Third Quarterly Report 2017

King Force Group Holdings Limited
冠輝集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8315

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This report, for which the directors (the "**Directors**") of King Force Group Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the "**GEM 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 report 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 report misleading.*

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS AND NINE MONTHS ENDED 31 DECEMBER 2017

	Notes	For three months ended 31 December		For nine months ended 31 December	
		2017	2016	**2017**	2016
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
		HK$'000	HK$'000	**HK$'000**	HK$'000
Revenue	2	**28,151**	35,589	**89,688**	112,510
Cost of services rendered		**(24,509)**	(29,479)	**(77,224)**	(90,251)
Gross profit		**3,642**	6,110	**12,464**	22,259
Other income	3	**261**	248	**1,111**	842
Administrative expenses		**(9,868)**	(10,334)	**(33,734)**	(24,486)
Share of result of an associate		**2,930**	(1,814)	**663**	2,842
Finance costs	4	**(246)**	(248)	**(735)**	(643)
Loss before income tax	5	**(3,281)**	(6,038)	**(20,231)**	814
Income tax expense	6	**–**	(343)	**–**	(1,583)
Loss for the period		**(3,281)**	(6,381)	**(20,231)**	(769)
Other comprehensive income that may be reclassified subsequently to profit or loss:					
Exchange difference on translation of financial statements of foreign operations		**491**	22	**1,040**	22
Share of exchange difference on translation of foreign associates		**118**	(87)	**47**	(136)
Other comprehensive income for the period		**609**	(65)	**1,087**	(114)
Total comprehensive income for the period		**(2,672)**	(6,446)	**(19,144)**	(883)
Loss for the period attributable to:					
Owners of the Company		**(2,793)**	(6,205)	**(18,848)**	(593)
Non-controlling interests		**(488)**	(176)	**(1,383)**	(176)
		(3,281)	(6,381)	**(20,231)**	(769)
Total comprehensive income for the period attributable to:					
Owners of the Company		**(2,343)**	(6,279)	**(18,121)**	(716)
Non-controlling interests		**(329)**	(167)	**(1,023)**	(167)
		(2,672)	(6,446)	**(19,144)**	(883)
		HK cents	HK cents	**HK cents**	HK cents
Loss per share for loss attributable to owners of the Company	7				
– Basic and diluted		**(0.036)**	(0.095)	**(0.245)**	(0.009)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 31 DECEMBER 2017

	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Merger reserve HK$'000	Foreign exchange reserve HK$'000	Capital reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2016 (audited)	6,400	39,008	–	(5,270)	11	4,054	15,575	59,778	–	59,778
Loss for the period	–	–	–	–	–	–	(593)	(593)	(176)	(769)
Other comprehensive income:										
Share of exchange difference on translation of foreign operations	–	–	–	–	(123)	–	–	(123)	9	(114)
Total comprehensive income for the period	–	–	–	–	(123)	–	(593)	(123)	9	(114)
Transactions with owners:										
Issue of consideration shares	727	49,426	–	–	–	–	–	50,153	–	50,153
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	3,171	3,171
Total transactions with owners	727	49,426	–	–	–	–	–	50,153	3,171	52,441
At 31 December 2016 (unaudited)	7,127	88,434	–	(5,270)	(112)	4,054	14,982	109,215	3,004	112,219
At 1 April 2017 (audited)	**7,680**	**100,050**	**-**	**(5,270)**	**255**	**586**	**21,772**	**125,073**	**7,915**	**132,988**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(18,848)**	**(18,848)**	**(1,383)**	**(20,231)**
Other comprehensive income:										
Exchange difference on translation of financial statements of foreign operations	**-**	**-**	**-**	**-**	**680**	**-**	**-**	**680**	**360**	**1,040**
Share of exchange difference on translation of foreign operations	**-**	**-**	**-**	**-**	**47**	**-**	**-**	**47**	**-**	**47**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**727**	**-**	**(18,848)**	**(18,121)**	**(1,023)**	**(19,144)**
Transactions with owners:										
Share-based payment expenses of options granted by the Company during the period	**-**	**-**	**4,009**	**-**	**-**	**-**	**-**	**4,009**	**-**	**4,009**
Issue of shares upon exercise of share options	**122**	**3,196**	**(885)**	**-**	**-**	**-**	**-**	**2,433**	**-**	**2,433**
Total transactions with owners	**122**	**3,196**	**3,124**	**-**	**-**	**-**	**-**	**6,442**	**-**	**6,442**
At 31 December 2017 (unaudited)	**7,802**	**103,246**	**3,124**	**(5,270)**	**982**	**586**	**2,924**	**113,394**	**6,892**	**120,286**

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 2 January 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's registered office is located at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company's principal place of business is located at 14/F., Harbour Commercial Building, 122 Connaught Road Central, Hong Kong.

The Company's shares were listed on the GEM of the Stock Exchange on 20 August 2014.

The principal activity of the Company is investment holding. The principal activity of the Company and its subsidiaries is the provision of security guarding services and mobile game business.

The unaudited condensed consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively, "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosures required by the GEM Listing Rules.

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except that contingent consideration assets or liabilities arising from a business combination and derivative financial instruments are stated at its fair values. The Directors confirm that the principal accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 March 2017 except in relation to the new and revised standards, amendments and interpretations (the "**new and revised HKFRSs**") issued by the HKICPA that are adopted for the first time for the current period's financial statements. The adoption of these new and revised HKFRSs has had no material impact on the unaudited condensed consolidated financial statements.

The Group has not early adopted any new HKFRSs that have been issued but are not yet effective.

2. REVENUE

Revenue represents the net invoiced value of service rendered from the provision of security guarding service of the Group during the period.

3. OTHER INCOME

	Three months ended 31 December		**Nine months ended 31 December**	
	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000
Bank interest income	**–***	–*	**1**	1
Imputed interest income on amount due from a non-controlling equity holder of a subsidiary	**32**	–	**75**	–
Interest income from a loan to an associate	**75**	75	**225**	133
Interest income of a life insurance policy	**9**	9	**29**	40
Sundry income	**145**	164	**781**	668
	261	248	**1,111**	842

* Represents amount less than HK$1,000.

4. FINANCE COSTS

Finance costs represent interest on promissory note. The promissory note is unsecured and bears an interest rate of 5% per annum for a term of two years.

5. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amortisation of intangible asset[1]	**1,068**	926	**3,238**	1,592
Cost of services rendered	**24,509**	29,479	**77,224**	90,251
Depreciation of property, plant and equipment	**810**	1,212	**2,360**	2,232
Employee benefits expenses (including directors' emoluments):				
Salaries, allowances and benefits in kind included in:				
– Cost of services rendered	**21,201**	27,475	**66,628**	83,891
– Administrative expenses	**2,560**	2,925	**8,105**	7,242
– Share option expenses	**–**	–	**4,009**	–
Retirement benefits – Defined contribution plans[2] included in:				
– Cost of services rendered	**946**	1,309	**2,961**	3,974
– Administrative expenses	**70**	174	**288**	299
	24,777	31,883	**81,991**	95,406
Legal and professional fees	**379**	1,201	**1,710**	2,921
Operating lease charges in respect of:				
– Rented premises	**544**	648	**1,890**	1,941
– Office equipment	**18**	333	**53**	998
	562	981	**1,943**	2,939

[1] included in "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income

[2] no forfeited contributions available for offset against existing contributions during the period

6. INCOME TAX EXPENSE

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current tax				
– Hong Kong Profits Tax				
– charged for the period	**–**	393	**–**	1,240

Hong Kong Profits Tax has been provided at the rate of 16.5% (nine months ended 31 December 2016: 16.5%) on the Group's estimated assessable profits for the period. Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

No provision of Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong during the period.

No provision for enterprise income tax of the PRC has been made as the associates incorporated in the PRC have estimated tax losses for the periods ended 31 December 2017 and 2016.

No deferred tax has been provided in the financial statements as there is no material temporary difference as at the reporting dates.

7. **LOSS PER SHARE**

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Loss	Three months ended 31 December **2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000	Nine months ended 31 December **2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000
Loss attributable to owners of the Company	**(2,793)**	(6,205)	**(18,848)**	(593)

Number of shares	Three months ended 31 December **2017 '000**	2016 '000	Nine months ended 31 December **2017 '000**	2016 '000
Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share	**7,747,413**	6,400,000	**7,703,324**	6,400,000

The assumed exercise of the outstanding share options and the consideration shares to be issued on contingent consideration payable for the nine months ended 31 December 2017 have anti-dilutive effect and have therefore been excluded from the above calculation.

8. **DIVIDENDS**

The Board did not recommend a payment of dividend for the nine months ended 31 December 2017 (nine months ended 31 December 2016: nil).

9. **COMPARATIVE FIGURES**

Certain comparative amounts have been reclassified to conform to current period's presentation.

10. **SUBSEQUENT EVENTS**

On 18 January 2018, the Company received a judgement (the "**Judgement**") granted by the First People's Court in Zhongshan City, Guangdong Province* (the "**Zhongshan First People's Court**") in favour of Zhongshan Beidou Education Technology Limited*（中山北斗教育科技有限公司）(the "**Bei Dou Zhongshan**"). Details of the Judgement are set out in the section headed "Event After The Period" of this quarterly report and the announcement of the Company dated 19 January 2018.

Saved as disclosed above, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2017 and up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the nine months ended 31 December 2017, the Group engaged in (i) the provision of manned security guarding service (the "**Manned Security Guarding Services**"); (ii) the provision of mobile games through Magn Investment Limited ("**Magn Investment**"), an associated company of the Group (the "**Mobile Gaming Business of an Associated Company**"); (iii) the provision of mobile games to the overseas markets through Guanhui Huyu Technology (Hong Kong) Limited* ("**Guanhui Huyu**"), an indirect wholly-owned subsidiary of the Company (the "**Mobile Gaming Business**"); and (iv) the provision of e-Education and security services (the "**e-Education**") through China Bei Dou Communications Technology Group Limited* ("**Bei Dou Communications**"), an indirect subsidiary of the Company.

Manned Security Guarding Services

The Group is a manned security guarding services provider and it is licensed to provide security guarding services in Hong Kong under Type I security work in accordance with the Security Company License regime. The Group operates under the name "KING FORCE" and the services it offers aim to protect the safety of its customers, properties and assets and to maintain order in private events. The Manned Security Guarding Services offered by the Group include patrolling, access control at the lobby entrance, making entrance records of visitors and stopping trespassers, handling and reporting complaints. The Group also provides guarding and personal escorting services and crowd management services in various events, occasions, exhibitions, ceremonies and press conferences. With over ten years' of experience in providing manned security guarding services, the Group has established goodwill in its Manned Security Guarding Services. The Group is dedicated to providing quality manned security guarding services and it is accredited with ISO 9001:2008 (quality management system standard) for its design and provision of security guarding services awarded by the Hong Kong Quality Assurance Agency. To ensure its quality of services, the Group provides guidance and trainings to its security guards and conducts supervision on its security guards. With continued effort, the Group has established a broad customer base. For the nine months period ended 31 December 2017, the Group had 373 customers, including property management companies, schools, warehouse operators, property redevelopers and construction companies.

Mobile Gaming Business of an Associated Company

Magn Investment, an associated company of the Group in which the Company holds 45% equity interest, is an investment holding company of Magn Media (China) Holdings Limited, which is principally engaged in the research and development of computer and mobile software, including security software, advertisement sale management software, gaming platform operation software, payment software and office software; and operation of gaming products in the People's Republic of China (the "**PRC**") through the VIE arrangement.

The completion of acquisition of 45% equity interest in Magn Investment in 2015 helped to diversify the Group's business and broaden its profit base. The associate of the Group commenced the mobile gaming business in 2015 while its first mobile game was launched in April 2015. The Group's share of profit of its associated company for the nine months ended 31 December 2017 decreased by approximately HK$2,179,000 from approximately HK$2,842,000 for the nine months ended 31 December 2016 to approximately HK$663,000 for the nine months ended 31 December 2017. The Mobile Gaming Business of an Associated Company did not perform well due to the intense market competition resulting from the increasing number of developers entering the mobile gaming industry in the PRC. In order to keep up with the ever-changing market, the Group will closely monitor the industry trend and it is expected that Magn Media (China) Holdings Limited will launch more popular games in the near future.

Mobile Gaming Business

Guanhui Huyu, engaged in the mobile gaming business targeted at the overseas markets, has executive teams based in Hong Kong, Shanghai, Beijing and Shenzhen. It adheres to the idea of launching prime games for players and to focus on the mobile online gaming business and is committed to developing a global popular brand for game publishing among global players. Leveraging on the accumulated technologies and experience for game operation platforms of the experienced management team over the years, it emphasises the idea of prime mobile games and will be committed to achieving the strategy of globalisation of gaming industry so as to create an international layout for pan-entertainment in the industry. For the nine months ended 31 December 2017, the Group did not derive any revenue from this segment.

E-Education

In line with the expansion of its security business, through Bei Dou Communications, the Group is committed to the development of its business in the education and security industry and the development of innovative applications in "dynamic face recognition system + Bei Dou positioning technology + Internet + education". The Group is dedicated to enhancing campus security through dynamic face recognition technology and Bei Dou positioning, connecting school and home through Internet applications, and providing one-stop integrated education services to schools, teachers, students and parents through the integration of educational resources. For details of the development of the "e-Education" business of the Group, please refer to the paragraph headed "Significant events during the nine months ended 31 December 2017" of this section of this report.

SIGNIFICANT EVENTS DURING THE NINE MONTHS ENDED 31 DECEMBER 2017

On 15 June 2015, Bei Dou Jiuyi Information Technology Industry (Beijing) Limited* ("**Bei Dou Jiuyi**"), a third party independent of the Company, entered into a business cooperation agreement (the "**First Cooperation Agreement**") with Bei Dou Zhongshan, pursuant to which Bei Dou Jiuyi agreed to franchise Bei Dou Zhongshan to conduct relevant Bei Dou services under its Branch Services Trial Qualification (the "**Jiuyi Qualification**") subject to the terms and conditions therein. Please refer to the Company's announcements dated 19 October 2016, 9 November 2016, 24 November 2016 and 27 January 2017 for further details.

Under the First Cooperation Agreement, Bei Dou Jiuyi made representations on the legality, truthfulness and completeness of the Jiuyi Qualification and also undertook that the business relevant to the Jiuyi Qualification operated by Bei Dou Zhongshan will run smoothly. However, on 25 January 2017, the Company found on the website (the "**Website**") of China National Administration of GNSS and Applications ("**CNAGA**") that the Jiuyi Qualification held by Bei Dou Jiuyi had been suspended and Bei Dou Jiuyi was required to carry out remedial works within six months. According to the notice set out in the Website, the Jiuyi Qualification will be renewed if Bei Dou Jiuyi successfully carries out the remedial works and passes the relevant annual check. However, up to the date of the filing of the Petition (as defined below), Bei Dou Jiuyi still failed to provide the Company with necessary documents showing the relevant annual check and the renewal of the Jiuyi Qualification having been passed.

As such, Bei Dou Zhongshan filed a civil petition statement (the "**Petition**") on 12 June 2017 at the Zhongshan First People's Court against Bei Dou Jiuyi, claiming that Bei Dou Jiuyi had breached the First Cooperation Agreement and sought an order from the court against Bei Dou Jiuyi to, inter alia, return the consideration under the First Cooperation Agreement in the amount of RMB15,000,000 paid by Bei Dou Zhongshan together with interests (the "**Legal Proceeding**"). Please refer to the section headed "Event after the Period" of this report for further details regarding the latest status of the Legal Proceeding.

On 21 June 2017, Bei Dou Zhongshan and Guangdong Bei Dou Platform Technology Limited* ("**Guangdong Bei Dou**"), an independent third party of the Company, entered into a cooperation agreement (the "**Second Cooperation Agreement**"). Pursuant to the Second Cooperation Agreement, Bei Dou Zhongshan will provide Guangdong Bei Dou with dynamic face recognition technology and the terminal hardware regarding the safety service of school bus, and Guangdong Bei Dou will support and coordinate with Bei Dou Zhongshan to legally carry out business activities in the education field based on Bei Dou Civil Management Services Provisional Qualification* (the "**Bei Dou Civil Qualification**").

To the best of the Directors' knowledge, information and belief at the relevant time, Guangdong Bei Dou had obtained the Bei Dou Civil Qualification granted by CNAGA. The Company had appointed a PRC legal adviser to provide a legal opinion on the Bei Dou Civil Qualification, pursuant to which the PRC legal adviser had advised that the Bei Dou Civil Qualification held by Guangdong Bei Dou was valid.

Further details of the Second Cooperation Agreement were disclosed in the announcement dated 21 June 2017 issued by the Company.

For the nine months ended 31 December 2017, the Group did not derive any revenue from this segment.

On 25 October 2017, the Board proposed to change the English name of the Company from "King Force Group Holdings Limited" to "Bei Dou Group Holdings Limited" and the Chinese name of the Company from "冠輝集團控股有限公司" to "北斗集團控股有限公司" (the "**Proposed Change of Company Name**"). The Proposed Change of Company Name is subject to (i) the passing of a special resolution by the shareholders of the Company to approve the Proposed Change of Company Name at an extraordinary general meeting of the Company to be convened; and (ii) the Registrar of Companies in the Cayman Islands approving the use of the proposed new name for the Company. For further details, please refer to the Company's announcement dated 25 October 2017.

OUTLOOK

The Group intends to achieve expansion in business, in particular the number of fixed manned security contracts which provide stable and regular income streams, with a strategy of ensuring a quality pool of guards are available at their expense, broadening its customer base with improved branding and image of the Group, and increasing its profitability of all types of services provided by way of better pricing due to higher service quality.

The Group also strives to maintain its competitiveness in the security guarding services industry in Hong Kong by recruiting and expanding the security guarding and patrol team, strengthening staff recruitment and in-house training, expanding the sales and marketing department and uplifting marketing effect, and increasing of operational efficiency and enhancing quality of service.

By the acquisition of Magn Investment and the launch of the mobile gaming publishing to the overseas market, the Group could tap into the mobile online game industry and capture the opportunities in the mobile online game and related solution industry. In addition, by utilising the Group's information technology related experiences, the synergy effect could be achieved with existing principal business of the Group through the acquisition of Magn Investment and the overseas mobile gaming business. Going forward, the Group will mainly publish massive online role-play games and high spending online action role playing games or simulation games, with the primary focus at Southeast Asia and in particular, Thailand, and secondary focus at the Middle East region, including Gulf countries such as the United Arab Emirates and Qatar. The next step would be to enter the European and US markets and ultimately to expand to the world.

Through the acquisition of Bei Dou Communications, the Group will continue to develop its own Bei Dou positioning technology and dynamic face recognition technology for widespread applications in more industry sectors and as such broadening its business scope.

We will continue to develop and upgrade our products and services with a generic growth of the business in order to broaden our income sources. The Group may consider fund raising to strengthen its capital base and financial position and to allow the Group to further invest into its overseas mobile gaming business and its own Bei Dou and dynamic face recognition technologies. The Group will continue to deploy appropriate operation strategies to meet the challenges posted by the competitive market to improve the performance and maximise the returns of shareholders as a whole.

FINANCIAL REVIEW

Revenue

For the nine months ended 31 December 2016 and 2017, the Group's revenue was generated from the provision of Manned Security Guarding Services in Hong Kong. The following table sets forth the breakdown of the Group's revenue by types of contracts for the nine months ended 31 December 2016 and 2017:

	Nine months ended 31 December			
	2017		2016	
	HK$'000	**Percentage**	HK$'000	Percentage
Manned Security Guarding Services				
– Fixed	**75,924**	**84.6%**	90,429	80.4%
– Temporary	**2,324**	**2.6%**	4,842	4.3%
– Event	**11,440**	**12.8%**	17,239	15.3%
Total	**89,688**	**100%**	112,510	100.0%

Note: Fixed positions refer to contracts for terms over six months while for temporary positions, they refer to contracts for terms less than six months.

The Group's overall revenue decreased by approximately HK$22,822,000 or 20.3% from approximately HK$112,510,000 for the nine months ended 31 December 2016 to approximately HK$89,688,000 for the nine months ended 31 December 2017. The decrease in revenue was mainly due to (i) the decrease in the number of manned security guarding service contracts by approximately 15.2%; and (ii) the general decrease in the service fees charge by the Group as a result of keen competition in the market.

Cost of services rendered

For the nine months ended 31 December 2016 and 2017, the cost of services rendered, which mainly consists of direct guard cost, was approximately HK$90,251,000 and HK$77,224,000, representing approximately 80.2% and 86.1% of the Group's revenue, respectively. Such increase in percentage was primarily attributable to the general increase in the guard costs in the market.

As at 31 December 2017, the Group had a total of 1,064 employees, of which 992 were full-time and part-time guards providing manned security guarding and related services.

Gross profit

The Group's gross profit decreased by approximately HK$9,795,000 or 44.0% from approximately HK$22,259,000 for the nine months ended 31 December 2016 to approximately HK$12,464,000 for the nine months ended 31 December 2017 while the Group's gross profit margin decreased from approximately 19.8% for the nine months ended 31 December 2016 to approximately 13.9% for the nine months ended 31 December 2017. The decrease in gross profit margin was mainly due to (i) the general decrease in the number of manned security guarding service contracts and the service fees as a result of keen competition in the market; and (ii) the general increase in the guard costs in the market as discussed above.

Administrative expenses

The Group's administrative expenses increased by approximately HK$9,248,000 or 37.8% from approximately HK$24,486,000 for the nine months ended 31 December 2016 to HK$33,734,000 for the nine months ended 31 December 2017. The increase in the Group's administrative expenses was mainly due to the increase in amortisation of intangible assets, depreciation of property, plant and equipment and staff costs including share option expenses recognised for the nine months ended 31 December 2017.

Finance costs

The Group's finance costs increased by approximately HK$92,000 or 14.3% from HK$643,000 for the nine months ended 31 December 2016 to HK$735,000 for the nine months ended 31 December 2017. The increase in the finance costs was mainly due to the accrued interest on the promissory note for the nine months ended 31 December 2017.

Share of result of an associate

The Group's share of profit of its associated company for the nine months ended 31 December 2017 decreased by approximately HK$2,179,000 from approximately HK$2,842,000 for the nine months ended 31 December 2016 to approximately HK$663,000 for the nine months ended 31 December 2017. The decrease in share of profit of its associated company was mainly due to a drop in turnover and the high operating costs of the associated company as a result of some mobile games published for the period did not perform well due to the high labor cost and the lower than expected demands.

Loss for the period

Loss attributable to owners of the Company for the nine months ended 31 December 2017 increased by approximately HK$18,255,000 from approximately HK$593,000 for the nine months ended 31 December 2016 to approximately HK$18,848,000 for the nine months ended 31 December 2017. The increase in the Group's loss for the period was mainly due to (i) the decrease in the Group's gross profit resulting from the decrease in the number of manned security guarding service contracts and the general increase in the guard costs; (ii) the decrease in the Group's share of profit of its associated company due to a drop in turnover and the high operating costs of the associated company; and (iii) the increase in administrative expenses, including the increase in amortization of intangible assets, depreciation of property, plant and equipment and staff costs including share option expenses recognized for the nine months ended 31 December 2017.

Services contracts

During the nine months ended 31 December 2017, the Group had entered into 279 new or renewed contracts, of which 205, 17 and 57 are fixed, temporary and event security guarding services contracts respectively. As at 31 December 2017, the Group had a total number of 152 unexpired security guarding services contracts.

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company (the "**Shares**"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which were 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 they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to Rule 5.46 to 5.68 of the GEM Listing Rules, were as follows:

Long position in the Shares and underlying Shares of the Company

Name	Capacity/nature	Number of Shares, underlying Shares held/ interested	Approximate percentage of issued share capital
Mr. Chen Yunchuo	Beneficial owner	1,304,000,000	16.71%
Ms. Li Liping	Beneficial owner *(Note 1)*	64,000,000	0.82%
Mr. Li Mingming	Beneficial owner *(Note 2)*	64,000,000	0.82%
Mr. Ho Yuk Ming Hugo	Beneficial owner *(Note 3)*	6,400,000	0.08%
Mr. Wan Tat Wai David	Beneficial owner *(Note 4)*	6,400,000	0.08%
Mr. Xiong Hong	Beneficial owner *(Note 5)*	6,400,000	0.08%

Notes:

1. These 64,000,000 underlying Shares represent the 64,000,000 Shares which may be allotted and issued to Ms. Li Liping upon full exercise of the share options granted to her under the Scheme.

2. These 64,000,000 underlying Shares represent the 64,000,000 Shares which may be allotted and issued to Mr. Li Mingming upon full exercise of the share options granted to him under the Scheme.

3. These 6,400,000 underlying Shares represent the 6,400,000 Shares which may be allotted and issued to Mr. Ho Yuk Ming Hugo upon full exercise of the share options granted to him under the Scheme.

4. These 6,400,000 underlying Shares represent the 6,400,000 Shares which may be allotted and issued to Mr. Wan Tat Wai David upon full exercise of the share options granted to him under the Scheme.

5. These 6,400,000 underlying Shares represent the 6,400,000 Shares which may be allotted and issued to Mr. Xiong Hong upon full exercise of the share options granted to him under the Scheme.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.47 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS IN SECURITIES OF THE COMPANY

As at 31 December 2017, persons (other than a director or chief executive of the Company) who had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in the Shares and underlying Shares of the Company

Name	Capacity/nature	Number of Shares held/ interested	Approximate percentage of issued share capital
Bohou Investment Limited	Beneficial owner	704,640,000	9.03%
Shanghai Zeli Investment Co., Ltd.* (上海則理投資有限公司)	Interest of corporation controlled by the substantial Shareholder *(Note 1)*	704,640,000	9.03%
Shenzhen Great Wall Huili Asset Management Co. Ltd.* (深圳長城匯理資產管理有限公司)	Interest of corporation controlled by the substantial Shareholder *(Note 1)*	704,640,000	9.03%
Shenzhen Great Wall Huili Investment Co. Ltd.* (深圳長城匯理投資股份有限公司)	Interest of corporation controlled by the substantial Shareholder *(Note 1)*	704,640,000	9.03%
Mr. Song Xiaoming (宋曉明)	Interest of corporation controlled by the substantial Shareholder *(Note 1)*	704,640,000	9.03%

Note:

1. According to the information available to the Company, 704,640,000 Shares are held by Bohou Investment Limited* in the capacity of beneficial owner. Bohou Investment Limited* is wholly-owned by Shanghai Zeli Investment Co., Ltd.*, which is in turn wholly-owned by Shenzhen Great Wall Huili Asset Management Co. Ltd.*, which is 99.95% owned by Shenzhen Great Wall Huili Investment Co. Ltd.* and 0.05% owned by Mr. Song Xiaoming, while Shenzhen Great Wall Huli Investment Co. Ltd.* is 95.53% owned by Mr. Song Xiaoming. Accordingly, pursuant to Part XV of the SFO, Mr. Song Xiaoming, Shenzhen Great Wall Huili Investment Co. Ltd.*, Shenzhen Great Wall Huili Asset Management Co. Ltd.* and Shanghai Zeli Investment Co., Ltd.* are deemed to have interests in the 704,640,000 Shares of the Company.

SHARE OPTION SCHEME

The Company adopted the a share option scheme (the "**Scheme**") on 31 July 2014 which will remain in force for a period of 10 years from the effective date of the Scheme. The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards them for their contribution. The Directors consider the Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. The principal terms of the Scheme are summarised in the section headed "Share Option Scheme" in Appendix V to the prospectus of the Company dated 13 August 2014. The refreshment of the 10% scheme limit on the number of shares which may be allotted and issued upon the exercise of the options to be granted under the Scheme was approved by the shareholders in the annual general meeting of the Company held on 18 August 2017.

As at 31 December 2017, the share options to subscribe for an aggregate of 422,400,000 Shares of the Company granted pursuant to the Scheme were outstanding. The details of the Scheme and the movements of the share options under the Scheme during the nine months ended 31 December 2017 are set out as follows:

				Number of share options					
Category of Participants	**Exercise price per share** (HK$) *(Note 1)*	**Date of grant**	**Exercisable period** *(Note 2)*	**As at 1 April 2017**	**Granted during the period**	**Exercised during the period**	**Lapsed during the period**	**Cancelled during the period**	**Outstanding as at 31 December 2017**
Directors									
Ms. Li Liping	0.02	30 June 2017	30 June 2017 to 29 June 2020	–	64,000,000	–	–	–	64,000,000
Mr. Li Mingming	0.02	30 June 2017	30 June 2017 to 29 June 2020	–	64,000,000	–	–	–	64,000,000
Mr. Ho Yuk Ming Hugo	0.02	30 June 2017	30 June 2017 to 29 June 2020	–	6,400,000	–	–	–	6,400,000
Mr. Wan Tat Wai David	0.02	30 June 2017	30 June 2017 to 29 June 2020	–	6,400,000	–	–	–	6,400,000
Mr. Xiong Hong	0.02	30 June 2017	30 June 2017 to 29 June 2020	–	6,400,000	–	–	–	6,400,000
Other employees of the Group									
In aggregate	0.02	30 June 2017	30 June 2017 to 29 June 2020	–	396,800,000	121,600,000 *(Note 3)*	–	–	275,200,000

Notes:

1. The closing price of the Shares immediately before the date of grant of share options (being 30 June 2017) was HK$0.018.
2. The share options are valid and effective for a period of three years from the date of grant of share options (being 30 June 2017).
3. During the nine months ended 31 December 2017, a total of 121,600,000 share options were exercised at an exercise price of HK$0.02 per Share. The weighted average closing price of the shares of the Company immediately before the date on which these share options were exercised was $0.03 per Share.

Other than the share options stated above, no share options had been granted by the Company to other participants pursuant to the Scheme during the nine months ended 31 December 2017. Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed during the nine months ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31 December 2017.

DIVIDEND

The Board does not recommend the payment of dividend for the nine months ended 31 December 2017 (nine months ended 31 December 2016: Nil).

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted written guidelines regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry to all the Directors, the Directors confirmed that they have complied with the required standard of dealings and the said guidelines regarding directors' securities transactions during the nine months ended 31 December 2017.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 15 to the GEM Listing Rules throughout the nine months ended 31 December 2017, except for CG Code provisions A.2.1 and A.5.1.

Under the CG Code provision A.2.1, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of chief executive officer (the "**CEO**") and is currently of the view that there is no immediate need to set up this post within the Group in consideration of the size, nature and complexity of the Group's business. However, the Company has appointed several staffs at the subsidiary level for each business segment, who are responsible for the oversight of each business segments' operations. The Company will, from time to time, review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of chairman and the CEO, are necessary.

Under CG Code provision A.5.1, the nomination committee should be chaired by the chairman of the board or an independent non-executive director. Prior to 30 June 2017, the nomination committee of the Company (the "**Nomination Committee**") was chaired by Mr. Li Mingming, an executive Director, instead of chairman of the Board or an independent non-executive Director. Mr. Li Mingming was appointed as the chairman of the Nomination Committee following the resignation of Mr. Fu Yik Lung on 8 August 2016 to ensure the stability and smooth transition during the interim period. Since 30 June 2017, Mr. Chen Yunchuo, the chairman of the Board, has taken up the position as the chairman of the Nomination Committee. Following the appointment of Mr. Chen, the Company has complied with the requirement of CG Code provision A.5.1.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company established an audit committee (the "**Audit Committee**") with written terms of reference aligned with the provisions of the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. As at the date of this report, the Audit Committee comprises Mr. Ho Yuk Ming Hugo (chairman of the Audit Committee), Mr. Wan Tat Wai David and Mr. Xiong Hong, all of which are independent non-executive Directors.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, this report and the third quarterly results announcement of the Group for the nine months ended 31 December 2017. The condensed consolidated financial results for the nine months ended 31 December 2017 are unaudited, but have been reviewed by the Audit Committee.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders of the Company.

INTERESTS IN COMPETING BUSINESS

During the nine months ended 31 December 2017, none of the Directors or the controlling shareholders (as defined in the GEM Listing Rules) of the Company or their respective close associates (as defined in the GEM Listing Rules) was considered to have any interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group and/or caused, or was likely to cause any other conflicts of interest with the Group, as required to be disclosed under Rule 11.04 of the GEM Listing Rules.

EVENTS AFTER THE PERIOD

1. On 18 January 2018, the Company received the Judgement granted by the Zhongshan First People's Court in favour of Bei Dou Zhongshan the contents of which are summarised as follows:-

    (i) the First Cooperation Agreement is ordered to be rescinded;

    (ii) Bei Dou Jiuyi shall, within seven days from the effective date of the Judgement, return the consideration under the First Cooperation Agreement in the amount of RMB15,000,000 together with the interests accrued thereon to Bei Dou Zhongshan; and

    (iii) the court fees in the amount of RMB111,800 shall also be borne by Bei Dou Jiuyi.

2. For the update on the use of proceeds from the placing of the shares of the Company completed on 20 March 2017 and non-fulfilment of profit guarantee in respect of the acquisition of 25% equity interest in Magn Investment, please refer to the Company's announcement dated 29 January 2018.

Saved as disclosed in this report, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2017 and up to the date of this report.

* *For identification purpose only*