022 of approximately HK$321.5 million.

In order to assess the fairness and reasonableness of the proposed NWD Sales Caps, we have discussed with the management of the Target Group and understand that the provision of Security Guarding & Event Services by the Target Group, where the NWD Group may engage the Target Group under the proposed NWD Sales Caps, are arrived at mainly based on (i) the contract value of the existing/secured contracts of the FSE S & G Limited and its subsidiaries; (ii) the expected increment in contract value for the renewal/extension of existing/secured contracts of the FSE S & G Limited and its subsidiaries; and (iii) the contract value of potential contracts which the FSE S & G Limited and its subsidiaries will successfully tender for and commence providing services during the terms of the 2021 NWD Master Facility and Related Services Agreement. As discussed with the management of the Target Group, the contract value is determined based on estimated number and type of security staff required and their corresponding hourly/shift rate and the duration of security service required. We have reviewed the historical transactions and relevant calculations of the NWD Sales Caps and note that the historical transaction amount for FY2020 of approximately HK$188.1 million was mainly attributable to the existing contracts of security guarding services at three residential estates in Clear water Bay, Yuen Long and North Point, a residential estate and a shopping centre at Tsuen Wan, a commercial building at Central, a commercial building and shopping mall in Tsim Sha Tsui, a shopping centre in Tsim Sha Tsui and a youth activities complex in Chai Wan and other various commercial and residential projects in Hong

Kong (the "**Existing NWD Security Contracts**"), whereas a majority portion of the NWD Sales Caps for FY2022 of approximately HK$321.5 million is attributable to (i) the Existing NWD Security Contracts and the corresponding potential renewal with a projected total contract amount of approximately HK$181.1 million and (ii) the contract value of potential contracts of approximately HK$109.8 million, mainly contributed by potential contracts for two residential estates in Yuen Long and Tai Hang, a business and entertainment complex in Chek Lap Kok, a hotel in Wanchai, a commercial building in Cheung Sha Wan and other various commercial and residential projects in Hong Kong. We also note that a majority portion of the NWD Sales Caps for FY2023 is attributable to (i) the Existing NWD Security Contracts and the corresponding potential renewal with a projected total contract amount of approximately HK$195.8 million; and (ii) the contract value of potential contracts of approximately HK$314.9 million, mainly contributed by potential contracts for three residential estates in Yuen Long, Tuen Mun and Tai Wai, a business and entertainment complex in Chek Lap Kok, a multi-purpose sports venue in Kai Tak and other various commercial and residential projects in Hong Kong, all of which are developed and managed by the NWD Group. As discussed with the management of the Target Group, we understand that the projected increase of 8% in annual contract value for the renewal of existing contracts is with reference to existing transactions. In this regard, we obtained and reviewed the renewal of three existing contracts with various independent third parties and note that the increases in contract value for such contracts are in line with the projected increase of 8%. We have compared the historical costs of the Target Group's previous engagements by independent third parties in relation to the provision of Security Guarding & Event Services with contracts of similar nature and size and note that it is comparable with the estimated contract value for major potential contracts including each of the residential estates in Yuen Long and Tuen Mun, the business and entertainment complex in Chek Lap Kok and the multi-purpose sports venue in Kai Tak projected in the calculation of NWD Sales Caps. As the FSE S & G Limited (together with its subsidiaries) is one of the largest security services providers in the market and has long term business relationships with the NWD Group, we concur with management of the Target Group that the Enlarged Group will have a good chance in successfully renewing a majority of its existing contracts and obtaining certain new contracts in the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Given the above, we consider that the NWD Sales Caps are fair and reasonable.

NWD Purchase Caps

We note that the NWD Purchase Caps are relatively insignificant of less than HK$10 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Based on the information provided by and the discussion with the management of the Target Group, we note that the NWD Purchase Caps mainly relate to the Rental Services provided by the NWD Group to the Enlarged Group. The Annual Caps for the Rental Services provided by the NWD Group to the Enlarged Group represent the rental expenses for FY2021, FY2022 and FY2023 in relation to such Rental Services with lease term not exceeding 12 months.

We understand from the management of the Target Group that the NWD Purchase Caps in the period from the Completion Date to 30 June 2021, FY2022 and FY2023 will provide the flexibility for the Enlarged Group to engage the NWD Group in the event that members of the Enlarged Group required the Rental Services from the NWD Group. The NWD Purchase Caps are arrived at mainly based on the Enlarged Group's expected demand in floor spaces for office premises, warehouse, car parking spaces, spare space and other business uses of the Enlarged Group to cope with the Enlarged Group's business growth. Given the above, we consider that the NWD Purchase Caps are fair and reasonable.

12.2.3. Annual Caps in relation to the 2021 NWS Master Facility and Related Services Agreement

NWS Sales Caps

Based on the information provided by and the discussion with the management of the Target Group, we note that more than 70% of the NWS Sales Caps relate to the provision of Security Guarding & Event Services provided by the Target Group to NWS Group (the "**NWS Security Caps**") while the remaining NWS Sales Caps mainly relate to the provision of Insurance Advisory Services by the Target Group to the NWS Group (the "**NWS Insurance Caps**"). We also note that the NWS Sales Caps for FY2022 of approximately HK$109.6 million represent an increase of approximately HK$48.9 million, or approximately 80.6%, as compared to the historical transaction amount for FY2020 of approximately HK$60.7 million. We further note that the NWS Sales Caps for FY2023 of approximately HK$123.3 million represent an increase of approximately HK$13.7 million, or approximately 12.5%, as compared to the NWS Sales Caps for FY2022 of approximately HK$109.6 million.

In order to assess the fairness and reasonableness of the proposed NWS Security Caps, we have discussed with the management of the Target Group and understand that the provision of Security Guarding & Event Services by the Target Group, where the NWS Group may engage the Target Group under the proposed NWS Security Caps, are arrived at mainly based on (i) the contract value of the existing/secured contracts of the FSE S & G Limited and its subsidiaries; and (ii) the expected increment in contract value for the renewal/extension of existing/secured contracts of the FSE S & G Limited and its subsidiaries; and (iii) the expected transaction amount for certain ad hoc event services required. As discussed with the management of the Target Group, the contract value and the expected transaction amount for certain ad hoc event services required is determined based on estimated number and type of security staff required and their corresponding hourly/shift rate and the duration of security service required. We have reviewed the historical transactions and the relevant calculations of the NWS Sales Caps and note that the historical transaction amount for FY2020 of approximately HK$60.7 million was mainly attributable to the existing contracts of security guarding services at the convention and exhibition centre in Wanchai and the existing contract of ad hoc event services at the convention and exhibition centre in Wanchai (the "**Existing NWS Wanchai Contracts**"), whereas a majority portion of the NWS Sales Caps for FY2022 and FY2023 of approximately HK$109.6 million and HK$123.3 million, respectively, is attributable to the Existing NWS Wanchai Contracts (and its corresponding potential renewal) with a projected total contract amount of approximately HK$90.4 million and HK$96.4 million, respectively. Based on our discussion with the management of the Target Group, the increase in projected contract value for the Existing NWS Wanchai Contracts for FY2022 and FY2023 is mainly attributable to (i) the projected increase in ad hoc event services, which is determined based on estimated number and type of security staff required and their corresponding hourly/shift rate and the duration of security service required; and (ii) the projected increase in security guarding services based on the expected increase in security guarding services requirement. We further understand from the management of the Target Group that the historical transaction amount of the NWS Wanchai Contracts for FY2020 represents a particularly low point due to the social and political event in Hong Kong which started in June 2019 and the outbreak of COVID-19 in Hong Kong since January 2020 which contributed to smaller demand for security services. As discussed with the management of the Target Group, we understand that the projected increase of 8% in annual contract value for the renewal of existing contracts is with reference to existing transactions. In this regard, we obtained and reviewed the renewal of three existing contracts with various independent third parties and note that the increases in contract value for such contracts are in line with the projected increase of 8%. We have compared the historical costs of the Target Group's previous engagements by independent third parties in relation to providing ad hoc event services with contracts of similar nature and size and note that it is comparable with the expected transaction amount for the ad hoc event services projected in the calculation of NWS Security Caps. As the FSE S & G Limited (together with its subsidiaries) is one of the largest security services providers in the market and has long term business relationships with the NWS Group, we concur with management of the Target Group that the Enlarged Group will have a good chance in successfully renewing a majority of its existing contracts in the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Given the above, we consider that the NWS Security Caps are fair and reasonable.

In order to assess the fairness and reasonableness of the proposed NWS Insurance Caps, we have discussed with the management of the Target Group and understand that the provision of Insurance Advisory Services by the Target Group, where the NWS Group may engage the Target Group under the proposed NWS Insurance Caps, are arrived mainly based on the number of insurance policy required by the projects of the NWS Group taking into account the expected insurance requirements and the estimated time and manpower needed to provide the insurance consultancy service. Given the above, we consider that the NWS Insurance Caps are fair and reasonable. As such, we consider that the NWS Sales Caps are fair and reasonable.

NWS Purchase Caps

We note that the NWS Purchase Caps are relatively insignificant of less than HK$3 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Based on the information provided by and the discussion with the management of the Target Group, we note that the NWS Purchase Caps mainly relate to the rental of properties, spare spaces, car parking spaces, vehicles and vessels and related services provided by the NWS Group to the Enlarged Group. The Annual Caps for such rental services provided by the NWS Group to the Enlarged Group represent the rental expenses for FY2021, FY2022 and FY2023 in relation to such rental services with lease term not exceeding 12 months.

We understand from the management of the Target Group that the NWS Purchase Caps in the period from the Completion Date to 30 June 2021, FY2022 and FY2023 will provide the flexibility for the Enlarged Group to engage the NWS Group in the event that members of the Enlarged Group required the rental of properties, spare spaces, car parking spaces, vehicles and vessels and related services from the NWS Group. The NWS Purchase Caps are arrived at mainly based on the Enlarged Group's expected demand in floor spaces for office premises, warehouse, car parking spaces, spare space and other business uses of the Enlarged Group to cope with the Enlarged Group's business growth. Given the above, we consider that the NWS Purchase Caps are fair and reasonable.

12.2.4. Annual Caps in relation to the 2021 CTFE Master Facility and Related Services Agreement

CTFE Sales Caps

We note that the CTFE Sales Caps are relatively insignificant of less than HK$12 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Based on the information provided by and the discussion with the management of the Target Group, we note that more than 40% of the Services Transactions projected to be provided by the Target Group during the terms of the 2021 CTFE Master Facility and Related Services Agreement relate to the provision of Security Guarding & Event Services provided by the Target Group to CTFE Group (the "**CTFE Security Caps**") while the remaining Services Transactions projected to be provided by the Target Group during the terms of the 2021 CTFE Master Facility and Related Services Agreement mainly relate to the provision of Landscaping Services (the "**CTFE Landscaping Caps**") and the provision of Insurance Solutions (the "**CTFE Insurance Caps**").

In order to assess the fairness and reasonableness of the proposed CTFE Security Caps, we have discussed with the management of the Target Group and understand that the provision of Security Guarding & Event Services by the Target Group, where the CTFE Group may engage the Target Group under the proposed CTFE Security Caps, are arrived at mainly based on (i) the contract value of the existing/secured contracts of the FSE S & G Limited and its subsidiaries; and (ii) the expected increment in contract value for the renewal/extension of existing/secured contracts of the FSE S & G Limited and its subsidiaries. As discussed with the management of the Target Group, the contract value is determined based on estimated number and type of security staff required and their corresponding hourly/shift rate and the duration of security service required. We have reviewed the relevant calculations and note that a substantial portion of the CTFE Security Caps is attributable to the existing contracts and the corresponding potential renewal for contracts of security guarding services at a commercial and shopping centre in Mong Kok and eight private school at Western District, Causeway Bay, South Horizons, two in Kornhill, North Point, Homantin and Tak Kok Tsui. As discussed with the management of the Target Group, we understand that the projected increase of 8% in annual contract value for the renewal of existing contracts is with reference to existing transactions. In this regard, we obtained and reviewed the renewal of three existing contracts with various independent third parties and note that the increases in contract value for such contracts are in line with the projected increase of 8%. As the FSE S & G Limited (together with its subsidiaries) is one of the largest security services providers in the market and has long term business relationships with the CTFE Group, we concur with the management of the Target Group that the Enlarged Group will have a good chance in successfully renewing a majority of its existing contracts in the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Given the above, we consider that the CTFE Security Caps are fair and reasonable.

We understand from the management of the Target Group that the CTFE Landscaping Caps and the CTFE Insurance Caps in the period from the Completion Date to 30 June 2021, FY2022 and FY2023 will provide the flexibility for the Enlarged Group to capture business opportunities in the event that members of the Enlarged Group are engaged to provide Landscaping Services and Insurance Solutions to the CTFE Group. The CTFE Landscaping Caps are arrived at based on (i) the estimated scope of works of the Landscaping Services to be provided; (ii) the estimated number and type of staff required and (iii) the estimated number of plants to be supplied, The CTFE Insurance Caps are arrived at based on the number of insurance policy required by the projects of the NWS Group taking into account the expected insurance requirements and the estimated time and manpower needed to provide the insurance consultancy service, Given the above, we consider that the CTFE Landscaping Caps and the CTFE Insurance Caps are fair and reasonable. As such, we consider that the CTFE Purchase Caps are fair and reasonable.

CTFE Purchase Caps

We note that the CTFE Purchase Caps are relatively insignificant of less than HK$1 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Based on the information provided by and the discussion with the management of the Target Group, we note that the CTFE Purchase Caps mainly relate to the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services provided by the CTFE Group to the Enlarged Group. The Annual Caps for such leasing or licensing services provided by the CTFE Group to the Enlarged Group represent the rental expenses for FY2021, FY2022 and FY2023 in relation to such leasing or licensing services with a term of not exceeding 12 months.

We understand from the management of the Target Group that the CTFE Purchase Caps in the period from the Completion Date to 30 June 2021, FY2022 and FY2023 will provide the flexibility for the Enlarged Group to engage the CTFE Group in the event that members of the Enlarged Group required the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services from the CTFE Group. The CTFE Purchase Caps are arrived at mainly based on the Enlarged Group's expected demand in floor spaces for office premises, warehouse, car parking spaces, spare space and other business uses of the Enlarged Group to cope with the Enlarged Group's business growth. Given the above, we consider that the CTFE Purchase Caps are fair and reasonable.

12.2.5. *Annual Caps in relation to the 2021 CTFJ Master Facility and Related Services Agreement*

CTFJ Sales Caps

We note that the CTFJ Sales Caps are relatively insignificant of less than HK$13 million for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Based on the information provided by and the discussion with the management of the Target Group, we note that more than 50% of the CTFJ Sales Caps relate to the provision of Security Guarding & Event Services provided by the Target Group to CTFJ Group (the "**CTFJ Security Caps**") while the remaining Services Transactions projected to be provided by the Target Group during the terms of the 2021 CTFJ Master Facility and Related Services Agreement mainly relate to the provision of Landscaping Services (the "**CTFJ Landscaping Caps**").

In order to assess the fairness and reasonableness of the proposed CTFJ Security Caps, we have discussed with the management of the Target Group and understand that the provision of Security Guarding & Event Services by the Target Group, where the CTFJ Group may engage the Target Group under the proposed CTFJ Security Caps, are arrived at mainly based on (i) the contract value of the existing/secured contracts of the FSE S & G Limited and its subsidiaries; and (ii) the expected increment in contract value for the renewal/extension of existing/secured contracts of the FSE S & G Limited and its subsidiaries. As discussed with the management of the Target Group, the contract value is determined based on estimated number and type of security staff required and their corresponding hourly/shift rate and the duration of security service required. We have reviewed the relevant calculations and note that a substantial portion of the CTFJ Security Caps is attributable to the existing contracts and the corresponding potential renewal for contracts of security guarding services and alarm security services at a commercial building in Kwai Chung and a retail jewelry group and its branches in Hong Kong. As discussed with the management of the Target Group, we understand that the projected increase of 8% in annual contract value for the renewal of existing contracts is with reference to existing transactions. In this regard, we obtained and reviewed the renewal of three existing contracts with various independent third parties and note that the increases in contract value for such contracts are in line with the projected increase of 8%. As the FSE S & G Limited (together with its subsidiaries) is one of the largest security services providers in the market and has long term business relationships with the CTFJ Group, we concur with the management of the Target Group that the Enlarged Group will have a good chance in successfully renewing a majority of its existing contracts in the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Given the above, we consider that the CTFJ Security Caps are fair and reasonable.

We understand from the management of the Target Group that the CTFJ Landscaping Caps in the period from the Completion Date to 30 June 2021, FY2022 and FY2023 will provide the flexibility for the Enlarged Group to capture business opportunities in the event that members of the Enlarged Group are engaged to provide Landscaping Services to the CTFJ Group. The CTFJ Landscaping Caps are arrived at based on (i) the estimated scope of works of the Landscaping Services to be provided; (ii) the estimated number and type of staff required and (iii) the estimated number of plants to be supplied. Given the above, we consider that the CTFJ Landscaping Caps are fair and reasonable. As such, we consider that the CTFJ Sales Caps are fair and reasonable.

CTFJ Purchase Caps

We note that the CTFJ Purchase Caps are insignificant of less than HK$100,000 for each of the period from the Completion Date to 30 June 2021, FY2022 and FY2023. Based on the information provided by and the discussion with the management of the Target Group, we note that the CTFJ Purchase Caps mainly relate to the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services provided by the CTFJ Group to the Enlarged Group. The Annual Caps for such leasing or licensing services provided by the CTFJ Group to the Enlarged Group represent the rental expenses for FY2021, FY2022 and FY2023 in relation to such leasing and licensing services with a term of not exceeding 12 months.

We understand from the management of the Target Group that the CTFJ Purchase Caps in the period from the Completion Date to 30 June 2021, FY2022 and FY2023 will provide the flexibility for the Enlarged Group to engage the CTFJ Group in the event that members of the Enlarged Group required the leasing or licensing of properties, including, without limitation, spare spaces, car parking spaces and related services from the CTFJ Group. The CTFJ Purchase Caps are arrived at mainly based on the Enlarged Group's expected demand in floor spaces for office premises, warehouse, car parking spaces, spare space and other business uses of the Enlarged Group to cope with the Enlarged Group's business growth. Given the above, we consider that the CTFJ Purchase Caps are fair and reasonable.

13. Requirements by the Listing Rules regarding the transactions contemplated under the 2021 Master Facility and Related Services Agreements

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the transactions contemplated under the 2021 Master Facility and Related Services Agreements are subject to the following annual review requirements:

(a) Each year the independent non-executive Directors must review the transactions contemplated under the 2021 Master Facility and Related Services Agreements and confirm in the annual report and accounts that they have been entered into:

- in the ordinary and usual course of business of the Group;
- on normal commercial terms or better; and
- according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

(b) Each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that that the transactions contemplated under the 2021 Master Facility and Related Services Agreements:

- has not been approved by the Board;
- were not, in all material respects, in accordance with the pricing policies of the Group if the transactions contemplated under the 2021 Master Facility and Related Services Agreements involve the provision of goods or services by the Group;
- were not entered into, in all material respects, in accordance with the terms of the relevant agreement(s) governing the transactions contemplated under the 2021 Master Facility and Related Services Agreements; and
- have exceeded the respective Annual Caps.

(c) The Company must allow, and ensure that the relevant counter parties to the transactions contemplated under the 2021 Master Facility and Related Services Agreements allow, the Company's auditors sufficient access to their records for the purpose of reporting on the transactions contemplated under the 2021 Master Facility and Related Services Agreements.

(d) The Company must promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) above, respectively.

In light of the reporting requirements attached to the transactions contemplated under the 2021 Master Facility and Related Services Agreements, in particular, (i) the restriction of transaction value by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the 2021 Master Facility and Related Services Agreements and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the 2021 Master Facility and Related Services Agreements and safeguard the interests of the Company and the Shareholders as a whole.

CONCLUSION AND RECOMMENDATION

Based on the above principal factors and reasons, in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

(a) the Proposed Acquisition of the Target Group, which comprises the Security Services Segment, Insurance Solutions Segment, and Landscape Segment, all engaged in the provision of lifestyle services, would (i) enhance the Group's City Essential Services arm of business and enable the Group to offer its clients more integrated one-stop-shop services solutions in addition to its existing range of services; (ii) increase cross-selling synergies for the Group as the Target Group's provision of Security Guarding & Event Services, Insurance Solutions and Landscaping Services are complementary to the Group's existing businesses with certain common clients, which in turn may help the Group win more contracts by providing more integrated solutions; (iii) diversify the Group's revenue stream with the additional client base of the Target Group's business service lines to improve the stability of operation of the Group; and (iv) enhance the Group's position as a leading diversified lifestyle services provider in Hong Kong;

(b) the Proposed Acquisition provides the Group the opportunity to take advantage of the strong financial performance of the Target Group by consolidating the revenue and profits of the Target Group, which recorded (i) revenue of approximately HK$641.8 million, HK$740.3 million, HK$777.2 million and HK$396.9 million, (ii) net profit of approximately HK$68.0 million, HK$78.0 million, HK$102.6 million and HK$142.3 million; and (iii) adjusted profit before tax of approximately HK$74.7 million, HK$85.9 million, HK$85.6 million and HK$47.7 million for FY2018, FY2019, FY2020 and 6M2021, respectively, and taking into account the stable and positive market outlook of each of the security guarding services market, general insurance market and landscaping market in Hong Kong, being the markets the Target Group is engaged in, which have a projected CAGR of approximately 7.2%, 6.5% and 4.4% from 2020 to 2025, respectively, according to Frost & Sullivan, the Proposed Acquisition is expected to bring in business with sustainable income from stable markets;

(c) based on our independent work performed on the Business Valuation Report (which forms the basis of the consideration for the Proposed Acquisition) and the Property Valuation Report (which forms the basis of the consideration for the Proposed Disposal), we are satisfied with the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted in the Business Valuation Report and the Property Valuation Report, and hence we consider the Consideration and the Disposal Consideration are fair and reasonable;

(d) the settlement method of the Consideration, partly being through the Proposed Disposal, would not strain the Group's working capital and also allow the Group to realise its investment in the Disposal Properties at a fair price and retain cashflow to finance the Group's other projects and general working capital use;

(e) the key terms of the Sale and Purchase Agreement represent normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole;

(f) the entering into of the 2021 Master Facility and Related Services Agreements and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and the terms thereof are normal commercial terms or better and fair and reasonable; and

(g) the proposed Annual Caps in respect of the Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreements for the period commencing from the Completion Date and ending on 30 June 2023 are fair and reasonable and in the interests of the Company and the Shareholders as a whole,

we consider that (i) while the Proposed Transactions are not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Proposed Transactions are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned and the entering into of the Sale and Purchase Agreement is in the interest of the Company and the Shareholders as a whole, and (iii) the entering into of the 2021 Master Facility and Related Services Agreements and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, the terms thereof are normal commercial terms or better and fair and reasonable, and the proposed Annual Caps in respect of the Services Transactions contemplated under each of the 2021 Master Facility and Related Services Agreements for the period commencing from the Completion Date and ending on 30 June 2023 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We advise the Independent Board Committee to recommend, and we ourselves recommend, the independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in relation to the Proposed Transactions, the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated under these agreements and the Annual Caps for the same.

Yours faithfully,
For and on behalf of
Ballas Capital Limited

Heidi Cheng	**Colin Lee**
Managing Director	*Assistant Director*

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 Mr. Colin Lee of Ballas Capital Limited has been a licensed representative of Type 6 (advising on corporate finance) regulated activity from 2013 to 2018 and since 2020.

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 2019 and 30 June 2020 is set out in a comparative table on page 2 of the annual report of the Company for the year ended 30 June 2020. The audited consolidated financial statements of the Group for the three years ended 30 June 2020 together with the notes thereto are contained in the annual report of the Company for the three years ended 30 June 2020 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 financial statements of the Group for the year ended 30 June 2018:

   https://www.fseservices.com.hk/storage/app/media/investor/reports/financial-reports-20181019194529_0-e.pdf

b. Please see below a link to the audited financial statements of the Group for the year ended 30 June 2019:

   https://www.fseservices.com.hk/storage/app/media/investor/reports/financial-reports-20191017171618_0-e.pdf

c. Please see below a link to the audited financial statements of the Group for the year ended 30 June 2020:

   https://www.fseservices.com.hk/storage/app/media/investor/reports/financial-reports-20201016143849_0-e.pdf

2. STATEMENT OF INDEBTEDNESS

As at 31 January 2021, the Target Group has a guarantee issued by banks for performance bonds amounting to HK$47.1 million and lease liabilities of HK$0.8 million. The Target Group is generally required to provide a counter-indemnity and collateral to bank that issues a performance bond.

As at 31 January 2021, the Group has a term loan of HK$263.9 million, a guarantee issued by banks for performance bonds amounting to HK$409.4 million and lease liabilities of HK$48.9 million. The Group is generally required to provide a counter-indemnity and collateral to bank that issues a performance bond.

As at 31 January 2021, 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 2020, 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 Transactions, 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 has sought to grow and create value for its shareholders. 2020 marked the fifth anniversary of the Company's listing in Hong Kong. Since its listing in 2015, the Group has successfully transformed from a single-line engineering focused business to a multi-line leading city lifestyle services conglomerate, engaging in a comprehensive range of management services in Hong Kong. Through the completion of two strategic acquisitions during the past five years, including the facility services business in April 2018 and property and facility management services business in December 2019, the Group expanded its business scale with broader and more diversified revenue streams and enhanced its profit sources. Its consolidated revenue and profit attributable to shareholders for the year ended 30 June 2020 significantly grew by more than 40% and 90% respectively while its earnings per share increased more than 60%, compared with the amounts recorded for the year ended 30 June 2016, with its integrated property and facilities services segment which provides city essential services contributing more than half of its gross profit and net profit at present.

With the outbreak of the novel coronavirus pandemic profoundly affecting economies all over the world. Following the outsized contraction of economic activities, the revival of local economic outlook will hinge very much on the epidemic situation and the timeliness of a successful vaccine rollout. With this in mind, our Group shall be heavily qualified with caution in the face of uncertainties. While building and construction activities are expected to consolidate in 2021 due to the lingering impacts of the pandemic, the Hong Kong Government continues to increase infrastructure investment and maintain steady land supply. Average E&M construction works expenditure for the fiscal year 2021/22 is expected to exceed HK$25 billion for the public sector and over HK$24 billion for the private sector according to the medium-term construction expenditure forecast provided by the Construction Industry Council. The Group's E&M engineering business currently enjoys a position as one of the two dominant players in the Hong Kong market and is adequately prepared to take on different sizeable infrastructure and building projects. Notable among these are our major submitted tenders: The Chai Wan Government Offices cum Vehicle Depot and the mixed-used developments at the former Kai Tak runway and Mass Transit Railway Corporation ("**MTRC**") Wong Chuk Hang station, currently under negotiations. Preparations are also underway for the tenders for the

Government Chinese Medicines Testing Institute and Chinese Medicine Hospital at Tseung Kwan O, the Acute General Hospital at Kai Tak, Lok Ma Chau Loop development and the New Town Extension projects at Kwun Tung North, Fanling North and Hung Shui Kiu. The Group continues to make strides in accommodating the Hong Kong Government's Construction 2.0 initiative, which advocates innovation, professionalism and revitalisation. As a result of our highly skilled E&M team and use of advanced technologies such as Building Information Modelling (BIM) and Modular Integrated Construction (MiC) technology, our Vehicle Examination Centre at Tsing Yi has been highly praised for both its productivity and work quality.

Amid the pandemic situation, the Hong Kong Government has emphasised hygiene and environmental control and allocated funds for reinforcing related policies including waste management and recycling. In recent months, our integrated property and facility services segment has successfully secured its presence in the government sector including Housing Authority and Hospital Authority, further diversifying its customer base. The segment has also benefited from the escalated demand for pandemic prevention and disinfection works. Meanwhile, there is a growing demand for one-stop and full- service property and facility management services. After the promulgation of Property Management Services Ordinance on the licensing regime, it will boost the demand for high-quality property management services like ours, which generally outperform their industry peers without fulfilling the licensing requirements. Once the pandemic is under control, the progressive transformation of the Hong Kong economy towards higher value-added activities, high-end residential and commercial buildings, coupled with the growing public awareness for environmental and personal hygiene, will provide great growth momentum to the Group's business in the coming years.

Looking ahead, the Group's plans for performance growth are focused on leveraging our well-established and trusted brand, embracing cost effectiveness and capitalising on innovative technologies and professional expertise. In addition, we will continue to nurture our pool of young talents with diversified and tailor-made training. Our management team is well positioned and remains fully confident that opportunity abounds even amid these challenging times, allowing us to maintain and grow the Group's performance during the post-pandemic business landscape. Hence, the Group will take the Proposed Transactions an important opportunity in expanding its services scope to increase growth momentum with a vision to become a leading, premier and unique city lifestyle services provider in Hong Kong which offers comprehensive and multiple services lines to corporates and household, reducing cyclical risks with diversification of revenue stream, achieving cross-selling synergies, higher customer loyalty by providing integrated services as well as better labor and manpower deployment which will increase the operational and cost efficiency in the long run. The Enlarged Group shall endeavor 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-61, 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 Business Investments Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-61, which comprises the combined statements of financial position as at 30 June 2018, 2019 and 2020 and 31 December 2020, and 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 ended 30 June 2018, 2019 and 2020 and the six months ended 31 December 2020 (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-61 forms an integral part of this report, which has been prepared for inclusion in the circular of FSE Services Group Limited (the "**Company**") dated 19 March 2021 (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 Target Company. The directors of the Target Group are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with the basis of presentation and preparation set out therein which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and for such internal control as the directors determine is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2018, 2019 and 2020 and 31 December 2020 and 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.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 31 December 2019 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1 and 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1 and 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
19 March 2021

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 and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

BUSINESS INVESTMENTS LIMITED

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 30 June			**Six months ended 31 December**	
		2018	**2019**	**2020**	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	*5*	641,830	740,368	777,169	401,206	396,883
Cost of operations	*7*	(495,445)	(576,790)	(594,735)	(318,168)	(217,439)
Gross profit		146,385	163,578	182,434	83,038	179,444
Other income, net	*6*	898	125	8,725	4	909
Administrative expenses	*7*	(66,255)	(71,030)	(74,775)	(39,654)	(29,420)
Operating profit		81,028	92,673	116,384	43,388	150,933
Finance income	*8*	30	295	629	159	321
Finance costs	*8*	(461)	—	(104)	(59)	(26)
Share of profits of an associate	*15*	436	376	180	90	80
Profit before income tax		81,033	93,344	117,089	43,578	151,308
Income tax expenses	*9*	(13,068)	(15,338)	(14,491)	(7,162)	(8,968)
Profit for the year/period		67,965	78,006	102,598	36,416	142,340

		Year ended 30 June			Six months ended 31 December	
		2018	**2019**	**2020**	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Other comprehensive income for the year/period						
Items that will not be reclassified subsequently to combined statements of comprehensive income						
— Remeasurement of defined benefit retirement scheme		443	1	(417)	(209)	1,079
— Remeasurement (loss)/gain on long service payment liabilities, net of tax		(228)	(3,222)	(1,896)	(948)	2,731
Total comprehensive income for the year/period		68,180	74,785	100,285	35,259	146,150

BUSINESS INVESTMENTS LIMITED

COMBINED STATEMENTS OF FINANCIAL POSITION

			As at 30 June		As at 31 December
		2018	2019	2020	2020
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*13*	5,898	6,285	4,037	3,405
Intangible assets	*14*	34,863	33,741	32,619	32,057
Right-of-use assets	*16*	—	—	1,874	901
Investment in an associate	*15*	96	152	152	152
Deferred income tax assets	*17*	320	639	1,074	468
Pension asset	*18*	—	—	—	444
		41,177	40,817	39,756	37,427
Current assets					
Inventories	*19*	726	854	808	743
Trade and other receivables	*20*	177,086	198,410	210,241	248,337
Accrued revenue/contract assets	*20*	1,975	8,446	2,911	2,100
Amounts due from fellow subsidiaries	*22*	35,528	43,698	73,594	—
Amount due from FSE Management Company Limited	*21*	18,420	18,420	28,209	32,988
Cash and cash equivalents	*23*	154,696	249,097	193,869	161,200
		388,431	518,925	509,632	445,368
Total assets		429,608	559,742	549,388	482,795
EQUITY					
Combined share capital	*24*	200	200	1,000	1,000
Reserves	*25*	200,171	219,456	270,741	76,711
Total equity		200,371	219,656	271,741	77,711

			As at 30 June		As at 31 December
		2018	**2019**	**2020**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	*17*	3,584	3,158	2,710	2,511
Lease liabilities	*16*	—	—	102	167
Pension liability	*18*	710	513	742	—
Long service payment liabilities	*26*	10,177	14,546	16,872	13,748
		14,471	18,217	20,426	16,426
Current liabilities					
Trade and other payables	*27*	159,331	247,062	175,810	162,190
Receipt in advance/contract liabilities	*27*	23,089	44,248	48,683	47,609
Current portion of lease liabilities	*16*	—	—	1,805	758
Amount due to FSE Management Company Limited	*21*	17,713	13,713	7,205	166,331
Income tax payable		14,633	16,846	23,718	11,770
		214,766	321,869	257,221	388,658
Total liabilities		229,237	340,086	277,647	405,084
Total equity and liabilities		429,608	559,742	549,388	482,795
Net current assets		173,665	197,056	252,411	56,710

BUSINESS INVESTMENTS LIMITED

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Combined share capital *HK$'000*	**Reserves** *HK$'000*	**Total** *HK$'000*
At 1 July 2017	200	183,441	183,641
Profit for the year	—	67,965	67,965
Other comprehensive income			
Remeasurement of defined benefit retirement scheme	—	443	443
Remeasurement loss on long service payment liabilities	—	(274)	(274)
Deferred tax on remeasurement of long service payment liabilities	—	46	46
Total comprehensive income for the year	—	68,180	68,180
Dividends *(Note 10)*	—	(51,450)	(51,450)
At 1 July 2018	200	200,171	200,371
Profit for the year	—	78,006	78,006
Other comprehensive income			
Remeasurement of defined benefit retirement scheme	—	1	1
Remeasurement loss on long service payment liabilities	—	(3,871)	(3,871)
Deferred tax on remeasurement of long service payment liabilities	—	649	649
Total comprehensive income for the year	—	74,785	74,785
Dividends *(Note 10)*	—	(55,500)	(55,500)

	Combined share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*
At 1 July 2019	200	219,456	219,656
Profit for the year	—	102,598	102,598
Other comprehensive income			
Remeasurement loss on long service payment liabilities	—	(2,258)	(2,258)
Remeasurement of defined benefit retirement scheme	—	(417)	(417)
Deferred tax on remeasurement of long service payment liabilities	—	362	362
Total comprehensive income for the year	—	100,285	100,285
Issue of shares	800	—	800
Dividends *(Note 10)*	—	(49,000)	(49,000)
At 1 July 2020	1,000	270,741	271,741
Profit for the period	—	142,340	142,340
Other comprehensive income			
Remeasurement gains on long service payment liabilities	—	3,271	3,271
Remeasurement of defined benefit retirement scheme	—	1,079	1,079
Deferred tax on remeasurement of long service payment liabilities	—	(540)	(540)
Total comprehensive income for the period	—	146,150	146,150
Dividends *(Note 10)*	—	(340,180)	(340,180)
At 31 December 2020	1,000	76,711	77,711

	Combined share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*
(Unaudited)			
At 1 July 2019	200	219,456	219,656
Profit for the period	—	36,416	36,416
Other comprehensive income			
Remeasurement losses on long service payment liabilities	—	(1,135)	(1,135)
Remeasurement of defined benefit retirement scheme	—	(209)	(209)
Deferred tax on remeasurement of long service payment liabilities	—	187	187
Total comprehensive income for the period	—	35,259	35,259
At 31 December 2019	200	254,715	254,915

BUSINESS INVESTMENTS LIMITED

COMBINED STATEMENTS OF CASH FLOWS

		Year ended 30 June			Six months ended 31 December	
		2018	2019	2020	2019	2020
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cash flows from operating activities						
Cash generated from/(used in) operations	*28(a)*	36,228	127,910	(18,515)	(79,757)	63,375
Interest paid		(461)	—	(104)	(59)	(26)
Hong Kong profits tax paid		(10,675)	(13,209)	(8,119)	(3,102)	(21,049)
Macau profits tax paid		(26)	(13)	(21)	—	—
Net cash generated from/(used in) operating activities		25,066	114,688	(26,759)	(82,918)	42,300
Cash flows from investing activities						
Addition to property, plant and equipment		(1,050)	(1,970)	(2,876)	(2,336)	(98)
Proceeds from disposal of property, plant and equipment		7	43	5	—	—
Interest received		30	295	629	159	321
Consideration received for the disposal of 朗迪深圳	*28(c)*	4,544	615	475	475	—
Dividend received from an associate		340	320	180	—	80
Net cash generated from/(used in) investing activities		3,871	(697)	(1,587)	(1,702)	303
Cash flows from financing activities						
Advance from/(payment to) FSE Management Company Limited		11,492	(3,090)	(5,900)	(1,000)	(1,290)
Principal payments of lease liabilities	*28(b)*	—	—	(1,982)	(982)	(982)
Repayment of bank borrowings		(30,000)	—	—	—	—
Dividends paid		(21,450)	(16,500)	(19,000)	—	(73,000)
Net cash (used in)/generated from financing activities		(39,958)	(19,590)	(26,882)	(1,982)	(75,272)
Net (decrease)/increase in cash and cash equivalents		(11,021)	94,401	(55,228)	(86,602)	(32,669)
Cash and cash equivalents at beginning of year/period		165,717	154,696	249,097	249,097	193,869
Cash and cash equivalents at end of year/period		154,696	249,097	193,869	162,495	161,200

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

General information

Business Investments Limited (the "**Target Company**") was incorporated in the British Virgin Islands on 29 December 2020 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 is FSE Management Company Limited ("**FMC**"), a limited liability company incorporated in Hong Kong. The ultimate holding company is FSE Holdings Limited ("**FHL**"), a limited liability company incorporated in Cayman Islands.

The Target Company is an investment holding company. The Target Company and its subsidiaries comprising the Target Group (collectively the "**Target Group**") are principally engaged in the provision of security guarding and event services, insurance solutions and landscaping services in Hong Kong. Details of the subsidiaries are set out in Note 30.

Reorganisation

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

(i) On 29 December 2020, the Target Company was incorporated in the British Virgin Islands with one share being allotted and issued to the initial subscriber. On 5 January 2021, one share of the Target Company was transferred at a consideration of US$1 from the initial subscriber to FMC. Since then, the Target Company became wholly-owned by FMC;

(ii) The Target Company acquired FSE Ins Limited (formerly known as Double Luck Ventures Limited) on 5 January 2021 with consideration of US$1;

(iii) On 3 February 2021, Nova Risk Services Holdings Limited transferred its equity interests in International Reinsurance Management Limited and Nova Insurance Consultants Limited (collectively, the "**Nova Insurance Group**") to FSE Ins Limited (formerly known as Double Luck Ventures Limited) at a consideration of HK$3,280,000; and

(iv) On 3 February 2021, FSE Facility Services (BVI) Limited transferred its equity interests in FSE S & G Limited and its subsidiaries (collectively, the "**General Security Group**") and FSE C & L Limited and its subsidiaries (collectively, the "**Landscape Group**") to the Target Company at a consideration of US$2.

Upon completion of the aforementioned Reorganisation on 3 February 2021, the Target Group was then wholly owned by FMC before the acquisition by FSE City Essential Services Limited.

Basis of presentation

As the Target Company, the General Security Group, the Nova Insurance Group and Landscape Group are under common control of FHL, the Reorganisation has been accounted for as a business combination under common control. The combined financial statements have 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. The combined statement of financial position of the Target Group as of 30 June 2018, 2019, 2020 and 31 December 2020 have been prepared to present the assets and liabilities of the companies comprising the Target Group at the carrying amounts of the business of the Target Group for all periods presented.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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/period 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.

In accordance with HKFRS 1 "First-time adoption of Hong Kong Financial Reporting Standards", the combined financial statements shall measure its assets and liabilities at the carrying amounts that would be included in the parent's combined financial statements, based on the parent's date of transition to HKFRS as the Target Group became a first-time adopter later than FMC.

The Target Group applied HKFRS 9 and HKFRS 15 since the accounting period on 1 July 2018 and HKFRS 16 since the accounting period on 1 July 2019.

HKFRS 9 "Financial instruments"

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The Target Group has decided not to adopt HKFRS 9 until it becomes mandatory on the accounting period on or after 1 January 2018.

There was no significant impact on the classification and measurement of its financial assets to the Target Group.

There was no impact on the Target Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Target Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. There was no material effect on the results and financial positions in the impairment provision of financial assets to the Target Group.

The standard also introduced expanded disclosure requirements and changes in presentation. The nature and extent of the Target Group's disclosures about its financial instruments was changed since the year of adoption of the standard.

Set out in Note 2(j) and 2(k) are further details on the changes in significant accounting policies under HKFRS 9 that have been applied from 1 July 2018, where they are different to those applied before 1 July 2018.

HKFRS 15 "Revenue from contracts with customers"

The HKICPA has issued a new standard for the recognition of revenue. This replaced HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts.

HKFRS 15 permits either a full retrospective or a modified retrospective approach for the adoption. The Target Group has elected to apply the modified retrospective approach for transition to this new standard. Under this transition approach, comparative amounts for prior periods are not restated and continued to be reported under the accounting policies prevailing prior to 1 July 2018. Differences in the carrying amounts, if any, resulting from the Target Group's adoption of HKFRS 15 are recognised as adjustments to the opening combined statement of financial position on 1 July 2018.

Reclassifications were made as at 1 July 2018 to be consistent with the terminology used under HKFRS 15. "Contact assets" recognised in relation to accrued revenue were previously included within "Trade and other receivables". "Contract liabilities" recognised in relation to receipt in advance from customers were previously included within "Trade and other payables".

Except for the above, HKFRS 15 does not have a significant impact on the Target Group's revenue recognition policy. Note 2(p) provides details about the accounting policy of the Target Group's revenue recognition.

The application of HKFRS 15 does not have a material impact to the combined statement of comprehensive income, combined statement of changes in equity and net cash flow from operating, investing and financing activities on the combined statement of cash flows.

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 are accounted for on the statements of financial position for lessees. The Target Group is a lessee of certain premises and properties which are previously 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 exempted from the recognition. The new standard therefore results in an increase in assets and financial liabilities in the statements of financial position. As for the financial performance impact in the income statements, straight-line depreciation expense on the right-of-use assets and the interest expenses on the lease liabilities are recognised and no rental expenses are recognised. The combination of a straight-line depreciation of the right-of-use assets and the effective interest rate method applied to the lease liabilities will result in a higher total charge to the income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

The Target Group has adopted HKFRS 16 from 1 July 2019, but has not restated its comparative amounts as permitted under the specific transition provisions in the standards.

On adoption of HKFRS 16, the Target Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.5%.

Upon initial recognition, right-of-use assets for leases were measured at the amounts equal to the lease liabilities in the statement of financial position. After the initial recognition of right-of-use assets and lease liabilities at 1 July 2019, the Group as a lessee has recognised interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous accounting policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of twelve months or less as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Set out below is a reconciliation of the operating lease commitments disclosed at 30 June 2019 to lease liabilities recognised on 1 July 2019:

	Total
	HK$'000
Operating lease commitments disclosed at 30 June 2019	4,030
Discounted using the Target Group's weighted average incremental borrowing rate of 3.5%	(141)
Lease liabilities recognised at 1 July 2019	3,889
Of which are:	
Current lease liabilities	1,982
Non-current lease liabilities	1,907
	3,889

HKFRS 16 has no significant impact to the Target Group's combined income statement, combined statement of comprehensive income, combined statement of changes in equity and net cash flows from operating, investing and financing activities on the combined statement of cash flows.

The following new standard and amendments and improvements to existing standards, that are relevant to the Target Group's operation, have been issued but not yet effective for the financial period of the Target Group beginning on 1 January 2020 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 16 Amendments	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 Amendments	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 Amendments	Reference to the Conceptual Framework	1 January 2022
Amendments to annual improvement project	Annual improvements 2018–2020 cycle	1 January 2022
HKAS 1 Amendments	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
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 related impact to the Target Group but is not yet in a position to state whether there will be any substantial changes to the Target Group's significant accounting policies and presentation of financial information.

(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 Group 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.

Inter company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter company 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 statement of comprehensive income. 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 statement of comprehensive income where appropriate.

The Target Group's share of post-acquisition profits or losses of associate is recognised in the combined statement of comprehensive income, 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 profits of associates" in the combined statement of comprehensive income.

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 statement of comprehensive income.

(d) 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 statement of comprehensive income during the financial year/period in which they are incurred.

Leasehold improvements are depreciated over 5 years or the period of the lease, whichever is shorter. 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 50 years or over 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	4 to 5 years
Motor vehicles	4 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(f)).

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" in the combined statement of comprehensive income.

(e) 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) Trademarks and brand names

Separately acquired trademarks and brand names are shown at historical cost. Trademarks and brand names acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and brand names 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 25 years.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to 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 the combined statement of comprehensive income 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 (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(h) 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. A provision for impairment of trade and other receivables 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 combined statement of comprehensive income. 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 statement of comprehensive income. See note 2(k) 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.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, trust cash, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Details of the Target Group's cash and cash equivalents are disclosed in Note 23.

(j) Financial assets

Accounting policies applied from 1 July 2018

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

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

- 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.

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

(i) Measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the 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 consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the 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.

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.

(1) 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 gains/(losses), net", together with foreign exchange gains and losses. Impairment losses are presented within "General and 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 gains/(losses), net" and impairment expenses are presented 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 gains/(losses), net" in the period in which it arises.

(2) 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 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 gain/(losses), net" in the 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.

Accounting policies applied before 1 July 2018

(i) Classification

The Target Group classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(1) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

(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 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.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other income/gains, net' in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

(k) Impairment of financial assets

Accounting policies applied from 1 July 2018

The Target Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. 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. For trade receivables, the Target Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 20 and note 3(ii) for further information about the Target Group's trade receivables and the impairment policies.

The Target Group considers the probability of default upon initial recognition of a financial asset (except for trade receivables and contract assets) 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

Accounting policies applied before 1 July 2018

Assets carried at amortised cost

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Target Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(l) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the 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.

(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) Government grants

Grants from government are recognised at their fair value when there is reasonable assurance that the grant will be received and that the Target Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in combined statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate and offset with the related expenses. Grants related to income are presented as other incomes/losses in the combined statement of comprehensive income.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs are recognised in combined statement of comprehensive income of the period in which the grants become receivable.

(o) Current and deferred income tax

The tax expense for the year/period comprises current and deferred income tax. Tax is recognised in the combined statement of comprehensive income, 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 foreign operations, 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.

(p) Revenue recognition

Accounting policies applied from 1 July 2018 onwards

Revenue is measured at the fair value of the consideration received or receivable for the services and sales of goods 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 good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or 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.

Revenue is measured at the fair value of the consideration received or receivable, for the services rendered in the ordinary course of the Target Group's activities. Revenue is stated net of rebates and discounts. Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Target Group and specific criteria for each of the activities have been met.

(i) Security guarding and event services, concierge services, landscaping, planting and maintenance services income and consultancy fee income are 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.

(ii) Insurance brokerage services includes commission fee income and claims handling service income. Commission fee income is generated by brokers primarily through assessment of insurable risks and risk appetite of customers and sourcing relevant insurance products from insurers and underwriters which meets the needs of the customer. The Target Group recognised commission fee income at invoice date on the basis that the Target Group acts primarily as an agent of the customer when acting in the capacity as a broker, and as an agent of the insurer while acting in the capacity as an agent. Claims handling services refers to claims processing on behalf of insurers and the revenue is recognised over time throughout the insurance policy period.

(iii) Security systems installation services and sales of plants and materials are recognised at a point in time when the goods are transferred and services are rendered.

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

Accounting policies applied before 1 July 2018

Revenue is measured at the fair value of the consideration received and receivable for the sale of goods and services rendered in the ordinary course of Target Group's activities. Revenue is stated net of returns, rebates and discounts, allowances for credit and other revenue reducing factors after eliminating sales within the Target Group.

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Target Group and specific criteria for each of the activities have been met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the activities have been resolved. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(i) Security guarding and event services, landscaping, planting and maintenance services income and consultancy fee income are recognised in the accounting period when the services are rendered, by reference to the stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(ii) Insurance brokerage services includes commission fee income and claims handling service income. Commission fee income is generated by brokers primarily through assessment of insurable risks and risk appetite of customers and sourcing relevant insurance products from insurers and underwriters which meets the needs of the customer. The Target Group recognised commission fee income at invoice date on the basis that the Target Group acts primarily as an agent of the customer when acting in the capacity as a broker, and as an agent of the insurer while acting in the capacity as an agent. Claims handling services refers to claims processing on behalf of insurers and the revenue is recognised over the insurance policy period.

(iii) Security systems installation services and sales of plants and materials are recognised in the accounting period when the security systems, plants and materials are installed and delivered to customers and title has passed.

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

(q) Leases

Accounting policies applied from 1 July 2019 onwards

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in substance fixed payments less any lease incentives receivable
- amounts expected to be payable by the Target Group under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease, if that rate cannot be readily determined, which is generally the case for leases in the Target Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an assets of similar value to the right-of-use asset in a similar economic environment with similar terms, security conditions.

To determine the incremental borrowing rate, the Target Group:

- where possible uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Target Group, which does not have recent third party financing, and

- makes adjustments specific to the lease, eg. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received; and

- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Target Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the combined statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and office furniture.

Extension and termination options are included in a number of property and equipment leases across the Target Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Target Group and not by the respective lessors.

Accounting policies applied before 1 July 2019

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 statement of comprehensive income on a straight-line basis over the period of the lease.

(r) 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 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.

(iv) 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.

(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 statement of comprehensive income 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.

(s) 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.

(t) 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/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statement of comprehensive income.

(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.

(u) 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.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The activities of the Target Group expose it to foreign exchange risk, credit risk and liquidity 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) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Target Group operates mainly in Hong Kong and use Hong Kong dollars and United States dollars to settle sales and purchase transactions. The Target Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars. Under the Linked Exchange Rate System in Hong Kong, Hong Kong dollars is pegged to the United States dollars. Management therefore considers that there are no significant foreign exchange risks with respect to the United States dollars.

The Target Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. The Target Group currently does not use any derivative contracts to hedge against its exposure to currency risk. Management manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and considers hedging significant foreign currency exposure should the need arise.

As at 30 June 2018, 2019 and 2020, and 31 December 2020, if Hong Kong dollars had strengthened/weakened by 5% against Renminbi with all other variables unchanged, there would be insignificant impact on the Target Group's profit for the year before income tax.

(ii) 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 cash and cash equivalents, amount due from FMC and fellow subsidiaries, trade and other receivables and contract assets, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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.

(a) Credit risk of cash and cash equivalents

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 fellow subsidiaries

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

(c) Credit risk of trade receivables and contract assets

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 and contract assets.

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

(d) Credit risk of other receivables

Other receivables of the Target Group are considered to have no significant change in credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Other receivables are considered to have of no significant change in credit risk when they have there is no adverse change in the expected performance and behaviour of the counterparties.

(iii) Liquidity risk

It is the policy of the Target Group to regularly monitor current and expected liquidity requirements and to ensure that adequate funding is available for operating, investing and financing. The Target Group maintains undrawn available credit lines and cash deposits to reduce liquidity risk and to allow for flexibility in meeting funding requirements.

The table below analyses the Target Group's financial liabilities into relevant maturity groups based on the remaining period at the end of the reporting periods to the contractual maturity date.

As at 31 December 2020	**Less than 1 year**	**After 1 year but less than 5 years**	**Total undiscounted cash flows**	**Difference from carrying amounts**	**Carrying amounts**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Lease liabilities	900	38	938	(13)	925
Trade and other payables, excluding accrued employee benefits	78,322	—	78,322	—	78,322
Amount due to FMC	166,331	—	166,331	—	166,331

As at 30 June 2020	**Less than 1 year**	**After 1 year but less than 5 years**	**Total undiscounted cash flows**	**Difference from carrying amounts**	**Carrying amounts**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Lease liabilities	1,840	105	1,945	(38)	1,907
Trade and other payables, excluding accrued employee benefits	87,223	—	87,223	—	87,223
Amount due to FMC	7,205	—	7,205	—	7,205

As at 30 June 2019 and 2018, all financial liabilities of the Target Group mature within 12 months from the end of the reporting years.

(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 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.

(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/period are addressed below.

Income taxes

The Target Group is subject to income tax in Hong Kong and Macau. 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/period. 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 26.

5 REVENUE

	Year ended 30 June			Six months ended 31 December	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue from contracts with customers represents:					
General Security Group					
Security guarding and event services income	491,685	566,617	625,458	320,374	319,061
Security systems installation services	19,113	16,999	13,616	6,966	4,113
Concierge services	26,181	35,208	25,792	15,452	15,167
	536,979	618,824	664,866	342,792	338,341
Nova Insurance Group					
Insurance brokerage service	75,285	88,417	84,232	43,082	43,424
Consultancy fee from a related company	1,696	1,696	1,966	1,966	1,509
	76,981	90,113	86,198	45,048	44,933
Landscaping Group					
Planting and maintenance service	18,224	17,914	17,180	8,830	8,923
Landscaping services	6,115	9,224	5,355	2,953	3,198
Sale of plants and materials	3,531	4,293	3,570	1,583	1,488
	27,870	31,431	26,105	13,366	13,609
Total	641,830	740,368	777,169	401,206	396,883

The profit, income tax expenses and finance costs for the year/period of the General Security Group, Nova Insurance Group and Landscape Group are as follows:

	Year ended 30 June			Six months ended 31 December	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit for the year/period					
General Security Group	37,906	40,521	71,478	20,418	118,121
Nova Insurance Group	27,466	35,999	28,856	15,172	20,746
Landscape Group	2,593	1,486	2,264	826	3,473
	67,965	78,006	102,598	36,416	142,340
Income tax for the year/period					
General Security Group	(7,421)	(7,958)	(8,814)	(4,000)	(5,062)
Nova Insurance Group	(5,351)	(7,088)	(5,480)	(2,973)	(3,666)
Landscape Group	(296)	(292)	(197)	(189)	(240)
	(13,068)	(15,338)	(14,491)	(7,162)	(8,968)

	Year ended 30 June			Six months ended 31 December	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Finance costs for the year/period					
General Security Group	(461)	—	(94)	(55)	(22)
Nova Insurance Group	—	—	(8)	(3)	(3)
Landscape Group	—	—	(2)	(1)	(1)
	(461)	—	(104)	(59)	(26)
Timing of revenue recognition					
Revenue recognised over time		676,971	730,100	376,384	374,759
Revenue recognised point in time		63,397	47,069	24,822	22,124
		740,368	777,169	401,206	396,883

As at 30 June 2019 and 2020 and 31 December 2020, the aggregate amounts of transaction price allocated to the Target Group's remaining performance obligations in respect of security guarding and event services are HK$466 million, HK$407 million and HK$407 million respectively, in respect of insurance brokerage commissions are HK$43 million, HK$48 million and HK$47 million respectively and in respect of planting and maintenance services are HK$12 million, HK$8 million and HK$16 million respectively. The Target Group will recognise this revenue during the completion of the related works, which is expected to occur within 4 years, 3 years and 2.5 years respectively in respect of security guarding and event services, within 2 years, 4 years and 3 years respectively in respect of insurance brokerage commissions and within 2.5 years, 2 years and 2 years respectively in respect of planting and maintenance services after 30 June 2019, 2020 and 31 December 2020 respectively, which are typical for the respective projects.

6 OTHER INCOME, NET

	Year ended 30 June			Six months ended 31 December	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
(Loss)/gain on disposal of property, plant and equipment, net	(23)	(125)	8,240	5	—
Exchange gain/(loss)	725	33	(221)	(192)	508
Government grants *(Note (a))*	—	—	322	—	—
Others	196	217	384	191	401
	898	125	8,725	4	909

Note (a): During the year ended 30 June 2020, the Target Group has received government grants from the Anti-epidemic Fund set up by the Government of the Hong Kong Special Administrative Region (the "**HKSAR Government**") under a One-off Subsidy Scheme as financial support for its businesses and licensed goods vehicles and for local primary producer (including flower farms and nurseries) amounting to HK$130,000 and for phasing out pre-Euro IV diesel commercial vehicles under a Ex-gratia Payment Scheme amounting to HK$192,100. Under these schemes, one-off subsidies are provided to eligible businesses depending on their industries, which have business commenced before 1 January 2020 and is still in operation at the time of application and registered owners of pre-Euro IV respectively. There are no unfilled conditions or other contingencies attaching to these grants. During the year ended 30 June 2020, the Target Group has recognised HK$322,100 government grants in the combined income statement in relation to these schemes.

7 EXPENSES BY NATURE

	Year ended 30 June			Six months ended 31 December	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cost of inventories sold and installation costs	12,290	10,673	7,284	3,437	3,361
Raw materials and consumables used	387	762	801	282	409
Depreciation of right-of-use assets	—	—	2,015	1,007	973
Depreciation of property, plant and equipment	1,461	1,415	1,359	607	730
Amortisation of intangible assets	1,122	1,122	1,122	562	562
Management fee	14,400	14,600	17,730	7,345	3,459
Operating lease rentals related to:					
— Land and building	1,804	2,030	—	—	—
— Machinery	344	439	—	—	—
Expenses relating to short-term leases:					
— Land and building	—	—	130	65	65
— Machinery	—	—	169	113	116
Premise expense recharged by fellow subsidiary	1,705	2,067	1,660	1,064	1,099
Staff costs *(Note 11)*	501,165	587,612	608,832	325,225	224,422
Donation	2,741	2,996	5,475	5,468	2,378
Auditor's remuneration					
— Provision for the year/period	668	672	685	366	404
— Over -provision in prior years/period	—	—	(2)	—	—

8 FINANCE INCOME AND COSTS

	Year ended 30 June			Six months ended 31 December	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Finance income					
Interest from bank deposits	30	295	629	159	321
Finance costs					
Interest on lease liabilities	—	—	104	59	26
Bank loan interest	461	—	—	—	—
	461	—	104	59	26

9 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year/period. Taxation on Macau profits has been calculated on the estimated assessable profit for the year/period at the rates of 12%.

	Year ended 30 June			Six months ended 31 December	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Current income tax					
Hong Kong profits tax	13,400	15,414	15,161	7,147	9,101
Macau profits tax	13	20	—	—	—
Deferred income tax *(Note 17)*	(190)	(96)	(521)	26	(133)
Over-provision in prior years/periods	(155)	—	(149)	(11)	—
	13,068	15,338	14,491	7,162	8,968

The 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			Six months ended 31 December	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit before income tax	81,033	93,344	117,089	43,578	151,308
Less: Share of profits of an associate	(436)	(376)	(180)	(90)	(80)
	80,597	92,968	116,909	43,488	151,228
Calculated at a tax rate of 16.5%	13,299	15,340	19,290	7,175	24,953
Effect of different taxation rates in other jurisdiction	(6)	(8)	—	—	—
Income not subject to taxation	(99)	(148)	(4,740)	(26)	(16,009)
Expenses not deductible for taxation purpose	40	186	115	37	42
Other temporary differences	(11)	(32)	(25)	(13)	(18)
Over-provision in prior years/periods	(155)	—	(149)	(11)	—
Income tax expense	13,068	15,338	14,491	7,162	8,968

10 DIVIDENDS

Interim dividends of HK$51.5 million, HK$55.5 million, HK$49.0 million and HK$340.2 million were declared by the companies within the Target Group to the then shareholders during the years ended 30 June 2018, 2019 and 2020 and the six months ended 31 December 2020 respectively.

No interim dividend was declared during the six months ended 31 December 2019.

11 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 30 June			Six months ended 31 December	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Wages, salaries and other allowances	480,800	563,426	582,284	311,934	210,786
Pension costs on defined contribution plans	20,175	23,997	26,370	13,095	13,539
Pension costs on defined benefits plans	190	189	178	196	97
	501,165	587,612	608,832	325,225	224,422

Note: Government grants are receivable by the Target Group from Anti-epidemic Fund set up by HKSAR Government under the Employment Support Scheme (the "**ES Scheme**") as financial support. The ES Scheme is eligible for all employers who have been making MPF contribution. Eligible employer is required to provide an undertaking not to make redundancies during the subsidy period from June 2020 to November 2020. Otherwise, depending on the headcount reduction percentage, employer will have to pay penalties to the HKSAR Government. The grants are disbursable to employers in two tranches during 2020. During the year ended 30 June 2020 and period ended 31 December 2020, the Target Group has recognised HK$19.2 million and HK$96.2 million government grants respectively in the combined income statement in relation to the Scheme as deductions in its staff costs.

12 BENEFITS AND INTERESTS OF DIRECTORS OF THE GENERAL SECURITY GROUP, NOVA INSURANCE GROUP AND LANDSCAPE GROUP

During the years/period, 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/period. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities during the years/period.

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/period or at any time during the years/period.

The value of their services to the Target Group approximates the management fee paid by the Target Group to the holding companies (Note 31).

13 PROPERTY, PLANT AND EQUIPMENT

	Land and building HK$'000	Leasehold improvements HK$'000	Furniture, fixtures, equipment and others HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Net book value						
At 1 July 2017	4,135	9	748	22	1,425	6,339
Additions	—	—	606	—	444	1,050
Depreciation	(138)	(7)	(343)	(9)	(964)	(1,461)
Disposals	—	—	—	—	(30)	(30)
At 1 July 2018	3,997	2	1,011	13	875	5,898
Additions	—	—	836	—	1,134	1,970
Depreciation	(138)	(2)	(438)	(9)	(828)	(1,415)
Disposals	—	—	(2)	—	(166)	(168)
At 1 July 2019	3,859	—	1,407	4	1,015	6,285
Additions	—	—	1,373	—	1,503	2,876
Depreciation	(94)	—	(634)	(4)	(627)	(1,359)
Disposals	(3,765)	—	—	—	—	(3,765)
At 1 July 2020	—	—	2,146	—	1,891	4,037
Additions	—	—	98	—	—	98
Depreciation	—	—	(580)	—	(150)	(730)
At 31 December 2020	—	—	1,664	—	1,741	3,405
At 30 June 2018						
Cost	7,001	2,535	11,097	990	6,957	28,580
Accumulated depreciation	(3,004)	(2,533)	(10,086)	(977)	(6,082)	(22,682)
Net book value	3,997	2	1,011	13	875	5,898
At 30 June 2019						
Cost	7,001	2,535	11,926	990	8,091	30,543
Accumulated depreciation	(3,142)	(2,535)	(10,519)	(986)	(7,076)	(24,258)
Net book value	3,859	—	1,407	4	1,015	6,285
At 30 June 2020						
Cost	—	2,535	13,247	990	8,803	25,575
Accumulated depreciation	—	(2,535)	(11,101)	(990)	(6,912)	(21,538)
Net book value	—	—	2,146	—	1,891	4,037
At 31 December 2020						
Cost	—	2,535	13,081	990	8,803	25,409
Accumulated depreciation	—	(2,535)	(11,417)	(990)	(7,062)	(22,004)
Net book value	—	—	1,664	—	1,741	3,405

14 INTANGIBLE ASSETS

	Goodwill	Trademarks and brand names	Total
	HK$'000	*HK$'000*	*HK$'000*
Net book value			
At 1 July 2017	16,839	19,146	35,985
Amortisation	—	(1,122)	(1,122)
At 1 July 2018	16,839	18,024	34,863
Amortisation	—	(1,122)	(1,122)
At 1 July 2019	16,839	16,902	33,741
Amortisation	—	(1,122)	(1,122)
At 1 July 2020	16,839	15,780	32,619
Amortisation	—	(562)	(562)
At 31 December 2020	16,839	15,218	32,057
At 30 June 2018			
Cost	16,839	27,240	44,079
Accumulated amortisation	—	(9,216)	(9,216)
Net book value	16,839	18,024	34,863
At 30 June 2019			
Cost	16,839	27,240	44,079
Accumulated amortisation	—	(10,338)	(10,338)
Net book value	16,839	16,902	33,741
At 30 June 2020			
Cost	16,839	27,240	44,079
Accumulated amortisation	—	(11,460)	(11,460)
Net book value	16,839	15,780	32,619
At 31 December 2020			
Cost	16,839	27,240	44,079
Accumulated amortisation	—	(12,022)	(12,022)
Net book value	16,839	15,218	32,057

Impairment tests for goodwill

Goodwill is allocated to the 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 arises 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			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
General Security Group	14,452	14,452	14,452	14,452
Nova Insurance Group	2,387	2,387	2,387	2,387
	16,839	16,839	16,839	16,839

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/period end are as follows:

Security guarding and event services

	As at 30 June			As at 31 December
	2018	2019	2020	2020
Cash flows in first five years				
Gross profit margin	11.9–12.2%	10.9–11.0%	10.5%	10.5%
Revenue growth rate	2.0–3.1%	2.5–4.2%	2.5–4.6%	2.5–4.6%
Pre-tax discount rate	13.7%	13.7%	13.7%	13.7%
Cash flows beyond five-year period				
Terminal growth rate	1%	1%	1%	1%
Pre-tax discount rate	13.7%	13.7%	13.7%	13.7%

Insurance brokerage commissions

	As at 30 June			As at 31 December
	2018	2019	2020	2020
Cash flows in first five years				
Inflation rate on operation cost	1.8–11.8%	2.3–10.2%	2.5–8.0%	2.5–8.0%
Revenue growth rate	2.0–11.8%	2.5–15.6%	2.5–6.0%	2.5–6.0%
Pre-tax discount rate	11.2%	11.2%	11.2%	11.2%
Cash flows beyond five-year period				
Terminal growth rate	1%	1%	1%	1%
Pre-tax discount rate	11.2%	11.2%	11.2%	11.2%

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 2018, 2019, 2020 and for the six months ended 31 December 2020.

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 ASSOCIATE

	As at 30 June			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year/period	—	96	152	152
Share of profits for the year/period	436	376	180	80
Dividend	(340)	(320)	(180)	(80)
At end of year	96	152	152	152

Particular of an associate is as follows:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Percentage of interest directly held As at 30 June 2018	2019	2020	As at 31 December 2020
				%	%	%	%
Landes Limited	Hong Kong	Landscape design	10 shares paid up to HK$10	20	20	20	20

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

	As at 30 June			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount of interest in an associate	96	152	152	152
Share of profit and total comprehensive income for the year/period	436	376	180	80

There are no contingent liabilities relating to the Group's interest in the associate, and no contingent liabilities of the associate itself.

16 LEASES

(a) Target Group as lessee — amount recognised in the combined statement of financial position

	1 July 2019	30 June 2020	31 December 2020
	HK$	*HK$*	*HK$*
Right-of-use assets			
Office premises	3,838	1,837	871
Office equipment and others	51	37	30
	3,889	1,874	901
Lease liabilities			
Current	1,982	1,805	758
Non-current	1,907	102	167
	3,889	1,907	925

(b) Target Group as lessee — amount recognised in the combined statement of comprehensive income

	Year ended 30 June 2020	Six months ended 31 December 2019	Six months ended 31 December 2020
	HK$'000	*HK$'000* (unaudited)	*HK$'000*
Depreciation of right-of-use assets			
Office premises	2,001	1,000	966
Office equipment and others	14	7	7
	2,015	1,007	973
Interest expense	104	59	26
Total charges recognised in profit or loss for leases	2,119	1,066	999

(c) Target Group as lessee — amount recognised in the combined statement of cash flows

The total cash outflows for leases during the year ended 30 June 2020 and during the six months ended 31 December 2020 were HK$2,385,000 and HK$1,189,000 respectively.

(d) Target Group as lessee — other lease disclosures

The Target Group's leasing activities and how these are accounted for

The Target Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 2 to 3 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

17 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

	As at 30 June			As at 31 December
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred income tax assets	320	639	1,074	468
Deferred income tax liabilities	(3,584)	(3,158)	(2,710)	(2,511)
	(3,264)	(2,519)	(1,636)	(2,043)

Deferred income tax assets

	Remeasurement of long service payment liabilities	Accelerated accounting depreciation	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2017	—	284	284
Charged to combined income statement	—	(10)	(10)
Credited to other comprehensive income	46	—	46
At 1 July 2018	46	274	320
Charged to combined income statement	—	(28)	(28)
Credited to other comprehensive income	649	—	649
At 1 July 2019	695	246	941
Charged to combined income statement	—	(92)	(92)
Credited to other comprehensive income	362	—	362
At 1 July 2020	1,057	154	1,211
Charged to combined income statement	—	(2)	(2)
Charged to other comprehensive income	(540)	—	(540)
At 31 December 2020	517	152	669

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	**Fair value adjustment on trademarks and brand names**	**Fair value adjustment arising from business combination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2017	(251)	(3,160)	(373)	(3,784)
Credited/(charged) to the combined income statement	17	185	(2)	200
At 1 July 2018	(234)	(2,975)	(375)	(3,584)
(Charged)/credited to the combined income statement	(68)	185	7	124
At 1 July 2019	(302)	(2,790)	(368)	(3,460)
Credited to the combined income statement	60	185	368	613
At 1 July 2020	(242)	(2,605)	—	(2,847)
Credited to the combined income statement	42	93	—	135
At 31 December 2020	(200)	(2,512)	—	(2,712)

18 PENSION ASSET/LIABILITY

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 2018, 2019 and 2020 and the six months ended 31 December 2020 were prepared by independent qualified actuaries using the projected unit credit method.

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

	As at 30 June 2018	As at 30 June 2019	As at 30 June 2020	As at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Present value of defined benefit obligation	6,619	6,917	7,801	8,020
Fair value of plan assets	(5,909)	(6,404)	(7,059)	(8,464)
Net liabilities/(assets) arising from defined benefit obligation	710	513	742	(444)

	As at 30 June 2018	As at 30 June 2019	As at 30 June 2020	As at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Represented by:				
Retirement benefit liabilities/(assets)	710	513	742	(444)

The above liabilities are expected to be settled after more than one year.

(ii) Movements in net pension asset/liability and its components are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2017	6,347	(5,128)	1,219
Net charge/(credit) to the combined statement of comprehensive income			
Current service cost	180	—	180
Interest expenses/(income)	63	(53)	10
	243	(53)	190
Net (credit)/charge to other comprehensive income			
Remeasurements loss/(gain):			
Actuarial loss arising from change in financial assumptions	(71)	—	(71)
Actuarial loss arising from liability experience	16	—	16
Return on plan assets excluding interest income	—	(388)	(388)
	(55)	(388)	(443)
Contribution paid by the employees	84	(84)	—
Contribution paid by the employers	—	(256)	(256)
	84	(340)	(256)

	Present value of defined benefit obligation HK$'000	Fair value of plan assets HK$'000	Total HK$'000
At 1 July 2018	6,619	(5,909)	710
Net charge/(credit) to the combined statement of comprehensive income			
Current service cost	178	—	178
Interest expenses/(income)	97	(86)	11
	275	(86)	189
Net charge/(credit) to other comprehensive income			
Remeasurements loss/(gain):			
Actuarial loss arising from change in financial assumptions	63	—	63
Actuarial loss arising from liability experience	(128)	—	(128)
Return on plan assets excluding interest income	—	64	64
	(65)	64	(1)
Contribution paid by the employees	88	(88)	—
Contribution paid by the employers	—	(385)	(385)
	88	(473)	(385)
At 1 July 2019	6,917	(6,404)	513
Net charge/(credit) to the combined statement of comprehensive income			
Current service cost	174	—	174
Interest expenses/(income)	97	(93)	4
	271	(93)	178
Net charge/(credit) to other comprehensive income			
Remeasurements loss/(gain):			
Actuarial loss arising from change in financial assumptions	10	—	10
Actuarial loss arising from liability experience	512	—	512
Return on plan assets excluding interest income	—	(105)	(105)
	522	(105)	417
Contribution paid by the employees	91	(91)	—
Contribution paid by the employers	—	(366)	(366)
	91	(457)	(366)

	Present value of defined benefit obligation *HK$'000*	Fair value of plan assets *HK$'000*	Total *HK$'000*
At 1 July 2020	7,801	(7,059)	742
Net charge/(credit) to the combined statement of comprehensive income			
Current service cost	96	—	96
Interest expenses/(income)	12	(11)	1
	108	(11)	97
Net charge/(credit) to other comprehensive income			
Remeasurements loss/(gain):			
Actuarial loss arising from change in financial assumptions	77	—	77
Actuarial loss arising from liability experience	(13)	—	(13)
Return on plan assets excluding interest income	—	(1,143)	(1,143)
	64	(1,143)	(1,079)
Contribution paid by the employees	47	(47)	—
Contribution paid by the employers	—	(204)	(204)
	47	(251)	(204)
At 31 December 2020	8,020	(8,464)	(444)

The weighted average duration of the defined benefit obligation as at 30 June 2018, 2019 and 2020 and 31 December 2020 is 1 year, 1 year, 1 year and 1 year respectively.

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

		As at 30 June		As at 31 December
	2018	2019	2020	2020
Discount rate	2.1%	1.4%	0.3%	0.3%
Salary growth rate	4.0%	4.0%	3.0%	4.0%

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

	As at 30 June						As at 31 December	
	2018		2019		2020		2020	
	Increase in 0.25%	Decrease in 0.25%	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*	*HK$'000*	*HK$'000*
Discount rate	(16)	16	(25)	26	(20)	19	(20)	20
Salary growth rate	16	(16)	17	(17)	19	(19)	19	(19)

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 within the statement of financial position.

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

	As at 30 June			As at 31 December
	2018	2019	2020	2020
Equity	71.8%	70.5%	70.3%	74.4%
Bond	18.6%	23.5%	23.6%	21.2%
Cash and others	9.6%	6.0%	6.1%	4.4%
	100%	100%	100%	100.0%

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.

19 INVENTORIES

	As at 30 June			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods	726	854	808	743

20 TRADE AND OTHER RECEIVABLES AND ACCRUED REVENUE/CONTRACT ASSETS

	As at 30 June			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables				
Third parties	60,716	91,886	85,743	105,127
Related companies	56,188	58,414	51,023	75,325
	116,904	150,300	136,766	180,452
Retention receivables	549	122	82	66
Amount receivables from broking operations				
— Third parties	26,935	20,084	24,515	36,798
— Related companies	23,512	20,724	28,444	19,593
	50,447	40,808	52,959	56,391
Other receivables	4,854	4,172	17,545	5,847
	172,754	195,402	207,352	242,756
Deposits and prepayments	4,332	3,008	2,889	5,581
	177,086	198,410	210,241	248,337
Accrued revenue/contract assets *(Note a)*	1,975	8,446	2,911	2,100
	179,061	206,856	213,152	250,437

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

The carrying amounts of the trade and other receivables of the Target Group approximate their fair values and are denominated in the following currencies:

	As at 30 June			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	164,539	188,403	199,982	237,381
United States dollars	5,757	5,156	5,835	3,880
Renminbi	1,843	1,284	870	1,033
Macau patacas	584	514	545	448
Others	31	45	120	14
	172,754	195,402	207,352	242,756

The carrying amounts of trade and other receivables approximate their fair value and are mainly denominated in Hong Kong dollars.

Trade and other receivables do not contain material impaired assets.

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

		As at 30 June		As at 31 December
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current–90 days	109,005	141,129	128,875	159,354
91–180 days	6,400	8,062	6,067	19,898
Over 180 days	1,499	1,109	1,824	1,200
	116,904	150,300	136,766	180,452

As of the years ended 30 June 2018, 2019 and 2020 and the six months ended 31 December 2020, all trade receivables were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

Note (a): Accrued revenue/contract assets of the Target Group represents:

		As at 30 June		As at 31 December
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrued revenue/contract assets relating to security contracts	230	130	156	263
Accrued revenue/contract assets relating to insurance contracts	1,745	8,316	2,755	1,837
	1,975	8,446	2,911	2,100

21 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.

22 AMOUNT DUE FROM/(TO) FELLOW SUBSIDIARIES

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

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

23 CASH AND CASH EQUIVALENTS

	As at 30 June			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents				
— Bank balances and cash on hand	108,033	111,807	154,959	134,152
— Trust cash *(Note a)*	46,663	137,290	38,910	27,048

Note a: Trust cash relates to cash held for insurance premiums received from policyholders which will ultimately be paid to insurers. Trust cash cannot be used to meet business obligations/operating expenses other than payments to underwriters and/or refunds to policyholders.

The carrying amounts of bank balances and cash on hand are denominated in the following currencies:

	As at 30 June			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	106,480	109,841	152,566	131,811
United States dollars	60	116	184	343
Renminbi	1,203	1,203	1,198	1,215
Macau patacas	290	647	1,011	783
	108,033	111,807	154,959	134,152

The carrying amounts of trust cash are denominated in the following currencies:

	As at 30 June			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	45,578	131,699	35,104	22,514
United States dollars	754	4,782	3,658	4,352
Macau patacas	331	809	148	182
	46,663	137,290	38,910	27,048

24 COMBINED SHARE CAPITAL

As mentioned in note 1 above, the combined financial statements have been prepared as if the structure after the Reorganisation had been in existence throughout the years ended 30 June 2018, 2019 and 2020 and the six months ended 31 December 2020, 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 General Security Group, Nova Insurance Group and Landscape Group.

	As at 30 June			As at 31 December
	2018	**2019**	**2020**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Share capital of FSE S & G Limited As at 31 December 2020, 30 June 2020, 30 June 2019 and 30 June 2018 Issued and fully paid: 1 ordinary share	—	—	—	—
Share capital of International Reinsurance Management Limited *(Note a)* Issued and fully paid: As at 31 December 2020: 500,000 ordinary shares; As at 30 June 2020: 500,000 ordinary shares; As at 30 June 2019: 100,000 ordinary shares; As at 30 June 2018: 100,000 ordinary shares;	100,000	100,000	500,000	500,000
Share capital of Nova Insurance Consultants Limited *(Note b)* Issued and fully paid: As at 31 December 2020: 500,000 ordinary shares; As at 30 June 2020: 500,000 ordinary shares; As at 30 June 2019: 100,000 ordinary shares; As at 30 June 2018: 100,000 ordinary shares;	100,000	100,000	500,000	500,000
Share capital of FSE C & L Limited As at 31 December 2020, 30 June 2020, 30 June 2019 and 30 June 2018 Issued and fully paid: 1 ordinary share	—	—	—	—

Note a: On 14 August 2019, 400,000 ordinary shares of HK$1.00 each has been issued. The amount was settled through current account with a fellow subsidiary.

Note b: On 14 August 2019, 400,000 ordinary shares of HK$1.00 each has been issued. The amount was settled through current account with a fellow subsidiary.

25 RESERVES

	Merger reserve *(Note a)* *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 July 2017	181,456	1,985	183,441
Profit for the year	—	67,965	67,965
Other comprehensive income:			
Remeasurement of defined benefit retirement scheme	—	443	443
Remeasurement gain on long service payment liabilities	—	(274)	(274)
Deferred tax on remeasurement of long service payment liabilities	—	46	46
Dividends *(Note 10)*	—	(51,450)	(51,450)
At 1 July 2018	181,456	18,715	200,171
Profit for the year	—	78,006	78,006
Other comprehensive income:			
Remeasurement of defined benefit retirement scheme	—	1	1
Remeasurement gain on long service payment liabilities	—	(3,871)	(3,871)
Deferred tax on remeasurement of long service payment liabilities	—	649	649
Dividends *(Note 10)*	—	(55,500)	(55,500)
At 1 July 2019	181,456	38,000	219,456
Profit for the year	—	102,598	102,598
Other comprehensive income:			
Remeasurement of defined benefit retirement scheme	—	(417)	(417)
Remeasurement gain on long service payment liabilities	—	(2,258)	(2,258)
Deferred tax on remeasurement of long service payment liabilities	—	362	362
Dividends *(Note 10)*	—	(49,000)	(49,000)
At 1 July 2020	181,456	89,285	270,741
Profit for the period	—	142,340	142,340
Other comprehensive income:			
Remeasurement gain on long service payment liabilities	—	3,271	3,271
Deferred tax on remeasurement of long service payment liabilities	—	(540)	(540)
Remeasurement of defined benefit retirement scheme	—	1,079	1,079
Dividends *(Note 10)*	—	(340,180)	(340,180)
At 31 December 2020	181,456	(104,745)	76,711

	Merger reserve *(Note a)* *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
(Unaudited)			
At 1 July 2019	181,456	38,000	219,456
Profit for the period	—	36,416	36,416
Other comprehensive income:			
Remeasurement gain on long service payment liabilities	—	(1,135)	(1,135)
Deferred tax on remeasurement of long service payment liabilities	—	(209)	(209)
Deferred tax on remeasurement gain of long service payment liabilities	—	187	187
At 31 December 2019	181,456	73,259	254,715

Note (a): The balance represents the net asset values attributable to the General Security Group, Nova Insurance Group and Landscape Group at the date when the combining companies first came under the control of FHL. This balance has been classified as the merger reserve in the combined financial statements.

26 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			As at 31 December
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Beginning of the year/period	9,524	10,177	14,546	16,872
Expenses recognised in the combined statement of comprehensive income	861	1,046	891	587
Remeasurement loss/(gain) recognised in other comprehensive income	274	3,871	2,258	(3,271)
Benefits paid	(482)	(548)	(823)	(440)
End of the year/period	10,177	14,546	16,872	13,748

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

	As at 30 June			As at 31 December
	2018	**2019**	**2020**	**2020**
Discount rate	2.0%	1.3%	0.4%	0.4%
Long term rate of salary increases	4.0%–4.6%	3.0%–3.5%	3.0%–4.0%	3.0%–4.0%
Long term rate of increase of maximum salary and amount of long service payment and MPF Relevant Income limit	4.0%	3.5%–4.0%	2.5%	2.5%
Long term average expected return on MPF and ORSO balances	4.8%–5.5%	3.0%	3.0%	3.0%

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

	As at 30 June						As at 31 December	
	2018		**2019**		**2020**		**2020**	
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%**	**Increase in 0.25%**	**Decrease in 0.25%**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Discount rate	(65)	69	(139)	151	(186)	199	(87)	232
Long term rate of salary increases	430	(375)	957	(915)	534	(567)	495	(383)
Long term rate of increase of maximum salary and amount of long service payment and MPF Relevant Income limit	14	(19)	92	(35)	325	(322)	323	(158)
Long term average expected return on MPF and ORSO balances	(302)	345	(683)	722	(614)	642	(398)	576

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.

27 TRADE AND OTHER PAYABLES AND RECEIPT IN ADVANCE/CONTRACT LIABILITIES

	As at 30 June			As at 31 December
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	2,702	1,793	1,649	2,874
Amount payable on broking operations	72,038	161,804	81,096	62,577
Other payables and accruals	84,591	83,465	93,065	96,739
	159,331	247,062	175,810	162,190
Receipt in advance/contract liabilities *(Note a)*	23,089	44,248	48,683	47,609
Total	182,420	291,310	224,493	209,799

Trade and other payables are measured at amortised cost and their carrying amounts approximate their fair values and are denominated in the following currencies:

	As at 30 June			As at 31 December
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	151,268	237,466	166,094	153,787
United States dollars	7,407	8,407	9,131	7,874
Renminbi	—	—	—	90
Macau patacas	628	1,186	541	439
Others	28	3	44	—
	159,331	247,062	175,810	162,190

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

	As at 30 June			As at 31 December
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1–90 days	2,270	1,687	1,282	1,764
91–180 days	353	34	248	345
Over 180 days	79	72	119	765
	2,702	1,793	1,649	2,874

Note (a) Revenue recognised in relation to contract liabilities

The following table shows the amount of the revenue recognised in the current year relates to carried-forward contract liabilities:

	Year ended 30 June		Six months ended 31 December
	2019	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period	23,089	33,547	16,301

The carrying amounts of accruals and other payables approximate their fair values and are mainly denominated in Hong Kong dollars.

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			Six months ended 31 December	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before income tax	81,033	93,344	117,089	43,578	151,308
Adjustment for:					
Share of results of associate	(436)	(376)	(180)	(90)	(80)
Interest income	(30)	(295)	(629)	(159)	(321)
Depreciation on property, plant and equipment	1,461	1,415	1,359	607	730
Depreciation on right-of-use assets	—	—	2,015	1,007	973
Amortisation of intangible assets	1,122	1,122	1,122	562	562
Loss/(gain) on disposal of property, plant and equipment	23	125	(8,240)	(5)	—
Pension costs on defined benefits plan	190	189	178	89	97
Contribution paid for pension asset/ liability	(256)	(385)	(366)	—	(204)
Finance costs	461	—	104	59	26
Long service payment liabilities					
Expenses recognised in the statement of comprehensive income	861	1,046	891	446	587
Benefit paid	(482)	(548)	(823)	(214)	(440)
Operating cash flows before changes in working capital	83,947	95,637	112,520	45,880	153,238
Change in working capital:					
— Inventories	2,254	(28)	20	(608)	65
— Trade and other receivables and accrued revenue/contract assets	(22,279)	(29,419)	(7,353)	(46,636)	(36,485)
— Trade and other payables and receipt in advance/contract liabilities	(16,376)	108,890	(66,817)	(48,102)	(14,695)
— Amount due from FMC	12,236	—	(9,789)	1,283	(4,779)
— Balances with fellow subsidiaries	(23,554)	(47,170)	(47,096)	(31,574)	(33,969)
Cash generated from/(used in) operations	36,228	127,910	(18,515)	(79,757)	63,375

(b) Reconciliation of liabilities arising from financing activities

	Bank borrowings *HK$'000*	**Lease liabilities** *HK$'000*	**Total** *HK$'000*
Balance as at 1 July 2017	30,000	—	30,000
Cash flows	(30,000)	—	(30,000)
Balance as at 1 July 2018 and 2019	—	—	—
Effect on adoption of HKFRS 16	—	3,889	3,889
Principal elements of lease liabilities	—	(1,982)	(1,982)
Interest on lease liabilities	—	104	104
Interest paid on lease liabilities	—	(104)	(104)
Balance as at 1 July 2020	—	1,907	1,907
Cash flows			
Principal elements of lease liabilities	—	(982)	(982)
Interest on lease liabilities	—	26	26
Interest paid on lease liabilities	—	(26)	(26)
Balance as at 31 December 2020	—	925	925

(c) On 1 July 2016, 朗迪景觀建造(深圳)有限公司("**朗迪深圳**"), a wholly owned subsidiary of FSE C & L Limited, has been disposed to external party at the consideration of RMB15,407,044 (equivalent to HK$17,876,401). RMB7,495,555 (equivalent to HK$8,642,572), RMB3,937,833 (equivalent to HK$4,543,696), RMB519,131 (equivalent to HK$615,430) and RMB431,816 (HK$475,213) have been received during the years ended 30 June 2017, 2018, 2019 and 2020 respectively.

(d) Major non-cash transactions

Payment of dividends of HK$30 million, HK$39 million, HK$30 million and HK$267.2 million during the years ended 30 June 2018, 2019 and 2020 and the six months ended 31 December 2020 respectively were settled through current account with FMC and a fellow subsidiary.

During the year ended 30 June 2020, the major non-cash transaction was proceeds from disposal of property, plant and equipment of HK$12,000,000 which was settled through current account with a fellow subsidiary.

During the year ended 30 June 2020, amount due from fellow subsidiaries amounting HK$73,284,000 has been settled though current account with FMC.

29 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 2018	2019	2020	As at 31 December 2020
General Security (H.K.) Limited	Hong Kong	Security services, sales and maintenance of alarm systems	8,402 ordinary shares and 116,000 non-voting deferred shares paid up to HK$2,000,200	100	100	100	100
General Security Limited	Hong Kong	Security services	2 ordinary shares and 2,500 non-voting deferred shares paid up to HK$250,200	100	100	100	100
Hong Kong Island Landscape Company Limited	Hong Kong	Trading, landscaping project contracting	1,980,000 ordinary shares and 20,000 non-voting deferred shares paid up to HK$20,000,000	100	100	100	100
International Reinsurance Management Limited	Hong Kong	Reinsurance brokerage	500,000 ordinary shares paid up to HK$500,000	100	100	100	100
Nova Insurance Consultants Limited	Hong Kong	Insurance brokerage	500,000 ordinary shares paid up to HK$500,000	100	100	100	100

30 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:

	As at 30 June 2018	2019
	HK$'000	*HK$'000*
Land and building		
Within one year	228	2,086
Between one and five years	—	1,944
	228	4,030

31 RELATED PARTY TRANSACTIONS

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

(a) Sales of services

	Year ended 30 June			Six months ended 31 December	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Security service income from related companies *(Note iv)*	243,882	266,615	249,544	141,445	115,447
Security service income from fellow subsidiaries	6,917	5,549	7,245	3,583	4,704
Insurance brokerage income from related companies *(Note iv)*	30	4,276	4,166	1,692	1,414
Consultancy fee income from a related company *(Note iv)*	1,696	1,696	1,966	1,966	1,509
Planting and maintenance services from related companies *(Note iv)*	7,125	6,659	5,741	2,690	3,527
Planting and maintenance services from fellow subsidiaries	3,101	4,210	3,420	1,538	1,628

Security service income, insurance brokerage income, consultancy fee income and planting and maintenance services was charged at terms mutually agreed between the parties.

(b) Purchase of services

	Year ended 30 June			Six months ended 31 December	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Gain on disposal of property, plant and equipment from a fellow subsidiary *(Note v)*	—	—	8,235	—	—
Management fee to FMC and a fellow subsidiary *(Note i)*	14,409	14,600	17,730	7,345	3,459
Premises expenses recharged by fellow subsidiary	1,790	2,181	2,193	1,096	1,099
Operating lease rental expense to a fellow subsidiary *(Note ii and iv)*	—	131	130	65	65
Operating lease rental expense to related companies *(Note ii and iv)*	1,385	1,532	1,532	766	980
Donation to a fellow subsidiary	110	110	—	—	—
Miscellaneous service fee to fellow subsidiaries *(Note iv)*	629	738	989	384	470
Miscellaneous service fee to related companies *(Note iv)*	30	31	31	15	15

Notes:

(i) Management fee was charged based on fixed amounts mutually agreed by the parties.

(ii) Operating lease was recharged based on fixed amounts mutually agreed by the parties.

(iii) Miscellaneous service fee was charged based on fixed amounts mutually agreed by the parties.

(iv) These related companies are companies of which the key management personnel are close members of the family of the ultimate controlling shareholder (Mr. Doo Wai Hoi, William).

(v) The balance represents the gain on disposal of Unit No. 1 on 7th Floor of Kai Fuk Industrial Centre, No. 1 Wang Tung Street, Kowloon Bay, Kowloon, Hong Kong which was sold to a fellow subsidiary at a consideration of HK$12,000,000 on 6 May 2020.

(c) Key management compensation

	Year ended 30 June			**Six months ended 31 December**	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Wages and salaries	2,341	2,431	1,827	1,642	1,708
Pension cost-defined contribution plans	257	385	1,146	196	204
	2,598	2,816	2,973	1,838	1,912

32 SUBSEQUENT EVENTS

The following events took place subsequent to 31 December 2020 and up to the date of this report:

(a) Subsequent to 31 December 2020, the Target Group underwent a reorganisation in preparation for the proposed acquisition by FSE City Essential Services Limited, a subsidiary of the Company. Details of the Reorganisation are set out in Note 1 above.

(b) In February 2021, the Target Group has drawn down bank borrowings amounted to HK$130,000,000. The Target Group has utilised the funds, together with internal cash resources, to settle the net amount due to FMC.

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 acquired by FMC on 5 January 2021.

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 31 December 2020. 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 31 December 2020.

Set out below is the management discussion and analysis of the Target Group for each of the financial year ended 30 June 2018, 2019 and 2020 and the six months period ended 31 December 2019 and 2020 (the "**Relevant Periods**").

REVENUE

The revenue of the Target Group consists principally of fees derived from the provision of the Security Guarding & Event Services, Insurance Solutions and Landscaping Services.

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

	For the financial year ended 30 June			For the six months period ended 31 December	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Security Guarding & Event Services:					
Security Guarding and Event Services income	491,685	566,617	625,458	320,374	319,061
Security Systems Installation Services	19,113	16,999	13,616	6,966	4,113
Concierge Services	26,181	35,208	25,792	15,452	15,167
	536,979	618,824	664,866	342,792	338,341
Insurance Solutions:					
Insurance Brokerage Service	75,285	88,417	84,232	43,082	43,424
Consultancy Fee from a Related Company	1,696	1,696	1,966	1,966	1,509
	76,981	90,113	86,198	45,048	44,933
Landscaping Services:					
Planting and Maintenance Service	18,224	17,914	17,180	8,830	8,923
Landscaping Services	6,115	9,224	5,355	2,953	3,198
Sale of Plants and Materials	3,531	4,293	3,570	1,583	1,488
	27,870	31,431	26,105	13,366	13,609
Total	641,830	740,368	777,169	401,206	396,883

- The Target Group's revenue decreased by approximately HK$4.3 million from approximately HK$401.2 million for the six months period ended 31 December 2019 to approximately HK$396.9 million for the six months period ended 31 December 2020, representing a decrease of approximately 1.1%. The decrease was mainly attributable to decrease in income from security systems installation services as a result of certain short-term installation contracts being expired during the six months period ended 31 December 2020.

- The Target Group's revenue increased by approximately HK$36.8 million from approximately HK$740.4 million for the financial year ended 30 June 2019 to approximately HK$777.2 million for the financial year ended 30 June 2020, representing an increase of approximately 5.0%. The increase was mainly attributable to increase in security guarding and event services income from new contracts and price increment of existing contracts.

- The Target Group's revenue increased by approximately HK$98.6 million from approximately HK$641.8 million for the financial year ended 30 June 2018 to approximately HK$740.4 million for the financial year ended 30 June 2019, representing an increase of approximately 15.4%. The increase was mainly attributable to increase in revenue from (i) security guarding and event services income due to new contracts and price increment of existing contracts; (ii) concierge services due to new contracts; and (iii) insurance brokerage service due to new construction related contracts.

- In addition, the Target Group has received a stable revenue stream of approximately 63% to 67% from independent customers (which exclude revenue contribution from the Doo's Associate Group, the NWD Group, the NWS Group, the CTFE Group or the CTFJ Group). The independent customer base of the Target Group consists of large and reputable customers in the relevant markets. For example, among the top 10 customers of the security guarding business of the Target Group for the financial year ended 30 June 2020, the revenue from independent customers amounted to HK$245.7 million (representing 68% of the total revenue generated from the top 10 customers of the Target Group for the year ended 30 June 2020 of approximately HK$357.8 million). This has demonstrated that the Target Group has a diversified customer base and strong ability to generate revenue streams from its independent customers.

COST OF OPERATIONS

The cost of operations primarily include staff costs, cost of inventories sold and installation costs, raw materials and consumables used and depreciation.

- The Target Group's cost of operations decreased by approximately HK$100.8 million from approximately HK$318.2 million for the six months period ended 31 December 2019 to approximately HK$217.4 million for the six months period ended 31 December 2020, representing a decrease of approximately 31.7%. The decrease was mainly attributable to decrease in staff costs due to one-off subsidies received under the Employment Support Scheme.

- The Target Group's cost of operations increased by approximately HK$17.9 million from approximately HK$576.8 million for the financial year ended 30 June 2019 to approximately HK$594.7 million for the financial year ended 30 June 2020, representing an increase of approximately 3.1%. The increase was mainly attributable to increase in staff costs due to salary increment and driven by increase in number of staff to cope with the revenue growth, partly offset by the one-off subsidies received under the Employment Support Scheme.

- The Target Group's cost of operations increased by approximately HK$81.4 million from approximately HK$495.4 million for the financial year ended 30 June 2018 to approximately HK$576.8 million for the financial year ended 30 June 2019, representing an increase of approximately 16.4%. The increase was mainly attributable to increase in staff costs due to salary increment and driven by increase in number of staff to cope with the revenue growth.

Other Income, net

The other income, net mainly represents gain/(loss) on disposal of property, plant and equipment, exchange gain/(loss) and government grants.

- The Target Group's other income, net increased by approximately HK$905,000 from approximately HK$4,000 for the six months period ended 31 December 2019 to approximately HK$909,000 for the six months period ended 31 December 2020. The increase was mainly due to increase in exchange gain.

- The Target Group's other income, net increased by approximately HK$8,600,000 from approximately HK$125,000 for the financial year ended 30 June 2019 to approximately HK$8,725,000 for the financial year ended 30 June 2020. The increase was mainly attributable to increase in gain on disposal of property, plant and equipment.

- The Target Group's other income, net decreased by approximately HK$773,000 from approximately HK$898,000 for the financial year ended 30 June 2018 to approximately HK$125,000 for the financial year ended 30 June 2019. The decrease was mainly due to decrease in exchange gain.

Administrative Expenses

The administrative expenses primarily include staff costs, management fee, depreciation and donation.

- The Target Group's administrative expenses decreased by approximately HK$10.3 million from approximately HK$39.7 million for the six months period ended 31 December 2019 to approximately HK$29.4 million for the six months period ended 31 December 2020, representing a decrease of approximately 25.9%. The decrease was mainly attributable to (i) decrease in staff costs due to one-off subsidies received under the Employment Support Scheme; (ii) decrease in management fee due to no such fee charged by the Seller during the six months period ended 31 December 2020; and (iii) decrease in donation.

- The Target Group's administrative expenses increased by approximately HK$3.8 million from approximately HK$71.0 million for the financial year ended 30 June 2019 to approximately HK$74.8 million for the financial year ended 30 June 2020, representing an increase of approximately 5.4%. The increase was mainly attributable to increase in management fee and donation.

- The Target Group's administrative expenses increased by approximately HK$4.7 million from approximately HK$66.3 million for the financial year ended 30 June 2018 to approximately HK$71.0 million for the financial year ended 30 June 2019, representing an increase of approximately 7.1%. The increase was mainly attributable to increase in staff costs due to addition of staff and salary increment.

FINANCE INCOME

Finance income represents interest income on bank deposits. The Target Group recorded finance income of approximately HK$30,000, HK$295,000, HK$629,000, HK$159,000 and HK$321,000 for the financial years ended 30 June 2018, 2019 and 2020 and the six months period ended 31 December 2019 and 2020, respectively. The changes were mainly attributable to changes in applicable bank deposit rate and deposit amount during the Relevant Periods.

FINANCE COSTS

Finance costs represent interest expenses on bank loans and interest on lease liabilities. The Target Group recorded finance costs of approximately HK$461,000, HK$104,000, HK$59,000 and HK$26,000 for the financial years ended 30 June 2018 and 2020 and the six months period ended 31 December 2019 and 2020, respectively; and no such cost incurred for the financial year ended 30 June 2019. The changes were mainly attributable to decrease in borrowings and the adoption of HKFRS 16 during the Relevant Periods.

SHARE OF PROFITS OF AN ASSOCIATE

Share of profits of an associate represents the share of net profits of an associate namely Landes Limited, which the principal activity of the associate is landscape design. The Target Group recorded share of profits of an associate of approximately HK$436,000, HK$376,000, HK$180,000, HK$90,000 and HK$80,000 for the each of the financial years ended 30 June 2018, 2019 and 2020 and six months period ended 31 December 2019 and 2020, respectively.

INCOME TAX EXPENSES

The income tax expenses primarily include Hong Kong profits tax and deferred tax movements.

- The Target Group's income tax expenses increased by approximately HK$1.8 million from approximately HK$7.2 million for the six months period ended 31 December 2019 to approximately HK$9.0 million for the six months period ended 31 December 2020, representing an increase of approximately 25.0%. The increase in income tax expense was generally in line with the increase in profit before income tax after excluding the one-off subsidies under the Employment Support Scheme which is non-taxable in nature.

- The Target Group's income tax expenses decreased by approximately HK$0.8 million from approximately HK$15.3 million for the financial year ended 30 June 2019 to approximately HK$14.5 million for the financial year ended 30 June 2020, representing a decrease of approximately 5.2%. The decrease in income tax expense was generally in line with the decrease in profit before income tax after excluding the one-off subsidies under the Employment Support Scheme and gain on disposal of property, plant and equipment which were non-taxable in nature.

- The Target Group's income tax expenses increased by approximately HK$2.2 million from approximately HK$13.1 million for the financial year ended 30 June 2018 to approximately HK$15.3 million for the financial year ended 30 June 2019, representing an increase of approximately 16.8%. The increase was mainly due to increase in profit before income tax.

Profit for the Year/Period

The Target Group's profit increased by approximately HK$105.9 million from approximately HK$36.4 million for the six months period ended 31 December 2019 to approximately HK$142.3 million for the six months period ended 31 December 2020, representing an increase of approximately 290.9%. The increase was mainly attributable to decrease in cost of operations and administrative expenses due to one-off subsidies received under the Employment Support Scheme.

The Target Group's profit increased by approximately HK$24.6 million from approximately HK$78.0 million for the financial year ended 30 June 2019 to approximately HK$102.6 million for the financial year ended 30 June 2020, representing an increase of approximately 31.5%. The increase was mainly driven by (1) increase in revenue and other income; (2) the one-off subsidies received under the Employment Support Scheme; and (3) partly offset by increase in cost of operations and administrative expenses.

The Target Group's profit increased by approximately HK$10.0 million from approximately HK$68.0 million for the financial year ended 30 June 2018 to approximately HK$78.0 million for the financial year ended 30 June 2019, representing an increase of approximately 14.7%. The increase was mainly driven by the increase in revenue, and partly offset by increase in cost of operations and administrative expenses.

SEGMENT RESULTS

The following table shows the Target Group's segment results during the Relevant Periods:

	Financial year ended 30 June			Six months period ended 31 December	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Security Guarding & Event Services	37,906	40,521	71,478	20,418	118,121
Insurance Solutions	27,466	35,999	28,856	15,172	20,746
Landscaping Services	2,593	1,486	2,264	826	3,473
Total	67,965	78,006	102,598	36,416	142,340

Security Guarding & Event Services

Segment result increased by approximately HK$97.7 million from approximately HK$20.4 million for the six months period ended 31 December 2019 to approximately HK$118.1 million for the six months period ended 31 December 2020, representing an increase of approximately 478.9%. The increase was mainly attributable to one-off subsidies received under the Employment Support Scheme.

Segment result increased by approximately HK$31.0 million from approximately HK$40.5 million for the financial year ended 30 June 2019 to approximately HK$71.5 million for the financial year ended 30 June 2020, representing an increase of approximately 76.5%. The increase was mainly attributable to (i) increase in security guarding and event services income due to new contracts and price increment of existing contracts; and (ii) increase in gain on disposal of property, plant and equipment.

Segment result increased by approximately HK$2.6 million from approximately HK$37.9 million for the financial year ended 30 June 2018 to approximately HK$40.5 million for the financial year ended 30 June 2019, representing an increase of approximately 6.9%. The increase was mainly attributable to increase in revenue due to new contracts and price adjustment of existing contracts, and partly offset by increase in staff costs due to salary increment and driven by increase in number of staff to cope with the revenue growth.

Insurance Solutions

Segment result increased by approximately HK$5.5 million from approximately HK$15.2 million for the six months period ended 31 December 2019 to approximately HK$20.7 million for the six months period ended 31 December 2020, representing an increase of approximately 36.2%. The increase was mainly attributable to decrease in management fee and donation.

Segment result decreased by approximately HK$7.1 million from approximately HK$36.0 million for the financial year ended 30 June 2019 to approximately HK$28.9 million for the financial year ended 30 June 2020, representing a decrease of approximately 19.7%. The decrease was mainly attributable to (i) decrease in brokerage commission income due to new construction related contracts with relative large contract size awarded during the year ended 30 June 2019; and (ii) increase in management fee and donation.

Segment result increased by approximately HK$8.5 million from approximately HK$27.5 million for the financial year ended 30 June 2018 to approximately HK$36.0 million for the financial year ended 30 June 2019, representing an increase of approximately 30.9%. The increase was mainly attributable to increase in brokerage commission income due to new construction related contracts with relative large contract size awarded during the year ended 30 June 2019.

Landscaping Services

Segment result increased by approximately HK$2.7 million from approximately HK$0.8 million for the six months period ended 31 December 2019 to approximately HK$3.5 million for the six months period ended 31 December 2020, representing an increase of approximately 337.5%. The increase was mainly attributable to one-off subsidies received under the Employment Support Scheme and increase in exchange gain.

Segment result increased by approximately HK$0.8 million from approximately HK$1.5 million for the financial year ended 30 June 2019 to approximately HK$2.3 million for the financial year ended 30 June 2020, representing an increase of approximately 53.3%. The increase was mainly attributable to one-off subsidies received under the Employment Support Scheme and decrease in administrative expenses.

Segment result decreased by approximately HK$1.1 million from approximately HK$2.6 million for the financial year ended 30 June 2018 to approximately HK$1.5 million for the financial year ended 30 June 2019, representing a decrease of approximately 42.3%. The decrease was mainly attributable to decrease in exchange gain and increase in administrative expenses.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Target Group has adopted a prudent treasury policy and maintained healthy liquidity position throughout the Relevant Periods. The Target Group financed its operations and capital expenditures primarily by the internal generated funds from operations, advances from the Seller and short-term bank borrowings.

As at 30 June 2018, 2019 and 2020 and 31 December 2020, the Target Group had net current assets of approximately HK$173.7 million, HK$197.1 million, HK$252.4 million and HK$56.7 million, respectively. The net current assets primarily include trade and other receivables, cash and cash equivalents, trade and other payables, receipt in advance/contract liabilities and amount due from/to related companies. The decrease in net current assets as at 31 December 2020 against 30 June 2020 was mainly attributable to increase in amounts due to the Seller.

The amount due from fellow subsidiaries decreased from HK$73.6 million as at 30 June 2020 to nil as at 31 December 2020, as the amount was fully settled during the six months ended 31 December 2020.

The amount due to the Seller primarily includes advance from and dividend payable to the Seller. The amount due to the Seller increased by approximately HK$159.1 million from approximately HK$7.2 million as at 30 June 2020 to approximately HK$166.3 million as at 31 December 2020. The increase was mainly due to the dividend declared during the six months ended 31 December 2020 that was then not yet fully paid. Such amount was fully settled in February 2021.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash on hand and trust cash.

As at 30 June 2018, 2019 and 2020 and 31 December 2020, the Target Group had cash and cash equivalents of approximately HK$154.7 million, HK$249.1 million, HK$193.9 million and HK$161.2 million, respectively.

Bank balances and cash on hand was approximately HK$108.0 million, HK$111.8 million, HK$155.0 million and HK$134.2 million as at 30 June 2018, 2019 and 2020 and 31 December 2020 respectively.

Borrowings

Borrowings represent short-term bank loans with maturity less than 1 year. No borrowings was recorded as at 30 June 2018, 2019 and 2020 and 31 December 2020.

As at the Latest Practicable Date, the Target Group increased its borrowings to HK$130.0 million to repay the amounts due to the Seller.

Gearing Ratio

The Target Group's net gearing ratio* maintained at zero as at 30 June 2018, 2019 and 2020 and 31 December 2020, principally due to no borrowings record during the Relevant Periods.

* *The net gearing ratio is calculated as net debt divided by total equity. The net debt is calculated as total borrowings less bank balances and cash on hand.*

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

DIVIDEND

The companies within the Target Group declared dividends of approximately HK$51.5 million, HK$55.5 million, HK$49.0 million and HK$340.2 million to the then shareholders during the financial year ended 30 June 2018, 2019 and 2020 and the six months period ended 31 December 2020 respectively. The dividend of approximately HK$340.2 million declared during the six months ended 31 December 2020 was fully paid in February 2021.

No dividend was declared for the six months period ended 31 December 2019.

FOREIGN CURRENCY EXPOSURE

The Target Group operates primarily in Hong Kong and is not exposed to significant exchange risk. During the Relevant Periods, the assets and liabilities of the Target Group were mainly denominated in Hong Kong dollars, US dollars and Renminbi. The Target Group does not have a foreign currency hedging policy. The Target Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and considers to enter into forward foreign exchange contracts to reduce the exposure should the need arise.

CAPITAL EXPENDITURES

The capital expenditures are used principally in connection with additions of plant and equipment. The Target Group recorded capital expenditures of approximately HK$1,050,000, HK$1,970,000, HK$2,876,000, HK$2,336,000 and HK$98,000 for the financial year ended 30 June 2018, 2019 and 2020 and the six months period ended 31 December 2019 and 2020, respectively.

CHARGE ON ASSETS

As at 30 June 2018, 2019 and 2020 and 31 December 2020, the Target Group did not have any charge on its assets.

EMPLOYEES

As at 30 June 2018, 2019 and 2020 and 31 December 2019 and 2020, the Target Group had 2,566, 3,918, 4,188, 4,017 and 4,915 employees, respectively. The total staff costs for the Target Group for the financial year ended 30 June 2018, 2019 and 2020 and the six months period ended 31 December 2019 and 2020 were approximately HK$501.2 million, HK$587.6 million, HK$608.8 million, HK$325.2 million and HK$224.4 million, respectively.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Target Group did not have material acquisitions and disposals of subsidiaries and associated companies during the Relevant Periods.

SIGNIFICANT INVESTMENTS HELD

Except for the investment in an associate as disclosed, the Target Group did not have significant investments held during the Relevant Periods.

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

OPERATING LEASE COMMITMENT

The Target Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings of approximately HK$228,000 and HK$4,030,000 as at 30 June 2018 and 2019, respectively. No commitment would be disclosed as at 30 June 2020 and 31 December 2020 after the adoption of HKFRS 16.

CAPITAL COMMITMENT

As at 30 June 2018, 2019 and 2020 and 31 December 2020, the Target Group had no capital commitment.

CONTINGENT LIABILITIES

As at 30 June 2018, 2019 and 2020 and 31 December 2020, 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 31 December 2020 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 2020 and the new/revised accounting standards adopted in the published interim results announcement of the Company for the six months ended 31 December 2020.

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 published interim results announcement of the Company for the six months ended 31 December 2020 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 Director solely for illustrative purpose 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 31 December 2020, 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 31 December 2020	Target Group as at 31 December 2020	Pro forma adjustments			Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Non-current Assets						
Property, plant and equipment	331,942	3,405	(287,407)			47,940
Investment property	10,658	—	(10,658)			—
Right-of-use-assets	69,933	901	(2,850)			67,984
Interest in associated companies	10	152				162
Interest in joint ventures	1,049	—				1,049
Other intangible assets	75,308	32,057				107,365
Deferred income tax assets	17,795	468				18,263
Pension assets	3,880	444				4,324
	510,575	37,427	(300,915)	—	—	247,087
Current Assets						
Inventories	25,200	743				25,943
Contract assets	349,306	2,100				351,406
Trade and other receivables	1,451,277	248,337			(591)	1,699,023
Amount due from FSE Management Company Limited		32,988				32,988
Cash and bank balances	821,954	161,200	(397,950)			585,204
	2,647,737	445,368	(397,950)	—	(591)	2,694,564

	The Group as at 31 December 2020	Target Group as at 31 December 2020	Pro forma adjustments			Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current Liabilities						
Contract liabilities	422,082	47,609				469,691
Trade and other payables	1,605,480	162,190		5,590	(591)	1,772,669
Amount due to FSE Management Company Limited	—	166,331				166,331
Lease liabilities	30,782	758				31,540
Taxation payable	41,916	11,770				53,686
Borrowings	263,668	—				263,668
	2,363,928	388,658	—	5,590	(591)	2,757,585
Net Current Assets	283,809	56,710	(397,950)	(5,590)	—	(63,021)
Total assets less current liabilities	794,384	94,137	(698,865)	(5,590)	—	184,066
Non-current Liabilities						
Deferred income tax liabilities	24,225	2,511	(6,173)			20,563
Long service payment liabilities	28,223	13,748				41,971
Lease liabilities	24,611	167				24,778
	77,059	16,426	(6,173)	—	—	87,312
Net Assets	717,325	77,711	(692,692)	(5,590)	—	96,754

(2) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The balances were extracted from the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2020 as set out in the published interim results announcement of the Company for the six months ended 31 December 2020.

2. The balances were extracted from the audited combined statement of financial position of the Target Group as at 31 December 2020 included in the accountant's report of the Target Group as set out in Appendix II to this Circular.

3. Pursuant to the Sale and Purchase Agreement dated 26 February, 2021, the Group will acquire the issued share capital of the Target Company at a total consideration of HK$840.6 million, of which HK$397.9 million will be settled by (i) a cash consideration by the Company; (ii) a non-cash consideration of HK$442.7 million that reflected the fair value of certain properties held by the Group. The adjustments on property, plant and equipment, investment property and right-of-use assets represent the respective carrying values of these properties of the Group as at 31 December 2020. The adjustment on the deferred tax liabilities represents the deferred taxation arising from the temporary difference between the tax bases and the carrying value of these properties as at 31 December 2020.

   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 Limited 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.

4. The adjustment represents the estimated amount for legal and professional fees and other transaction costs payable by the Company which is directly attributable to the Proposed Acquisition.

5. The adjustments represents the elimination of the trade receivables of the Group owing from the Target Group as at 31 December 2020.

6. 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 31 December 2020.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 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 Business Investments Limited and its subsidiaries (the "**Target Group**") by the directors of the Company (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 31 December 2020, 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 19 March 2021, 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 of the Circular.

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 31 December 2020 as if the Proposed Acquisition had taken place at 31 December 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 31 December 2020, on which a review 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 31 December 2020 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 judgment, 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 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, 19 March 2021

VIGERS
International Property Consultants
27/F Standard Chartered Tower, Millennium City 1,
388 Kwun Tong Road, Kowloon, Hong Kong
www.Vigers.com

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

11 February 2021

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 BUSINESS INVESTMENTS LIMITED

In accordance with the instruction from FSE Services Group Limited ("**FSE Services**"), we have carried out a valuation of 100% Equity Value of Business Investments Limited and its subsidiaries (the "**Target Group**") as at 31 December 2020 (the "**Valuation Date**"). 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 EIGHT HUNDRED AND FOURTY MILLION SIX HUNDRED THOUSAND (HKD840,600,000) 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.
Favian Kam Man Yin
CFA, MBA
Executive Director

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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 Business Investments Limited and its subsidiaries (the "**Target Group**") as at 31 December 2020 (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 31 December 2020.

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 31 December 2020.

2. INDUSTRY AND COMPANY PROFILE

2.1 Industry Overview

2.1.1 The Security and Guarding Services Industry

The Security and Guarding Services Industry in Hong Kong is regulated by The Security and Guarding Services Industry Authority (the "**SGSIA**"). The SGSIA is a statutory body established under the Security and Guarding Services Ordinance (the "**SGSO**") in 1995. The key functions of the SGSIA include: (1) formulate the criteria and conditions on issuing the security company licenses (the "**SPP**"); and (2) review and approve applications for security company licenses. According to the SGSO, security work can be divided into the following activities: (1) guarding any property, (2) guarding any person or place for the purpose of preventing or detecting the occurrence of any offense, (3) installing, maintaining or repairing a security device and (4) designing for any particular premises or place a system incorporating a security device. For the purpose of issuing the SCL, security work is categorized differently into three separate types namely: Type I: Provision of security guarding services, Type II: Provision of armored transportation services and Type III: Installation, maintenance and/or repairing of security devices, and/or designing (for any particular premises or place) security system that incorporating security device.

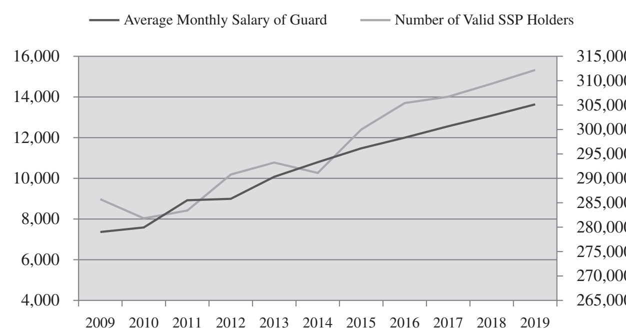
As of 31 December 2020, there were a total of 1,295 licensed security companies in Hong Kong of which 712, 16 and 673 of them held Type I, Type II and Type III SCL respectively.[1] In terms of valid SPP holders, according to the statistic published by the SGSIA, the number of valid SPP holders increased from 285,921 in 2009 to 338,274 as at 30 June 2020.[2] The number of vacancies in the security guard services sector has shown steady growth in the past 10 years increasing from 610 in 2009 to 2,250 in 2019. As reported by the Census and Statistic Department (the "**C&SD**"), the average monthly salary of guard (in security and investigation) increased from $7,381 in 2009 to $13,647 in 2019, representing a Compound Annual Growth Rate ("**CAGR**") of 6.3%.[3]

No. of vacancies in security guard service

2010	610
2011	1,040
2012	1,410
2013	1,730
2014	2,000
2015	2,280
2016	2,210
2017	2,020
2018	1,880
2019	2,120

Source: The C&SD

The Security Guarding Service Industry



Source: The SGSIA & C&SD

2.1.2 The Insurance Brokerage Industry

The insurance brokerage industry in Hong Kong is regulated by the Insurance Authority (the "**IA**"). The IA is a statutory body established under the Insurance Ordinance (Cap. 41) (the "**IO**") in 2015. On 23 September 2019, the IA took over the regulation of insurance intermediaries from the three Self-Regulatory Organizations, i.e. the Hong Kong Confederation of Insurance Brokers, the Professional Insurance Brokers Association and the Insurance Agents Registration Board set up by the Hong Kong Federation of Insurers under the self-regulatory regime. Pursuant to the IO, the key functions of the IA include: (1) supervise insurance intermediaries' compliance under the provisions of the IO and the relevant regulations, rules, codes and guidelines issued by the IA, (2) consider and propose reforms of the law relating to the insurance business, (3) review and, if necessary, propose reforms of the systems of regulating authorized insurers and licensed insurance intermediaries, (4) promote and encourage the adoption of proper standards

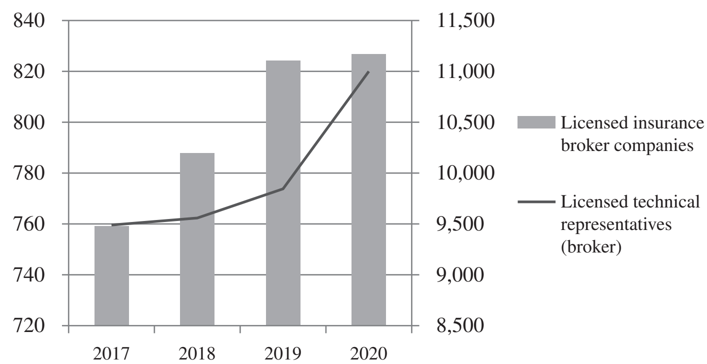
1 Security and Guarding Services Industry Authority. (2020, December 31). List of Licensed Security Companies in Hong Kong. Retrieved January 15, 2021, from **https://www.sb.gov.hk/eng/links/sgsia/list.htm**

2 Security and Guarding Services Industry Authority. (2020, December 31). Table 1: Age Distribution of Valid Permit Holders 1995–2020. Retrieved January 15, 2021, from **https://www.sb.gov.hk/eng/links/sgsia/pdf/ageprofile(eng).pdf**

3 Census and Statistics Department. (2020, December 28). Table: Average monthly salaries of guard. Retrieved January 15, 2021, from **https://www.censtatd.gov.hk/hkstat/sub/sp210.jsp?tableID=028&ID=0&productType=8**

of conduct by licensed insurance intermediaries and (5) regulate the conduct of insurance intermediaries through the licensing regime. According to the statistic published by the IA, number of Licensed Technical Representatives (Broker)[4] increased from 9,489 in 2007 to 10,998 in 2020, representing a CAGR of 5% while the number of licensed insurance broker companies increased from 759 in 2007 to 827 in 2020, representing a CAGR of 3%.[56]

Hong Kong Insurance Brokerage Market



Source: The IA

2.1.3 The Landscaping Industry

The landscaping industry in Hong Kong comprises 4 major types of services, namely (1) Soft landscaping, (2) Landscape maintenance, (3) Arboricultural works and (4) Supply of landscape materials. On 29 May 2020, the Development Bureau announced the establishment of the Arboriculture and Horticulture Industry Development Advisory Committee. The objective of forming such committee is to provide advice on issues related to the (1) Registration Scheme for Tree Management Personnel, (2) the Study Sponsorship Scheme and Trainee Program under the Urban Forestry Support Fund, and (3) the development and the manpower supply and demand of the arboriculture and horticulture industry. As reported by the C&SD, number of persons engaged in landscape care and greenery services increased from 360 in 2009 to 3,290 in 2019, representing a CAGR of 24.8%.[7] The number of establishments engaged in landscape care and greenery services also increased from 30 in 2009 to 280 in 2019, representing a CAGR of 25.0%. Number of vacancies in the landscape care and greenery services sector demonstrated a steady growth in recent years increasing from 10 in 2010 to 190 in 2019. According to the information

4 Licensed technical representative (broker) is an individual who is granted a technical representative (broker) license under section 64ZC of the IO to carry on regulated activities in one or more lines of business, as an agent of any licensed insurance broker company.

5 Insurance Authority. (2020, April 24). Statistics — Insurance Intermediary License. Retrieved January 15, 2021, from **https://www.ia.org.hk/en/infocenter/statistics/statistics.html**

6 Insurance Authority. Annual Report 2019 — 20. Retrieved January 15, 2021, from **https://www.ia.org.hk/en/infocenter/files/IA_Annual_Report_2019_20_Eng.pdf**

7 Census and Statistics Department. (2020, April 24). Table E011: Number of establishments, persons engaged and vacancies (other than those in the Civil Service) analysed by industry sub-class. Retrieved January 15, 2021, from **https://www.censtatd.gov.hk/hkstat/sub/sp452.jsp?productCode=D5250008**

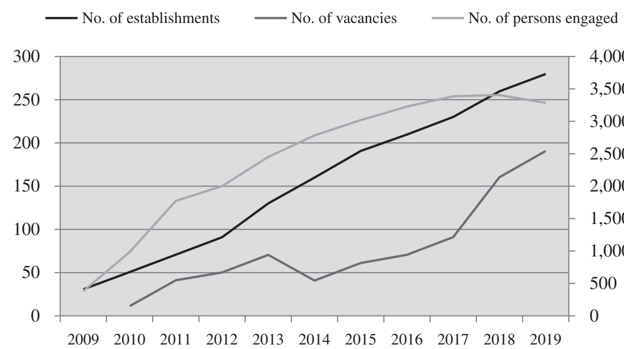
provided by the C&SD, landscape care and greenery services contributed to 0.02% of Hong Kong's Gross Domestic Product (GDP) in recent years. The value added and GDP contribution of landscape care and greenery services increased from HK$444 million in 2014 to HK$594 million in 2019, representing a CAGR of 6%.

GDP contribution of landscape care and greenery services

Year	**Industry Value Added** *(HK$ million)* *(Percentage of Industry Value Added to GDP at basic prices)*
2014	444 (0.02%)
2015	480 (0.02%)
2016	496 (0.02%)
2017	532 (0.02%)
2018	561 (0.02%)
2019	594 (0.02%)

Source: The C&SD

The Landscaping Industry



Source: The C&SD

2.2 Background of FSE Services[8]

FSE Services Group Limited (Hong Kong Stock Code: 331) is one of the leading diversified service providers in Hong Kong, which has 4 major competences: electrical and mechanical engineering, environmental services, cleaning and waste management as well as property and facility management. FSE Services' competences are being delivered through 4 major groups of companies which have all been the market leaders in the respective industries. They include FSE Engineering Group, FSE Environmental Technologies Group, Waihong Services Group and FSE Property and Facility Management Services Group which comprises Urban Group and Kiu Lok Service Management Group. With their professionalism and expertise, together with the extensive synergies generated among the companies under FSE Services, the Group is able to build up a strong network and offer 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.

8 Provided by the management

2.3 Background of the Target Group[9]

Target Group means Business Investments Limited (the "**Company**") and its subsidiaries. The principal business of the Company is investment holding. The Company is holding FSE S & G Limited (the "**General Security**"), FSE Ins Limited (formerly known as Double Luck Ventures Limited) (the "**Nova Insurance**") and FSE C & L Limited (the "**Hong Kong Island Landscape**").

*FSE S & G Limited (the "**General Security**")*

FSE S & G Limited operates through General Security Limited and General Security (H.K.) Limited. General Security (H.K.) Limited was founded in 1977. General Security (H.K.) Limited provides security services in occasions ranging from large-scale events to luxury jewelry stores and law firm office. General Security Limited was founded in 1982. General Security Limited provides security services to schools and luxurious estates and Concierge service.

*FSE Ins Limited (formerly known as Double Luck Ventures Limited) (the "**Nova Insurance**")*

FSE Ins Limited (formerly known as Double Luck Ventures Limited) operates through Nova Insurance Consultants Limited and International Reinsurance Management Limited which offers specialized insurance broking services including Construction, Property, Casualty, Financial Lines, Marine, Aviation and Employee Benefits since 1991.

*FSE C & L Limited (the "**Hong Kong Island Landscape**")*

FSE C & L Limited operates through Hong Kong Island Landscape Company Limited which provides material supply, planting and maintenance of soft landscape work to hotels, institutions, residential projects and government entities. In addition, it sells and hires plant products. Its major clients include International Theme Park, Convention Centre and prestigious hotels.

According to the Accountant's Report provided by FSE Services, the summary of financial position of the Target Group is illustrated below.

9 Provided by the management

10 Office of the Government Economist (2020 November 30), Hong Kong's Recent Economic Situation and Near-term Outlook. Retrieved January 15, 2021, from **https://www.hkeconomy.gov.hk/en/pdf/er_20q3.pdf**

(in HKD Mil)	General Security	Nova Insurance	Hong Kong Island Landscape
Revenue (for the year ended 30 June 2020)	664.9	86.2	26.1
Adjusted Net Profit (for the year ended 30 June 2020)	47.6	34.0	2.2
Adjusted EBITDA (for the year ended 30 June 2020)	60.3	41.6	2.7

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 extracted from the Hong Kong's Recent Economic Situation and Near-term Outlook[10] published by the Office of the Government Economist.

2.4.1 Recent economic situation

The Hong Kong economy saw some improvement in the third quarter of 2020. Real Gross Domestic Product (GDP) registered a year-on-year decline of 3.5% in the quarter, visibly narrower than the 9.0% contraction in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP rebounded by 2.8%, arresting the declines in the preceding five quarters. This was mainly due to an improved external trading environment amid the accelerated growth of the Mainland economy, the stabilization of the local epidemic situation in the latter part of the quarter and stronger financial market activity. However, economic activity was still notably below the pre-recession level. In the first three quarters of 2020 combined, GDP declined by 7.2%.

2.4.2 Labour Market

The labour market showed further deterioration for the third quarter of 2020 as a whole amid the third wave of the local epidemic, but the pressure faced by the labour market tended to stabilize in September and October as the epidemic became stable. Meanwhile, the Employment Support Scheme continued to provide support.

The seasonally adjusted unemployment rate was 6.4% in the third quarter, the highest in close to 16 years, up slightly by 0.2 percentage point from 6.2% in the second quarter, while that of the latest survey period (i.e. August — October 2020) remained unchanged. The underemployment rate edged up from 3.7% in the second quarter to 3.8% in the third quarter, and remained unchanged in August — October, but it was still at the post-SARS high.

2.4.3 Inflation

Consumer price inflation eased visibly in recent months, reflecting a notably smaller year-on-year rise in prices of basic foodstuffs, particularly pork, due to the high base effects, the fall in charges for meals-out, as well as softening price pressures on many other major consumer price index (CPI) components amid austere economic conditions. Consumer price inflation eased visibly from 1.8% in the second quarter of 2020 to 0.3% during July — October, and averaged 1.5% in the first ten months of the year after removing the effects of the Government's one-off relief measures.

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;
- Audited combined financial statements of the Target Group for the years ended 30 June 2018, 30 June 2019, 30 June 2020 and for the period ended 31 December 2020 provided by the 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 security and guarding services, insurance brokerage and landscaping services industries 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 is one of the possible approaches to be considered. The general practice will consider discounted cash flow method 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 it fails to consider the on-going operation of the Target Group in future. 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 "**Comparables**"). The Comparables provided a benchmark of 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 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 only select companies that focus on providing security and guarding services, insurance brokerage and landscaping services;
- The Comparables shall report positive earnings so to infer meaningful multiples for comparison;
- We may not consider observable outliers.

After reviewing the above criteria, we have identified 16 companies which are described below. The Comparables are categorized into "Security and Guarding Services Segment", "Insurance Brokerage Segment" and "Landscaping Services Segment" according to the business nature of the Comparables.

The Security and Guarding Services Segment

Stock Code	Company Name	Description
7058 JP Equity	Kyoei Security Service Co Ltd	Kyoei Security Service Co., Ltd. mainly provides security and crowd and traffic control management services in Japan.
8441 HK Equity	IWS Group Holdings Ltd	IWS Group Holdings Limited mainly provides general manned guarding and manpower support services in Hong Kong.
9740 JP Equity	Central Security Patrols Co Ltd	Central Security Patrols Co Ltd mainly provides stationed security and electronic security services in Japan.
MSG AU Equity	MCS Services Ltd	MCS Services Limited mainly provides retail security, event security and industrial security services in Australia.
SECUB SS Equity	Securitas AB	Securitas AB mainly provides manned guarding services to various sectors such as aviation, construction and residential around the world.

The Insurance Brokerage Segment

Stock Code	Company Name	Description
AON US Equity	Aon PLC	Aon PLC mainly provides advice and solutions to clients focused on risk, retirement, and health in Asia Pacific, Europe and the United States.
BRO US Equity	Brown & Brown Inc.	Brown & Brown, Inc. and its subsidiaries market and sell insurance products and services, primarily in the property, casualty and employee benefits areas in the United States.
AJG US Equity	Arthur J Gallagher & Co	Arthur J. Gallagher & Co. and its subsidiaries provide insurance brokerage, consulting, and third-party property/casualty claims settlement and administration services to businesses and organizations around the world.
AUB AU Equity	AUB Group Ltd	AUB Group Limited operates the largest equity-based insurance broker network in Australia and New Zealand.
MMC US Equity	Marsh & McLennan Cos Inc.	Marsh & McLennan Companies, Inc. provides Risk and Insurance Services and Consulting around the world. The Risk and Insurance Services segment provides risk management solutions, services, advice and insurance broking, reinsurance broking and insurance program management services for various entities while the consulting segment provides consulting expertise, advice, services and solutions in the areas of health, wealth and career consulting services and products.

Stock Code	Company Name	Description
PSI AU Equity	PSC Insurance Group Ltd	PSC Insurance Group Limited mainly provides insurance brokerage and underwriting services in Australia, the United Kingdom and New Zealand.
WLTW US Equity	Willis Towers Watson PLC	Willis Towers Watson Public Limited Company provides Human Capital and Benefits, Corporate Risk and Broking, Investment, Risk and Reinsurance and Benefits Delivery and Administration mainly in the United States and United Kingdom.

The Landscaping Services Segment

Stock Code	Company Name	Description
002775 CH Equity	Shenzhen Wenke Landscape Co Ltd	Shenzhen Wenke Landscape Co., Ltd. mainly provides ecological engineering, landscape architecture and soft landscaping services in the Mainland China.
1253 HK Equity	China Greenland Broad Greenstate Group Co Ltd	China Greenland Broad Greenstate Group Company Limited mainly provides ecological construction services in the Mainland China.
1438 JP Equity	Gifu landscape architect Co Ltd	Gifu landscape architect Co., Ltd. provides gardening and landscaping services in Japan.
603316 CH Equity	Zhejiang Chengbang Landscape Co Ltd	Zhejiang Chengbang Landscape Co., Ltd mainly provides ecological engineering and landscape architecture services in the Mainland China.

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: P/B (Price to Book).

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 reported earning of the Target Group for the year ended 30 June 2020 represents 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 have started their operations for many years. As at the Valuation Date, the Target Group have three years' results recorded. The earnings reported for the year ended 30 June 2020 can sufficiently reflect the normal operating performance of the Target Group. 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 Price to Earnings (P/E) multiple is an appropriate valuation methodology for the valuation of the interest since the Target Group' capital structure consist of no debt which differs significantly with the Comparables.

The valuation is derived from applying:

(i) An average price to earnings multiple of a group of listed companies operating in comparable business, adjusted for the uniqueness of the subject being valued,

(ii) Normalized earnings of the Target Group reflected in the financial statement for the year ended 30 June 2020.

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;
- The economic outlook of Hong Kong in general;
- The general outlook of the security and guarding services, insurance brokerage and landscaping services industries in Hong Kong;
- The composition of revenue and earnings quality of the business of the Target Group and the Comparables;
- 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 P/E 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 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;
- 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 the FSE Services, as at 31 December 2020, the Target Group' idle cash position and the amount of non-operating assets and liabilities can be summarized as below:

(In HKD Mil)	**General Security**	**Nova Insurance**	**Hong Kong Island Landscape**
Idle Cash	110.7	16.0	7.4
Non-operating Assets	—	25.7	7.3
Non-operating Liabilities	(166.3)	—	—

The non-operating assets of represented the amount of HK$25.7 million due from FSE Management Company Limited to Nova Insurance, and the amount of HK$7.3 million due from FSE Management Company Limited to Hong Kong Island Landscape.

The non-operating liabilities represented the amount of HK$166.3 million due from General Security to FSE Management Company Limited.

As per discussion with the management, we understand the aforesaid items represented all the material non-operating assets and liabilities as of the Valuation Date, which is sufficient for the assessment of the Subject.

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 omit the effects of non-operating and non-recurring charges or gains. In valuation, we compare the Comparables' and the Target Group' recurring earnings from operations by eliminating unusual or one-time influences revenue and expenses, so that we can compare them on the same basis and achieve a relatively stable and reasonable result. The normalized earnings of the Comparables and the Target Group are therefore the reported earnings after removing non-operating and non-recurring expenses or gains and their tax effect.

Comparables

Non-operating and non-recurring items such as bank interest income, rental income, gain/loss on disposal, exchanges gain/loss, and listing expense have been removed in order to measure the normalized operating profit of the individual comparable company.

Target Group

Non-operating and non-recurring items including (i) net gain on disposal of property, plant and equipment, net, (ii) Bank interest income, (iii) Government grants, (iv) Management fee in relation to the services provided by the FSE Management Company Limited, (v) Exchanges gain/loss and (vi) Donation have been removed from the net income in order to measure the operating profit of the Target Group.

- Net gain on disposal of property, plant and equipment:

  As advised by the management, net gain on disposal of property, plant and equipment is a non-operating income mainly generated from the sale of a property located in Hong Kong during the year. And as advised by the management, such gain on disposal is not subject to profit tax since it is categorized as profits arising from sale of capital assets. Since this is not an operating income, it will be excluded from the calculation of operating profit.

- Bank interest income:

  As advised by the management, bank interest income is a non-operating income and is not subject to profit tax. Since bank interest income is not an operating income, it will be excluded from the calculation of operating profit.

- Government grant:

  As advised by the management, government grants include (i) One-off subsidy from the Anti-epidemic Fund, (ii) Wage subsidies under Employment Support Scheme and (iii) Subsidy for phasing out pre-Euro IV diesel commercial vehicles under the Ex-gratia Payment Scheme. And as advised by the management, government grants received are not subject to profit tax. Since government grants received are non-recurring in nature, it will be excluded from the calculation of operating profit.

- Management fee in relation to the services provided by the FSE Management Company Limited:

  As advised by the management, management fee in relation to the services provided by the FSE Management Company Limited is non-recurring since such services will be provided by the FSE Services on a non-gratuitous basis after the transaction is completed and should be excluded from the calculation of operating profit. And as advised by the management, such management fee paid did cause tax impact which should be subsequently addressed after removing it from the calculation of operating profit.

- Exchanges gain/loss:

  As advised by the management, exchange gain/loss was incurred during currency translation of assets/liabilities located in the Mainland China. And as advised by the management, exchange gain/loss incurred is not subject to profit tax. The management considered that such exchange gain/loss is not recursive in nature and should not be considered as a regular expense.

- Donation:

  As advised by the management, donation is a non-operating expense which should be excluded from the calculation of operating profit. And as advised by the management, donation did cause tax impact which should be subsequently addressed after removing it from the calculation of operating profit.

We have also discussed with the management and confirmed the aforesaid adjustments represented all the material items on non-operating and non-recurring charges or gains. We considered the adjustments above are sufficient enough to arrive the normalized earnings.

The normalized earnings of the each Target Group adjusted for the aforesaid factors is approximately HKD83.7 million for the financial year ended 30 June 2020, which is composed of normalized earnings of Security Guarding

& Event Service, Insurance Solutions and Landscaping Services which respectively amounted HKD47.6 million, HKD34.0 million, and HKD2.1 million respectively.

4.3.6 Analysis of Comparables

We calculate P/E of the Comparables from the financial data available in Bloomberg and the latest financial year annual results as at 31 December 2020.

The Security and Guarding Services Segment

Ticker	Company Name	P/E	Adj. Factor	Adj. P/E
7058 JP Equity	Kyoei Security Service Co Ltd	17.2	0.49	8.4
8441 HK Equity	IWS Group Holdings Ltd	6.2	1.00	6.2
9740 JP Equity	Central Security Patrols Co Ltd	19.0	0.49	9.3
MSG AU Equity	MCS Services Ltd	43.8	0.36	15.6
SECUB SS Equity	Securitas AB	15.3	0.92	14.1
			Average	10.7

The Insurance Brokerage Segment

Ticker	Company Name	P/E	Adj. Factor	Adj. P/E
AON US Equity	Aon PLC	27.6	0.52	14.3
BRO US Equity	Brown & Brown Inc.	31.9	0.52	16.5
AJG US Equity	Arthur J Gallagher & Co	38.5	0.52	19.9
AUB AU Equity	AUB Group Ltd	26.0	0.36	9.2
MMC US Equity	Marsh & McLennan Cos Inc.	29.3	0.52	15.1
PSI AU Equity	PSC Insurance Group Ltd	35.3	0.36	12.5
WLTW US Equity	Willis Towers Watson PLC	37.6	0.52	19.5
			Average	15.3

The Landscaping Segment

Ticker	Company Name	P/E	Adj. Factor	Adj. P/E
002775 CH Equity	Shenzhen Wenke Landscape Co Ltd	10.8	0.45	4.9
1253 HK Equity	China Greenland Broad Greenstate Group Co Ltd	7.8	1.00	7.8
1438 JP Equity	Gifu landscape architect Co Ltd	20.7	0.49	10.1
603316 CH Equity	Zhejiang Chengbang Landscape Co Ltd	30.5	0.45	13.8
			Average	9.1

Since the values concluded from multiples represent the operating value of the Target Group, we should also consider the non-operating cash position, non-operating assets and non-operating liabilities of the Target Group.

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 Values of the Target Group inferred from market multiple are 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 a list of disclosed market transactions in Hong Kong, a 14.3% of Control Premium would be considered.

4.3.8 Discount for Lack of Marketability

The Company is private companies 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.[11]

4.3.9 Valuation Results

	General Security	**Nova Insurance**	**Hong Kong Island Landscape**
Normalized Earning *(HKD 'Mil)*	47.6	34.0	2.2
Adj. PE Multiples	10.7	15.3	9.1
Normalized Earnings x Adj. PE Multiples	510.2	520.1	19.7
Add: Idle Cash *(HKD 'Mil)*	110.7	16.0	7.4
Add: Non-operating Asset *(HKD 'Mil)*	—	25.7	7.3
Less: Non-operating liabilities *(HKD 'Mil)*	(166.3)	—	—
Equity Value *(HKD 'Mil)*	454.6	561.8	34.3
Adj. Control Premium *(HKD 'Mil)*	519.5	642.1	39.2
Discount for Lack of Marketability *(HKD 'Mil)*	363.7	449.5	27.5
Total Consideration *(HKD 'Mil)*		840.6	
Total Normalized Earning *(HKD 'Mil)*		83.7	
Implied PE		10.0	

We have considered the normalized earnings of each segment, the aforesaid control premium, and DLOM adjustment to arrive the fair value of the Subject. The fair value of the Subject as at Valuation Date is estimated to be HKD840.6 million, indicating an implied P/E ratio of 10.0x with reference to the normalized earnings of the Target Group (i.e. HKD83.7 million).

11 Institute of Business Appraisers. (2009). Suggestions for the Selection of a Baseline Marketability Discount. Business Appraisal Practice, 5

4.3.10 *Opinion of Value*

Based on the our investigation, analysis and appraisal method employed as set out in this report, it is our opinion that, as of the Valuation Date, the fair value of the Subject under existing form of operation can be reasonably and approximately stated as HONG KONG DOLLARS EIGHT HUNDRED AND FOURTY MILLION SIX HUNDRED THOUSAND (HKD840,600,000) ONLY.

4.3.11 *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.

		Control Premium						
Equity Value		**11.3%**	**12.3%**	**13.3%**	**14.3%**	**15.3%**	**16.3%**	**17.3%**
	20%	935.5	943.9	952.3	960.7	969.1	977.5	985.9
	25%	877.0	884.9	892.8	900.6	908.5	916.4	924.3
DLOM	**30%**	818.5	825.9	833.2	840.6	848.0	855.3	862.7
	35%	760.1	766.9	773.7	780.6	787.4	794.2	801.0
	40%	701.6	707.9	714.2	720.5	726.8	733.1	739.4

Vigers Appraisal and Consulting Limited
General Practice Sector

27/F Standard Chartered Tower,
Millennium City 1, 388 Kwun Tong Road,
Kowloon, Hong Kong

11 February 2021

The Broad of Directors
FSE Holdings Limited
16/F, Chevalier Commercial Centre,
8 Wang Hoi Road, Kowloon Bay,
Hong Kong

Dear Sirs

RE: VALUATION OF VARIOUS UNITS IN HONG KONG AND MACAU

In accordance with your instruction for us to value the property(ies) to be disposed by a wholly-owned subsidiary of "FSE Holdings Limited" (referred to as the "**Company**" and collectively referred to as "**the Group**"), we confirm that we have inspected the property(ies), made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing our opinion of value of the Property as at 31st December 2020 (the "**Valuation Date**").

BASIS OF VALUE

Our valuations are our opinion of market value(s) of the property(ies) which is defined as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". Our valuations have been prepared in accordance with "HKIS Valuation Standards 2020" published by "The Hong Kong Institute of Surveyors" ("**HKIS**"), "RICS Valuation — Global Standards" published by the "Royal Institution of Chartered Surveyors" ("**RICS**"), relevant provisions in the Companies Ordinance and the "Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited" (Main Board) published by "The Stock Exchange of Hong Kong Limited" ("**HKEx**"). Market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value(s) of a property(ies) are also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

APPROACH TO VALUE

In our valuation, we have employed the direct comparison method whereby comparisons based on transactions on actual sales of comparable property have been made. Comparable property with similar character, location, sizes and so on are analyzed and carefully weighed against all respective advantages and disadvantages of the property(ies) in order to arrive at the fair comparison of values..

TITLE INVESTIGATION

Hong Kong property(ies)

We have conducted land search at the Land Registry but we have not searched the original documents to ascertain ownership nor to verify any lease amendments which may not appear on the copies handed to us. All documents have been used for reference purposes and all dimensions, measurements and areas are therefore approximations.

Macau property(ies)

No responsibility is assumed for any legal matters concerning the legal title to the property set out in this report. We have conducted "Informação por Escrito do Registo Predial" at "Conservat ria do Registo Predial" but we have not searched the original document(s) to ascertain ownership nor to verify any lease amendment(s) which may not appear on the copy(ies) handed to us. In the course of our valuation(s), we have relied to a considerable extent on the information made available to us and we have accepted advice on such matters as planning approval(s) or statutory notice(s), easement(s), tenure(s), occupancy status, site and floor areas as well as all other relevant matters.

VALUATION CONSIDERATION

On-site external inspection to the property(ies) in Hong Kong was carried out by Mr. Jeff M.C. LIU BSc(Hons) on 28th January 2021. But we must stress that we have not carried out any structural survey nor have we inspected the woodwork or other parts of the structures of the Property which was covered, unexposed or inaccessible to us. We are therefore unable to report whether such part of the Property is free from any structural or non-structural defect.

Having examined all relevant documents, we have relied to a considerable extent on the information given by the Group, particularly planning approvals or statutory notices, easements, land tenure, floor areas, occupancy status and in the identification of the Property.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on the information contained in the documents provided to us by the Group and are therefore approximations. We have had no reason to doubt the truth and accuracy of the information made available to us and we have been advised by the Group that no material facts have been omitted from the information so given.

VALUATION ASSUMPTION

Our valuation has been made on the assumption that the property(ies) could be sold in the prevailing market in existing state assuming sale with vacant possession and without the effect of any deferred term contract, leaseback, joint venture or any other similar arrangement which may serve to affect the value of the property(ies) unless otherwise noted or specified. In addition, no account has been taken into of any option or right of pre-emption concerning or affecting the sale of the property(ies).

In our valuation, we have assumed that the owner(s) of the property(ies) has/have free and uninterrupted rights to use and assign the property(ies) during the unexpired land-use rights' term(s) granted subject to payment of usual land-use fee(s). Our valuations for the property(ies) are carried out on the basis of a cash purchase, and no allowance has been made for interest(s) and/or funding cost(s) in relation to the sale or purchase of the property(ies).

We had carried out on-site inspection to the property(ies) but no soil investigation has been carried out to determine the suitability of ground condition or building services for any property development erected on the property(ies). Our valuation has been carried out on the assumption that these aspects are satisfactory.

Our value assessment of the property(ies) is the value estimated without regard to cost(s) of sale or purchase or transaction and without offset for any associated tax(es) or potential tax(es). Any transaction cost(s) or encumbrances such as mortgage, debenture or other charges against the property(ies) has/have been disregarded. In our valuation, we have assumed that the property(ies) is free from encumbrances, restriction(s) and outgoing(s) of an onerous nature which may serve to affect the value of the property(ies).

REMARKS

We hereby confirm that:

(1) we have no present or prospective interest in the property(ies); and are not a related corporation of nor having a relationship with the Group or other party/parties who the Group is contracting with;

(2) we are authorised to practise as external valuer and have the necessary expertise and experience in valuing similar types of properties;

(3) our valuation has been prepared on a fair and unbiased basis;

(4) the valuer's compensation is not contingent upon reporting of a predetermined value or direction in value that favours the cause of the vendor or purchaser, the amount of the value estimate, the attainment of a stipulated result, or occurrence of subsequent event; and

(5) we are independent of the Group.

Unless otherwise stated, all monetary amounts stated herein are denoted in the currency of Hong Kong Dollars ("**HK$**"), the lawful currency of Hong Kong.

We enclose herewith the core content of our valuation report.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
David W. I. CHEUNG
MRICS MHKIS RPS(GP) CREA RICS
Registered Valuer
Executive Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 37 years' valuation experience on property in various regions including Hong Kong, Macao, the PRC, Japan, the United Kingdom, Canada and the United States of America, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises. Mr. Cheung has over 13-year of experience with Vigers Appraisal and Consulting Limited.

SUMMARY OF VALUES

Group I — Properties located in Hong Kong (Properties held for owner-occupied)

No.	Property	Market Value in Existing State as at the Date of Valuation	Interest attributable to the Company	Capital Value attributable to the Company
1.	Unit A on 8/F, Chaiwan Industrial Centre, No. 20 Lee Chung Street, Hong Kong	HK$41,200,000	100%	HK$41,200,000
2.	Unit A on 19/F, Chaiwan Industrial Centre, No. 20 Lee Chung Street, Hong Kong	HK$39,000,000	100%	HK$39,000,000
3.	Portion B on 6/F, Hop Shi Factory Building, Nos. 29–31 Lee Chung Street & Nos. 22–24 Cheung Lee Street, Hong Kong	HK$20,400,000	100%	HK$20,400,000
4.	Unit D on 2/F including Flat Roof, Golden Bear Industrial Centre, Nos. 66–82 Chai Wan Kok Street, Tsuen Wan, New Territories	HK$16,500,000	100%	HK$16,500,000
5.	17/F, Chevalier Commercial Centre, No. 8 Wang Hoi Road, Kowloon Bay	HK$259,000,000	100%	HK$259,000,000

Group II — Properties located in Macau (Properties held for owner-occupied)

No.	Property	Market Value in Existing State as at the Date of Valuation	Interest attributable to the Company	Capital Value attributable to the Company
6.	Em Macau, Rua Nova da Areia Preta N^{o} 456, Edf. Tong Wa Block XII, Rés-Do-Chão A	HK$25,200,000	100%	HK$25,200,000
7.	Em Macau, Rua do Almirante Costa Cabral N^{o}S 17–17-A, Holland Garden (Phase 4), Rés-Do-Chão A (Com Sobreloja)	HK$36,800,000	100%	HK$36,800,000
8.	Em Macau, Rua do Ouvidor Arriaga N^{o} 39, Holland Garden (Phase 4), 1^{o} Andar A	HK$4,550,000	100%	HK$4,550,000

PROPERTY VALUATION REPORT

Group I — Properties located in Hong Kong

	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at the Date of Valuation
1.	Unit A on 8/F, Chaiwan Industrial Centre, No. 20 Lee Chung Street, Hong Kong 2/141 equal undivided shares of and in Chai Wan Inland Lot Nos. 47 and 54	The property comprises a workshop unit on the 8/F of a 24-storey industrial building completed in about 1976. The property has a gross floor area of approximately 9,944 sq.ft. (or 923.82 sq.m.). The property is held from Government under Conditions of Sales Nos. 10498 and 10499 for a term of 75 years commencing from 17 August 1973 renewable for 75 years.	At the time of our inspection, the Property was occupied as an office and workshop. The property is subject to tenancy agreements as shown on Note 4.	HK$41,200,000 (HONG KONG DOLLARS FORTY ONE MILLION TWO HUNDRED THOUSAND ONLY) (100% interest attributable to the Company: HK$41,200,000 (HONG KONG DOLLARS FORTY ONE MILLION TWO HUNDRED THOUSAND ONLY))

Notes:

1. According to the Land Registry's record, the registered owner of the property was TOP LINE INVESTMENT LIMITED.

2. The property is subject to a Deed of Mutual Covenant vide Memorial No. UB1367345 dated 28 February 1977.

3. With reference to Occupation Permit No. H218/76 from Buildings Department, the subject development was completed on 23 November 1976.

4. The Subject Property is subject to tenancy agreements as follows:

Tenant	Monthly Rent	Tenancy Period
1. Companion Building Material Supplies (H.K.) Limited	HK$7,500	From 1 October 2020 to 30 September 2021
2. Environmental Pioneers & Solutions Limited	HK$36,200	From 1 October 2020 to 30 September 2021
3. Joneson Environmental Technologies Limited	HK$91,500	From 1 October 2020 to 30 September 2021
Total:	HK$135,200	

(all rental are inclusive of management fee, government rent and rates)

PROPERTY VALUATION REPORT

	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at the Date of Valuation
2.	Unit A on 19/F, Chaiwan Industrial Centre, No. 20 Lee Chung Street, Hong Kong 2/141 equal undivided shares of and in Chai Wan Inland Lot Nos. 47 and 54	The property comprises a workshop unit on the 19/F of a 24-storey industrial building completed in about 1976. The property has a gross floor area of approximately 9,944 sq.ft. (or 923.82 sq.m.). The property is held from Government under Conditions of Sales Nos. 10498 and 10499 for a term of 75 years commencing from 17 August 1973 renewable for 75 years.	As advised, the Property is subject to a tenancy agreement from 16 April 2018 to 15 April 2027 at a monthly rental of HK$139,216 (16/4/2018–15/4/2021), HK$167,059 (16/4/2021–15/4/2024), and HK$200,471 (16/4/2024–15/4/2027), (all inclusive of management fee, government rent and rates, with a rent free period from 16 April 2018 to 15 May 2018).	HK$39,000,000 (HONG KONG DOLLARS THIRTY NINE MILLION ONLY) (100% interest attributable to the Company: HK$39,000,000 (HONG KONG DOLLARS THIRTY NINE MILLION ONLY))

Notes:

1. According to the Land Registry's record, the registered owner of the property was FULTECH DEVELOPMENT LIMITED.

2. The property is subject to the following encumbrances:

   (i) Deed of Mutual Covenant vide Memorial No. UB1367345 dated 28 February 1977.

   (ii) Order No. UBCS/05–25/0042/10 under Section 24(1) of the Buildings Ordinance with plan vide Memorial No. 12090500960287 dated 16 February 2012.

   (iii) Duplicate Tenancy Agreement with plan in favour of Rich Legend (Asia) Development Limited vide Memorial No. 18051801640018 dated 9 March 2018 (Remarks: term of 9 years from 16 April 2018 to 15 April 2027).

3. With reference to Occupation Permit No. H218/76 from Buildings Department, the subject development was completed on 23 November 1976.

PROPERTY VALUATION REPORT

	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at the Date of Valuation
3.	Portion B on 6/F, Hop Shi Factory Building, Nos. 29–31 Lee Chung Street & Nos. 22–24 Cheung Lee Street, Hong Kong 1/42 equal undivided shares of and in Chai Wan Inland Lot No. 3	The property comprises a workshop unit on the 6/F of an 11-storey industrial building completed in about 1965. The property has a saleable area of approximately 5,000 sq.ft. (or 464.51 sq.m.). The property is held from Government under Conditions of Sale No. UB7209 for a term of 75 years commencing from 28 May 1962 renewable for 75 years.	At the time of our inspection, the Property was occupied as a laboratory. The property is subject to tenancy agreements as shown on Note 4.	HK$20,400,000 (HONG KONG DOLLARS TWENTY MILLION FOUR HUNDRED THOUSAND ONLY) (100% interest attributable to the Company: HK$20,400,000 (HONG KONG DOLLARS TWENTY MILLION FOUR HUNDRED THOUSAND ONLY))

Notes:

1. According to the Land Registry's record, the registered owner of the property was FSE PROPERTY (HONG KONG) LIMITED.

2. The property is subject to the following encumbrances:

   (i) Deed of Covenant with plans vide Memorial No. UB529711 dated 23 March 1966.

   (ii) Re-registration on Lease Mem. No. 15111801380019 with plan re First Aid Room on LG/F and the Open Yard in favour of Wong Lai Ying, Wong Fun Ching and Kwok Kwai Ho vide Memorial No. 17050502280022 dated 2 November 2015 (The rent is $1 per month. Remarks: by the incorporated owners of Hop Shi Factory Building for 15 years form 7 September 2015 to 6 September 2030).

3. With reference to Occupation Permit No. H344/65 from Buildings Department, the subject development was completed on 24 December 1965.

4. The Subject Property is subject to tenancy agreements as follows:

Tenant	Monthly Rent	Tenancy Period
1. FSE Environmental Laboratory Services Limited	HK$19,150	From 1 October 2020 to 30 September 2021
2. Joneson Environmental Technologies Limited	HK$19,150	From 1 October 2020 to 30 September 2021
Total:	HK$38,300	

(all rental are inclusive of management fee, government rent and rates)

PROPERTY VALUATION REPORT

	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at the Date of Valuation
4.	Unit D on 2/F including Flat Roof, Golden Bear Industrial Centre, Nos. 66–82 Chai Wan Kok Street, Tsuen Wan, New Territories 32/4950 equal undivided shares of and in Sections B, C, D, E & The Remaining Portion of Tsun Wan Inland Lot No. 40 and Tsun Wan Inland Lot No. 58	The property comprises a workshop unit on the 2/F of a 26-storey industrial building completed in about 1980. The property has a gross floor area of approximately 5,930 sq.ft. (or 550.91 sq.m.) and flat roof area of approximately 1,056 sq.ft. (or 98.10 sq.m.). The property is held from Government under Conditions of Sale No. UB5159 (TWIL 40) and Government Lease (TWIL 58) for a term expiring on 30 June 2047.	At the time of our inspection, the Property was occupied as a storage. The property is subject to a tenancy agreement from 15 October 2019 to 14 October 2022 at a monthly rental of HK$2,000 (inclusive of management fee, government rent and rates).	HK$16,500,000 (HONG KONG DOLLARS SIXTEEN MILLION FIVE HUNDRED THOUSAND ONLY) (100% interest attributable to the Company: HK$16,500,000 (HONG KONG DOLLARS SIXTEEN MILLION FIVE HUNDRED THOUSAND ONLY))

Notes:

1. According to the Land Registry's record, the registered owner of the property was TRIDANT ENGINEERING COMPANY LIMITED.

2. The property is subject to the following encumbrances:

   (i) Deed of Covenant with plan vide Memorial No. UB1894365 dated 29 April 1980.

   (ii) Management Agreement in favour of General Security (H.K.) Limited "The Agent" vide Memorial No. UB2015018 dated 10 December 1980 (Remarks: by Lee Hing Investment Company Limited "The Manager").

3. With reference to Occupation Permit No. NT50/80 from Buildings Department, the subject development was completed on 17 April 1980.

PROPERTY VALUATION REPORT

	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at the Date of Valuation
5.	17/F, Chevalier Commercial Centre, No. 8 Wang Hoi Road, Kowloon 31400/620000 equal undivided shares of and in New Kowloon Inland Lot No. 5974	The property comprises the whole office unit on the 17/F of a 21-storey commercial building completed in about 1992. The property has a saleable area of approximately 22,482 sq.ft. (or 2,088.59 sq.m.). The property is held from Government under Conditions of Sale No. 12059 for a term commencing from 27 February 1989 and expiring on 30 June 2047.	At the time of our inspection, the Property was occupied as an office. The property is subject to tenancy agreements as shown on Note 4.	HK$259,000,000 (HONG KONG DOLLARS TWO HUNDRED FIFTY NINE MILLION ONLY) (100% interest attributable to the Company: HK$259,000,000 (HONG KONG DOLLARS TWO HUNDRED FIFTY NINE MILLION ONLY))

Notes:

1. According to the Land Registry's record, the registered owner of the property was OCEAN FRONT INVESTMENTS LIMITED.

2. The property is subject to a Deed of Mutual Covenant and Management Agreement in favour of Sources Fame Management Limited "The Manager" vide Memorial No. UB5579994 dated 2 February 1993.

3. With reference to Occupation Permit No. NK57/92 from Buildings Department, the subject development was completed on 31 December 1992.

4. The Subject Property is subject to tenancy agreements as follows:

Unit	Tenant	Monthly Rent	Tenancy Period
1701–6	Young's Engineering Company Limited	HK$220,742	From 1 June 2017
1707–11 & 1716–18	Majestic Engineering Company Limited	HK$310,232	From 1 June 2017
1712	Extensive Trading Company Limited	HK$29,830	From 1 June 2017
1715	Extensive Trading Company Limited	HK$13,110	From 1 July 2019
	Total:	HK$573,914	

(all rental are inclusive of management fee and rates)

PROPERTY VALUATION REPORT

Group II — Properties located in Macau

	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at the Date of Valuation
6.	Em Macau, Rua Nova da Areia Preta N^o 456, Edf. Tong Wa Block XII, Rés-Do-Chão A (Com Kok-Chai)	The property comprises a commercial unit on the G/F and Cockloft of an 18-storey composite building completed in about 1992. According to the dInformang por Escrito do Registo Predial''r the property has a saleable area of approximately 1,962 sq.ft. (or 182.24 sq.m.). The property is held under Concessão por Arrendamento for the use of ''Urbano'' commencing on 13th March 2011. The land tenure of the property will be expired in 2021. In the course of our valuation(s), we have assumed that the land tenure of the property will be renewed automatically and continuously without paying additional land premium, if demanded.	The Property is subject to a tenancy agreement from 1 March 2009 at a monthly rental of HK$11,000.	HK$25,200,000 (HONG KONG DOLLARS TWENTY FIVE MILLION TWO HUNDRED THOUSAND ONLY) (100% interest attributable to the Company: HK$25,200,000 (HONG KONG DOLLARS TWENTY FIVE MILLION TWO HUNDRED THOUSAND ONLY))

Note:

1. According to the record from ''Informação por Escrito do Registo Predial'', the registered owner of the property was PRIME STAR INVESTMENT LIMITED.

PROPERTY VALUATION REPORT

	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at the Date of Valuation
7.	Em Macau, Rua do Almirante Costa Cabral N^{o}S 17–17-A, Holland Garden (Phase 4), Rés-Do-Chão A (Com Sobreloja)	The property comprises a commercial unit on the G/F and Cockloft of a 6-storey composite building completed in about 1985. According to the dInformang por Escrito do Registo Predial'', the property has a saleable area of approximately 2,843 sq.ft. (or 264.12 sq.m.). The property is held under Propriedade Privada for the use of ''Urbano'', we have assumed that the land tenure of the property will be renewed automatically and continuously without paying additional land premium, if demanded.	The Property is subject to tenancy agreements as shown on Note 2.	HK$36,800,000 (HONG KONG DOLLARS THIRTY SIX MILLION EIGHT HUNDRED THOUSAND ONLY) (100% interest attributable to the Company: HK$36,800,000 (HONG KONG DOLLARS THIRTY SIX MILLION EIGHT HUNDRED THOUSAND ONLY))

Notes:

1. According to the record from ''Informação por Escrito do Registo Predial'', the registered owner of the property was PRIME STAR INVESTMENT LIMITED.

2. The Subject Property, together with ''Em Macau, Rua do Ouvidor Arriaga No 39, Holland Garden (Phase 4), 1o Andar A'' (i.e. Property 8), is subject to tenancy agreements as follows:

Unit	Tenant	Monthly Rent	Tenancy Period
G/F (1/2), Cockloft (1/2) & 1/F (1/2)	Majestic Engineering (Macao) Company Limited	HK$18,375	From 1 August 2019 to 31 July 2021
G/F (1/2), Cockloft (1/2) & 1/F (1/2)	Young's Engineering (Macao) Company Limited	HK$18,375	From 1 August 2019 to 31 July 2021
	Total:	HK$36,750	

PROPERTY VALUATION REPORT

	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at the Date of Valuation
8.	Em Macau, Rua do Ouvidor Arriaga N^{o} 39, Holland Garden (Phase 4), 1^{o} Andar A	The property comprises a domestic unit on the 1/F of a 6-storey composite building completed in about 1985. According to the dInformang por Escrito do Registo Predial'', the property has a saleable area of approximately 613 sq.ft. (or 56.99 sq.m.). The property is held under Propriedade Privada for the use of ''Urbano'', we have assumed that the land tenure of the property will be renewed automatically and continuously without paying additional land premium, if demanded.	The Property is subject to tenancy agreements as shown on Note 2.	HK$4,550,000 (HONG KONG DOLLARS FOUR MILLION FIVE HUNDRED FIFTY THOUSAND ONLY) (100% interest attributable to the Company: HK$4,550,000 (HONG KONG DOLLARS FOUR MILLION FIVE HUNDRED FIFTY THOUSAND ONLY))

Notes:

1. According to the record from ''Informação por Escrito do Registo Predial'', the registered owner of the property was PRIME STAR INVESTMENT LIMITED.

2. The Subject Property, together with ''Em Macau, Rua do Almirante Costa Cabral NoS 17–17-A, Holland Garden (Phase 4), Rés-Do-Chão A (Com Sobreloja)'' (i.e. Property 7), is subject to tenancy agreements as follows:

Unit	Tenant	Monthly Rent	Tenancy Period
G/F (1/2), Cockloft (1/2) & 1/F (1/2)	Majestic Engineering (Macao) Company Limited	HK$18,375	From 1 August 2019 to 31 July 2021
G/F (1/2), Cockloft (1/2) & 1/F (1/2)	Young's Engineering (Macao) Company Limited	HK$18,375	From 1 August 2019 to 31 July 2021
	Total:	HK$36,750	

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)*
Mr. Lam Wai Hon, Patrick	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 4)*	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 5)*	25,000,000 shares of HK$0.10 each (L)	5%
	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 6)*	20,000,000 shares of HK$0.10 each (L)	4%

Name of Director	Our Company/ Associated Corporation	Capacity/Nature of Interest	Number and Class of Securities *(Note 1)*	Approximate Percentage of Shareholding *(Note 2)*
Mr. Lee Kwok Bong	FSE Holdings *(Note 3)*	Interest of controlled corporation *(Note 7)*	5,000,000 shares of HK$0.10 each (L)	1%

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 500,000,000 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 and Mr. Doo William Junior Guilherme is a director of FSE Holdings.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

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 agreement dated 10 April 2017 made between Mr. Doo and NWDS in relation to the provision of services as contemplated thereunder by Doo's Associate Group to the NWDS Group and vice versa;

b. the master services agreement dated 24 April 2020 made between Mr. Doo and NWD in relation to the provision of services as contemplated thereunder by Doo's Associate Group to the NWD Group and vice versa;

c. the master services agreement dated 24 April 2020 made between Mr. Doo and NWS in relation to the provision of services as contemplated thereunder by Doo's Associate Group to the NWS Group and vice versa;

d. the master services agreement dated 24 April 2020 entered into between the Company and NWD in relation to the provision of services as contemplated thereunder by the Group to the NWD Group and vice versa;

e. the master services agreement dated 24 April 2020 entered into between the Company and NWS in relation to the provision of services as contemplated thereunder by the Group to the NWS Group and vice versa (the "**2020 NWS Master Services Agreement**");

f. the master services agreement dated 24 April 2020 entered into between the Company and NWDS in relation to the provision of services as contemplated thereunder by the Group to the NWDS Group and vice versa;

g. the master services agreement dated 24 April 2020 entered into between the Company and CTFE in relation to the provision of services as contemplated thereunder by the Group to the CTFE Group and vice versa;

h. the master services agreement dated 24 April 2020 entered into between the Company and CTFJ in relation to the provision of services as contemplated thereunder by the Group to the CTFJ Group and vice versa (the "**2020 CTFJ Master Services Agreement**");

i. the 2021 NWD Master Facility and Related Services Agreement to be entered into;

j. the 2021 NWS Master Facility and Related Services Agreement to be entered into;

k. the 2021 CTFE Master Facility and Related Services Agreement to be entered into; and

l. the 2021 CTFJ Master Facility and Related Services Agreement to be entered into.

(2) Mr. Doo William Junior Guilherme and Mr. Lam Wai Hon, Patrick, are interested in the following agreements and transactions contemplated thereunder respectively:

a. the master services agreement dated 24 April 2020 entered into between the Company and the Seller in relation to the provision of services as contemplated thereunder by the Group to the Doo's Associates Group and vice versa (the "**2020 Doo's Associates Group Master Services Agreement**");

b. the 2020 NWS Master Services Agreement;

c. conditional deed for the sale and purchase of the entire issued share capital of Legend Success Investments Limited for an initial consideration of HK$704,900,000 (subject to post-completion adjustment) by the Seller as vendor, FSE Property Management Group Limited (a wholly-owned subsidiary of the Company) and the Company as purchaser on 18 October 2019, details of which were disclosed in the Company's circular dated 15 November 2019 (the "**2019 Sale and Purchase Agreement**");

d. the supplemental deed entered into between the Seller, FSE Property Management Group Limited and the Company dated 14 November 2019 to amend the 2019 Sale and Purchase Agreement (the "**2019 Supplemental Deed**");

e. the Sale and Purchase Agreement;

f. the 2021 FSE Master Facility and Related Services Agreement to be entered into; and

g. the 2021 NWS Master Facility and Related Services Agreement to be entered into.

(3) Mr. Lee Kwok Bong are interested in the following agreements and transactions contemplated thereunder respectively:

a. the 2019 Sale and Purchase Agreement;

b. the 2019 Supplemental Deed;

c. the 2020 Doo's Associates Group Master Services Agreement;

d. the Sale and Purchase Agreement; and

e. the 2021 FSE Master Facility and Related Services Agreement to be entered into.

(4) Mr. Kwong Che Keung, Gordon, is interested in the following agreements and transactions contemplated thereunder respectively:

a. the 2020 NWS Master Services Agreement;

b. the 2020 CTFJ Master Services Agreement;

c. the 2021 NWS Master Facility and Related Services Agreement to be entered into; and

d. the 2021 CTFJ Master Facility and Related Services Agreement to be entered into.

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 date of this Circular.

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 2020, 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, the following Directors are considered to have interests in the business which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group:

Name of Director	Entity whose business is considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which is considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Dr. Cheng Kar Shun, Henry	NWD Group	property and carpark management	director
	NWS Group	carpark management	director
Mr. Lam Wai Hon, Patrick	NWS Group	carpark management	alternate director to Mr. Doo William Junior Guilherme
Mr. Doo William Junior Guilherme	NWS Group	carpark management	director

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 which are, or may be, material:

(1) the conditional deed for the sale and purchase of the entire issued share capital of Legend Success Investments Limited for an initial consideration of HK$704,900,000 (subject to post-completion adjustment) by the Seller as vendor, FSE Property Management Group Limited (a wholly-owned subsidiary of the Company) as purchaser on 18 October 2019, details of which were disclosed in the Company's circular dated 15 November 2019;

(2) the supplemental deed entered into between the Seller, FSE Property Management Group Limited and the Company dated 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 2019 Sale and Purchase Agreement, details of which were disclosed in the Company's circular dated 15 November 2019; and

(3) the Sale and Purchase Agreement.

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 under the Professional Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Cap. 588)
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;

(2) had no interests, direct or indirect, in any assets which had been, since 30 June 2020 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 Sale and Purchase Agreement;

(2) the memorandum and articles of association of the Company;

(3) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 74 to 76 of this Circular;

(4) 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 77 to 163 of this Circular;

(5) the accountant's report on the Target Group set out in Appendix II to this Circular;

(6) the report relating to the unaudited pro forma financial information on the Enlarged Group set out in Appendix IV to this Circular;

(7) the business valuation report set out in Appendix V to this Circular;

(8) the property valuation report set out in Appendix VI to this Circular;

(9) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(10) the written consents referred to in the section headed "Qualifications and consent of Experts" in this appendix;

(11) the annual reports of the Company containing the audited consolidated financial statements of the Group for the year ended 30 June 2019 and 30 June 2020 respectively; and

(12) 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 fellow member of the Institute of Public Accountants in Australia, the Institute of Certified Public 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 17th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 9 April 2021 at 4:30 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions:

ORDINARY RESOLUTIONS

(1) "**THAT**

subject to and conditional upon the passing of each of the ordinary resolutions in this notice approving the 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same:

(a) the Proposed Transactions (as defined in the circular (the "**Circular**") of the Company dated 19 March 2021) by FSE City Essential Services Limited (a wholly-owned subsidiary of the Company) as buyer from FSE Management Company Limited as seller on terms and conditions of the conditional agreement for sale and purchase dated 26 February 2021 (the "**Sale and Purchase Agreement**", a copy of which has been produced to the Meeting and marked "A" and initialled by the chairman of the Meeting for identification purposes) and the performance of the transactions contemplated under the Sale and Purchase Agreement, be and they are hereby approved;

(b) the directors (the "**Directors**") of the Company be and they are hereby authorised, for and on behalf of the Company, to do such acts and things, to take such steps and to sign or otherwise execute such agreements, documents, deeds or instruments as are in their opinion necessary, desirable or expedient to implement and to give effect to the Proposed Transactions and all matters incidental thereto or in connection therewith; and

(c) the Directors be and they are hereby authorised to agree to such variation, amendment, modification and/or waiver of any matters relating to or in connection with the Proposed Transactions as are, in their opinion in the interests of the Company and its shareholders as a whole in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and other applicable law, rules and regulations."

(2) "**THAT**

subject to and conditional upon (i) completion of the Proposed Transactions in accordance with the terms of the Sale and Purchase Agreement; and (ii) the passing of each of the ordinary resolutions in this notice approving the other 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same:

(a) the 2021 FSE Master Facility and Related Services Agreement to be entered into between the Seller and the Company (a copy of which has been produced to the meeting marked "B" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2021 FSE Master Facility and Related Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2023 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) 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."

(3) "**THAT**

subject to and conditional upon (i) completion of the Proposed Transactions in accordance with the terms of the Sale and Purchase Agreement; and (ii) the passing of each of the ordinary resolutions in this notice approving the other 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same:

(a) the 2021 NWD Master Facility and Related Services Agreement to be entered into between NWD and the Company (a copy of which has been produced to the meeting marked "C" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2021 NWD Master Facility and Related Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2023 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) 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."

(4) "**THAT**

subject to and conditional upon (i) completion of the Proposed Transactions in accordance with the terms of the Sale and Purchase Agreement; and (ii) the passing of each of the ordinary resolutions in this notice approving the other 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same:

(a) the 2021 NWS Master Facility and Related Services Agreement to be entered into between NWS and the Company (a copy of which has been produced to the meeting marked "D" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2021 NWS Master Facility and Related Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2023 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) 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."

(5) "**THAT**

subject to and conditional upon (i) completion of the Proposed Transactions in accordance with the terms of the Sale and Purchase Agreement; and (ii) the passing of each of the ordinary resolutions in this notice approving the other 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same:

(a) the 2021 CTFE Master Facility and Related Services Agreement to be entered into between CTFE and the Company (a copy of which has been produced to the meeting marked "E" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2021 CTFE Master Facility and Related Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2023 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) 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."

(6) "**THAT**

subject to and conditional upon (i) completion of the Proposed Transactions in accordance with the terms of the Sale and Purchase Agreement; and (ii) the passing of each of the ordinary resolutions in this notice approving the other 2021 Master Facility and Related Services Agreements, the Services Transactions contemplated thereunder and the Annual Caps for the same:

(a) the 2021 CTFJ Master Facility and Related Services Agreement to be entered into between CTFJ and the Company (a copy of which has been produced to the meeting marked "F" and initialled by the chairman of the meeting for identification purpose) and the Services Transactions contemplated thereunder as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved;

(b) the proposed annual caps in respect of the Service Transactions contemplated under the 2021 CTFJ Master Facility and Related Services Agreement for each of the period commencing from the Completion Date and ending on 30 June 2023 as more particularly set out in the "Letter from the Board" in the Circular be and are hereby approved; and

(c) 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."

(7) "**THAT** Dr. Cheng Chun Fai be re-elected as an executive Director."

SPECIAL RESOLUTION

"**THAT** subject to and conditional upon the necessary approval of the Registrar of Companies in the Cayman Islands being obtained, the English name of the Company be changed from "FSE Services Group Limited" to "FSE Lifestyle Services Limited" and to adopt the Chinese name "豐盛生活服務有限公司" as the dual foreign name of the Company in place of the existing Chinese name "豐盛服務集團有限公司" with effect from the date of entry of the new English name and dual foreign name on the register maintained by the Registrar of Companies in the Cayman Islands, and that any one director of the Company be and is hereby authorised to do all things and acts and sign all documents as they may consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the aforesaid change of Company name."

By order of the Board
FSE Services Group Limited
Lee Kwok Bong
Executive Director

Hong Kong, 19 March 2021

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 ordinary 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. In order to determine entitlement of a member of the Company to attend and vote at the Meeting (or any adjournment thereof), the Company's branch register of members will be closed from Thursday, 1 April 2021 to Friday, 9 April 2021 (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 Wednesday, 31 March 2021.

6. Voting on the above resolutions will be taken by poll.

As at the date of this notice, the board of Directors comprises Dr. Cheng Kar Shun, Henry (Chairman) as non-executive Director, 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 and Dr. Cheng Chun Fai as executive Directors, and 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.

PRECAUTIONARY MEASURES FOR THE MEETING

At the time of publishing this notice the coronavirus (COVID-19) situation in Hong Kong is still developing and the situation at the time of Meeting is difficult to predict. **The Company reminds attendees that they should carefully consider the risks of attending the Meeting, taking into account their own personal circumstances. Furthermore, the Company would like to remind shareholders that physical attendance in person at the Meeting is not necessary for the purpose of exercising their voting rights and strongly recommends shareholders to appoint the chairman of the Meeting as their proxy and submit their form of proxy as early as possible.**

Should the coronavirus continue to affect Hong Kong at or around the time of the Meeting, the Company may implement precautionary measures at the Meeting in the interests of the health and safety of the attendees of the Meeting which include without limitation:

1. All attendees will be required to wear surgical face masks before they are permitted to attend, and during their attendance of, the Meeting. Attendees are advised to observe good personal hygiene and maintain appropriate social distance with each other at all times when attending the Meeting.

2. There will be compulsory body temperature screening for all persons before entering the Meeting venue. Should anyone seeking to attend the Meeting decline to submit to temperature testing or be found to be suffering from a fever with a body temperature of 37.3 degrees Celsius or above or otherwise unwell, the Company reserves the right to refuse such person's admission to the Meeting.

3. Attendees may be asked if (i) he/she has travelled outside of Hong Kong within 14 days immediately before the Meeting; (ii) he/she is subject to any HKSAR Government prescribed quarantine requirement; and (iii) he/she has any flu-like symptoms or close contact with any person under quarantine or with recent travel history. Any person who responds positively to any of these questions will be denied entry into the Meeting venue and will not be allowed to attend the Meeting.

4. Appropriate distancing and spacing in line with the guidance from the HKSAR Government will be maintained and as such, the Company may limit the number of attendees at the Meeting as may be necessary to avoid over-crowding.

5. Each attendee will be assigned a designated seat to facilitate contact tracing and to ensure appropriate social distancing.

6. **No gifts, food or beverages will be provided at the Meeting.**

7. Company staff and representatives at the Meeting venue will assist with crowd control and queue management to ensure appropriate social distancing.

8. Due to the constantly evolving COVID-19 pandemic situation, the Company may implement further changes and precautionary measures in relation to the Meeting arrangements at short notice. Shareholders should check the Company's website for further announcements and updates on the Meeting arrangements.