# 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*

Annual Report 2018

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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**Given that the companies listed on GEM are generally small and mid-sized companies, 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.**

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*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 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.*

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# CORPORATE INFORMATION

## DIRECTORS

*Executive Directors:*
Mr. Chen Yunchuo *(Chairman)*
Mr. Li Mingming
Ms. Li Liping
Mr. Cheng Rui

*Independent Non-executive Directors:*
Mr. Xiong Hong
Mr. Wan Tat Wai David
Mr. Ho Yuk Ming Hugo

## AUDIT COMMITTEE

Mr. Ho Yuk Ming Hugo *(Chairman)*
Mr. Xiong Hong
Mr. Wan Tat Wai David

## REMUNERATION COMMITTEE

Mr. Ho Yuk Ming Hugo *(Chairman)*
Mr. Xiong Hong
Mr. Wan Tat Wai David

## NOMINATION COMMITTEE

Mr. Chen Yunchuo *(Chairman)*
Mr. Xiong Hong
Mr. Ho Yuk Ming Hugo
Mr. Wan Tat Wai David

## COMPANY SECRETARY

Mr. Wong Ka Shing *(member of the Hong Kong Institute of Certified Public Accountants)*

## AUTHORISED REPRESENTATIVES

Mr. Chen Yunchuo
Mr. Li Mingming

## COMPLIANCE OFFICER

Mr. Chen Yunchuo

## LEGAL ADVISER

*As to Hong Kong Law*
Peter Yuen & Associates
(in association with Fangda Partners)

## REGISTERED OFFICE IN THE CAYMAN ISLANDS

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

## INDEPENDENT AUDITOR

BDO Limited

## HEADQUARTER

Unit 1101
No. 118 Connaught Road West
Sai Ying Pun
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

14/F., Harbour Commercial Building
122 Connaught Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
OCBC Wing Hang Bank Limited
Standard Chartered Bank

## COMPANY WEBSITE

www.kingforce.com.hk

## STOCK CODE

8315

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of King Force Group Holdings Limited (the "**Company**") and its subsidiaries (collectively known as the "**Group**"), it is my great pleasure to present to the shareholders the annual report for the year ended 31 March 2018.

For the year ended 31 March 2018, the Group continued to focus on our traditional core business of manned security guarding services in Hong Kong. Besides of maintaining the business relationship with our loyal customers, we have put a lot of efforts into finding new customers to increase our market share. With continued effort, the Group has established a broad customer base. Apart from our traditional business, the Group has been actively expanding its business to cover a broader spectrum in the field of information technology ("**IT**") including mobile-online games business through Magn Investment Limited ("**Magn Investment**"), an associated company of the Group, the launch of mobile game business in the PRC markets; and through Guanhui Huyu Technology (Hong Kong) Limited ("**Guanhui Huyu**"), an indirectly wholly-owned subsidiary of the Company, the newly commenced mobile gaming business in overseas market.

Apart from maintaining our traditional manned security guarding service business, the Group is dedicated to promoting sustainable development of IT-related products and services for local and worldwide markets. Although the competition in the IT industry is becoming intensified, the Group intends to strengthen our portfolio through developing popular mobile online games publishing among global players and expand our portfolio through continuous development of IT applications.

Looking ahead, the Group will continue to deploy appropriate operation strategies to meet the challenges posted by the competitive market, enhance the quality of the products and services, diversify its business and look for new potential investment opportunities to bring greater returns to the shareholders (the "**Shareholders**") of the Company.

References are also made to (i) the announcements jointly issued by the Company and Greatwalle Holding Limited (the "**Offeror**") dated 27 April 2018, 30 April 2018, 18 May 2018 and 31 May 2018 in relation to, among other things, the mandatory conditional cash offers by Emperor Securities Limited for and on behalf of the Offeror to acquire all the issued shares (the "**Shares**") in the share capital of the Company (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) and to cancel all outstanding share options of the Company (the "**Offers**"), and (ii) the composite offer and response document jointly issued by the Company and the Offeror dated 31 May 2018 (the "**Composite Offer Document**") in relation to the Offers. Your attention is drawn to the "Information of the Offeror" and "The Offeror's intention in relation to the Group" in the "Letter from Emperor Securities" in the Composite Offer Document for disclosure on the Offeror and the Offeror's intentions in relation to the Group.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the Group's employees who have contributed their time, efforts and support to the Group.

**Chen Yunchuo**
*Chairman*

Hong Kong, 25 June 2018

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS

For the year ended 31 March 2018 (the "**Reporting Period**"), the Group recorded a total revenue of approximately HK$111,807,000 as compared with approximately HK$146,212,000 for the same period of 2017. The decrease in revenue was mainly due to a decrease in the number of manned security guarding service contracts that had been entered into by the Group as a result of keen competition in the market. For the year ended 31 March 2018, loss attributable to owners of the Company increased to approximately HK$74,705,000 as compared with the profit of approximately $6,197,000 for the same period in 2017. The increase in the Group's loss for the period was mainly due to (i) the decrease in the Group's revenue; (ii) the Group's share of loss of its associated company during the Reporting Period as compared with the share of profits in the same period last year, which was due to a drop in turnover and higher operating costs of the associated company during the Reporting Period; (iii) the increase in administrative expenses, including the increase in amortisation of intangible assets and staff costs (including share option expenses recognised) during the Reporting Period; (iv) the decrease in other incomes during the Reporting Period, which was due to an absence of the recognition of fair value gain on contingent consideration payable (representing the consideration shares to be issued to Magn Group Limited ("**Magn Group**") , and the recognition of loss on change in fair value on financial asset at fair value through profit or loss for a contingent receivable arising from the acquisition of China Bei Dou Communications Technology Group Limited ("**China Bei Dou**") related to the profit guarantee as stated above (v) the recognition of written off and/or impairment loss of certain intangible assets (including the franchise of the Jiuyi Qualification (as defined below) and certain mobile game licenses). And (vi) the recognition of impairment loss of goodwill which arose from the acquisition of China Bei Dou in 2016 and the acquisition of 45% equity interest of Magn Investment in 2015.

### BUSINESS REVIEW AND PROSPECTS

For the year ended 31 March 2018, 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, an associated company of the Group (the "**Mobile Gaming Business of an Associated Company**"); (iii) through Guanhui Huyu, an indirect wholly-owned subsidiary of the Company, the recently commenced mobile gaming business to the overseas markets (the "**Mobile Gaming Business**"); and (iv) the provision of students' e-education and e-securities services through a subsidiary of the Company, China Bei Dou.

#### 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 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 year ended 31 March 2018, the Group had 379 customers, including property management companies, schools, warehouse operators, property redevelopers and construction companies.

#### Mobile Gaming Business of an Associated Company

Magn Investment Ltd. ("**Magn Investment**"), an associated company of the Group, 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 through the VIE contracts.

## MANAGEMENT DISCUSSION AND ANALYSIS

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 Group's share of loss of its associated company was approximately HK$33,000 for the year ended 31 March 2018, as compared with the share of profit by the Group of approximately HK$1,127,000 for the same period in 2017. The Mobile Gaming Business of an Associated Company did not perform well during the year ended 31 March 2018 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.

As disclosed in the announcement of the Company dated 24 November 2015, the mobile gaming business of Magn Investment is operated through controlling Shenzhen Timing Advertisement Co., Limited ("**Timing Advertisement**") and its subsidiaries in the PRC (the "**VIE Group**") through the VIE Contracts.

### The PRC Equity Owners

The registered equity owners of Timing Advertisement (the "**PRC Equity Owners**") and their respective shareholdings in Timing Advertisement are as follows:

| | **Approximate % of interest held** |
|---|---|
| Chen Yunchuo (陳運逴) | 73.8674% |
| Chen Ming (陳銘) | 17.4217% |
| Ru Yi (汝毅) | 3.4843% |
| He Huren (何虎仁) | 2.6133% |
| Guo Changhe (郭長河) | 2.6133% |
| Total | 100% |

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, except for Mr. Chen Yunchuo, being the chairman and an executive Director, each of the above equity owners is a resident in the PRC and an Independent Third Party.

### Reasons for Use of the VIE Contracts

The VIE Group is principally engaged in the operation of mobile games and is considered to be engaged in the provision of value-added telecommunications services as a result of the operations of our website. In addition, the VIE Group holds certain licenses and permits that are essential to the operation of the mobile game business in China, such as ICP Licenses and the Network Cultural Business Permit.

Investment activities in the PRC by foreign investors are primarily regulated by the Guidance Catalogue of Industries for Foreign Investment (the "**Catalogue**"), which was promulgated and is amended from time to time jointly by the Ministry of Commerce of the PRC and the National Development and Reform Commission of the PRC. The Catalogue divides industries into four categories in terms of foreign investment, including "encourage", "restricted" and "prohibited", and all industries not listed under any of these categories are deemed to be "permitted". Pursuant to the Guidance Catalogue of Industries for Foreign Investment (2017 Revision)(《外商投資產業指導目錄(2017 年修訂)》), the mobile game business that the VIE Group currently operates falls into the value-added telecommunications services and the internet cultural business, which are considered "restricted" and "prohibited", respectively. Therefore, foreign investors are prohibited from holding equity interest in an entity conducting mobile game business and are restricted to conduct value-added telecommunications services. In light of the above, as MAGN Classic Technology Co., Limited* (深圳市新動經典科技有限公司) ("**MAGN Classic Technology**"), an indirect wholly-owned subsidiary of Magn Investment, is a foreign-owned company, it is not allowed to hold any equity interests of the VIE Group under the PRC laws.

Therefore, MAGN Classic Technology, Timing Advertisement and the PRC Equity Owners have entered into the VIE Contracts on 4 August 2015 to enable the financial results, the entire economic benefits and the risks of the businesses of the VIE Group to flow into MAGN Classic Technology and to enable MAGN Classic Technology to gain control over the VIE Group.

## VIE Contracts

Principal terms of each of the VIE Contracts are set out as follows:

*(i)* *Exclusive Consulting Service Agreement*

Parties: MAGN Classic Technology; and Timing Advertisement

Term: the Exclusive Consulting Service Agreement shall take effect from the date of its execution until any of the following circumstances occur:

(i) the shareholder(s) of Timing Advertisement transferred all the equity interests or assets of Timing Advertisement to MAGN Classic Technology or its nominee;

(ii) MAGN Classic Technology requests for termination unilaterally (Timing Advertisement has no right to request for termination unilaterally); and

(iii) termination is required under applicable PRC laws and regulations.

Services: the services includes but not limited to:

(i) allow Timing Advertisement to use its software;

(ii) provide corporate management and consultation services, and information technology consultation services;

(iii) provide training to the staff of Timing Advertisement;

(iv) assist Timing Advertisement in the collection and research of media information, and the development and application of media management software; and

(v) provide other technical and consultation services to Timing Advertisement upon its request from time to time (as permissible under the PRC laws).

Exclusiveness: MAGN Classic Technology is appointed as the exclusive service provider of Timing Advertisement. Timing Advertisement shall not appoint any other third party providing similar services

Fees: The amount and calculation method of the fee payable shall be determined by MAGN Classic Technology under the principle of profit maximization and after having considered the business condition of Timing Advertisement. Such fees will be payable annually within 3 months from the end of each calendar year by way of bank transfer. MAGN Classic Technology has the rights to adjust the payment period, payment proportion and/or actual amount of fees without restriction.

According to the Exclusive Consulting Service Agreement, Timing Advertisement shall pay service fees to MAGN Classic Technology, and the amount and calculation method of the fee payable shall be determined by MAGN Classic Technology under the principle of profit maximization and after having considered the business condition of Timing Advertisement. The principle of profit maximization shall mean that Timing Advertisement shall pay to MAGN Classic Technology a service fee that equals to the profit before taxation of Timing Advertisement, after offsetting the prior-year loss (if any), working capital requirements, expenses and tax of Timing Advertisement in any given year, and MAGN Classic Technology shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of Timing Advertisement.

The exact amount of service fee payable by Timing Advertisement to MAGN Classic Technology in a given period will be determined by MAGN Classic Technology according to the operation and financial results of Timing Advertisement, which generally equals to the profit before taxation of Timing Advertisement, after offsetting the prior-year loss (if any), working capital requirements, expenses and tax of Timing Advertisement in any given year. The profit retained in the Timing Advertisement will be determined according to the necessary operating costs, expenses and taxes required for the continuation of the operation of the Timing Advertisement and hence, the VIE Group as a whole.

The VIE Contracts shall ensure that all the profits generated from Timing Advertisement and hence VIE Group as a whole will be transferred to MAGN Classic Technology, after offsetting the prior-year loss (if any), working capital requirements, expenses and tax of Timing Advertisement in any given year. Therefore, no profits will be retained in Timing Advertisement and the VIE Group, except for those amounts required for offsetting the prior-year loss (if any), working capital requirements, expenses and tax of Timing Advertisement and the VIE Group.

In line with the method generally used in the VIE structure, the business condition needs to be considered in determining the service fee payable by Timing Advertisement to MAGN Classic Technology in a given period may include without limitation to: (i) the profits generated from the VIE Group; (ii) the prior-year loss (if any), working capital requirements, expenses and tax of the VIE Group; (iii) the scope of the service provided by the MAGN Classic Technology to the VIE Group; (iv) the staff members employed by MAGN Classic Technology to provide management, market promotion, technical support, research and development and other relevant services as required to be provided to the VIE Group and the costs for providing such service; and (v) other costs and expenses incurred by MAGN Classic Technology in performing the obligations under the Exclusive Consulting Service Agreement.

According to the Exclusive Consulting Service Agreement, MAGN Classic Technology, rather than Timing Advertisement, has the rights to adjust the payment period, payment proportion and/or actual amount of fees without restriction, and determine how much of all profits generated from the VIE Group are transferred to MAGN Classic Technology, therefore the Board believes that the MAGN Classic Technology can gain control over the financing and business operation of Timing Advertisement.

*(ii)* *Exclusive Call Option Agreement*

Parties: MAGN Classic Technology; Timing Advertisement; and PRC Equity Owners

Term: the Exclusive Call Option Agreement shall take effect from the date of its execution until any of the following circumstances occur:

(i) the shareholder(s) of Timing Advertisement transferred all the equity interests or assets of Timing Advertisement to MAGN Classic Technology or its nominee;

(ii) MAGN Classic Technology requests for termination unilaterally (Timing Advertisement and the PRC Equity Owners have no right to request for termination unilaterally); and

(iii) termination is required under applicable PRC laws and regulations.

Subject: *Call Option of Equity Interest*

The PRC Equity Owners irrevocably and unconditionally agreed to grant an exclusive call option to MAGN Classic Technology, pursuant to which MAGN Classic Technology may require the PRC Equity Owners to transfer their equity interests in Timing Advertisement to MAGN Classic Technology or its nominee insofar as permitted under applicable PRC laws and regulations.

MAGN Classic Technology may exercise the call option at any time, any manner, any number of times it wishes and at the lowest price insofar as permitted under applicable PRC laws and regulations.

*Call Option of Assets*

Timing Advertisement irrevocably and unconditionally agreed to grant an exclusive call option to MAGN Classic Technology, pursuant to which MAGN Classic Technology may require the Timing Advertisement to transfer its assets to MAGN Classic Technology or its nominee insofar as permitted under applicable PRC laws and regulations.

MAGN Classic Technology or its nominee may exercise the call option at any time for all or part of Timing Advertisement's asset as it wishes at the lowest price insofar as permitted under applicable PRC laws and regulations.

Undertakings: PRC Equity Owners

Each of the PRC Equity Owners agreed to undertake, amongst others:

(i) he will not transfer or in any way dispose or create any security or third party's right on the equity interest of Timing Advertisement;

(ii) he will not alter the registered capital of Timing Advertisement, or authorize any merger, acquisition or investment by Timing Advertisement;

(iii) he will not dispose or procure the disposal of any substantial assets of Timing Advertisement;

(iv) he will not sign or terminate or procure the signing or termination of any agreement in conflict with the Exclusive Call Option Agreement (except for the other VIE Contracts);

(v) he will not procure the declaration or actual distribution of any profits, bonus or dividend by Timing Advertisement; and

(vi) he will not procure Timing Advertisement to engage in any transactions or activities which will impact the assets, rights, obligations or operation of Timing Advertisement.

*Timing Advertisement*

Timing Advertisement agreed to undertake, amongst others:

(i) without prior written consent of MAGN Classic Technology, it will not assist or allow the PRC Equity Owner to transfer or in any way dispose or create any security or third party's right on its equity interest; and

(ii) without prior written consent of MAGN Classic Technology, it will not transfer or in any way dispose or create any security or third party's right on its assets in a substantial aspect, or engage in any transaction or activity which will impact its assets, rights, obligations or operation.

Pursuant to the Exclusive Call Option Agreement, the PRC Equity Owners agreed to repay Magn Classic Technology the full amount of consideration for exercising the call option within 10 business days from the exercise day.

The Company undertakes that as soon as the relevant PRC laws allows the business of the VIE Group to be operated without the VIE Contracts, the Company will arrange Magn Classic Technology to unwind the VIE Contracts.

*(iii) Shareholders' Voting Right Entrustment Agreement*

Parties: MAGN Classic Technology; Timing Advertisement; and PRC Equity Owners

Term: the Shareholders' Voting Right Entrustment Agreement shall take effect from the date of its execution until any of the following circumstances occur:

(i) the shareholder(s) of Timing Advertisement transferred all the equity interests or assets of Timing Advertisement to MAGN Classic Technology or its nominee;

(ii) MAGN Classic Technology requests for termination unilaterally (Timing Advertisement and the PRC Equity Owners have no right to request for termination unilaterally); and

(iii) termination is required under applicable PRC laws and regulations.

Subject: The PRC Equity Owners irrevocably and unconditionally agreed to entrust to the director(s), successor(s) or receiver(s) of MAGN Classic Technology all their voting rights in Timing Advertisement, which include but not limited to the followings:

(i) as the agent of the PRC Equity Owners, to convene and attend the shareholders' meetings of Timing Advertisement;

(ii) to represent the PRC Equity Owners and discuss, approve and exercise the voting rights at the shareholders' meetings of Timing Advertisement;

(iii) any other voting rights as authorized under the articles of association of Timing Advertisement (as amended from time to time); and

(iv) to receive any general meeting notice, execute any meeting minutes or resolutions, and submit or file the relevant documents with the relevant PRC authorities on behalf of the PRC Equity Owners.

The PRC Equity Owners confirmed that no prior consent from them is required for exercising the aforesaid voting rights.

*(iv) Equity Pledge Agreement*

Parties: MAGN Classic Technology; Timing Advertisement; and PRC Equity Owners

Term: the Equity Pledge Agreement shall take effect from the date of its execution until any of the following circumstances occur:

(i) the shareholder(s) of Timing Advertisement transferred all the equity interests or assets of Timing Advertisement to MAGN Classic Technology or its nominee;

(ii) MAGN Classic Technology requests for termination unilaterally (Timing Advertisement and the PRC Equity Owners have no right to request for termination unilaterally); and

(iii) termination is required under applicable PRC laws and regulations.

Subject: The PRC Equity Owner agreed to pledge their equity interest in Timing Advertisement to MAGN Classic Technology as security. MAGN Classic Technology shall have the rights to dispose the pledged equity interest upon occurrence of any event of default, which includes: (i) any breach of terms or conditions, or any substantial incorrectness or misrepresentation in the representations and warranties of the Exclusive Call Option Agreement, the Shareholders' Voting Right Entrustment Agreement or the Equity Pledge Agreement by the PRC Equity Owners; and (ii) any breach of terms or conditions, or any substantial incorrectness or misrepresentation in the representations and warranties of the Exclusive Consulting Service Agreement, the Exclusive Call Option Agreement, the Shareholders' Voting Right Entrustment Agreement or the Equity Pledge Agreement by Timing Advertisement.

The PRC Equity Owners shall register the equity pledge within 10 business days from the date of Equity Pledge Agreement, and provide the documentary proof of successful registration to MAGN Classic Technology within 60 business days from the date of the Equity Pledge Agreement.

During the Reporting Period, save as disclosed in this report, there was no material change in the VIE Contracts and/or the circumstances under which they were adopted.

## RISK FACTORS IN RELATION TO THE VIE CONTRACTS

*The PRC government may determine that the VIE Contracts do not comply with the applicable laws and regulations*

There can be no assurance that the VIE Contracts will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing or future applicable PRC laws and regulations, or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that the VIE Contracts will be deemed to be in compliance of the PRC laws and regulations.

*The VIE Contracts may not be as effective as direct ownership in providing control over Timing Advertisement*

The Group relies on contractual arrangements under the VIE Contracts with Timing Advertisement to operate the mobile game business in the PRC. These contractual arrangements may not be as effective in providing the Group with control over Timing Advertisement as direct ownership.

*The PRC Equity Owners may potentially have a conflict of interests with the Group*

The Group's control over Timing Advertisement is based on the contractual arrangement under the VIE Contracts. Therefore, conflict of interests of the PRC Equity Owners will adversely affect the interests of the Company. Pursuant to the Shareholders' Voting Right Entrustment Agreement, the PRC Equity Owners will irrevocably authorize MAGN Classic Technology (or its director or successor or receiver) as their representative to exercise the voting rights of the shareholders of Timing Advertisement. Therefore, it is unlikely that there will be potential conflict of interests between the Company and the PRC Equity Owners. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Company will consider removing and replacing the PRC Equity Owners.

*The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed*

The Group could face material adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Contracts was not entered into based on arm's length negotiations. If the PRC tax authorities determine that these agreements were not entered into on an arm's length basis, they may adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could adversely affect the Group's financial position by increasing the relevant tax liability without reducing the tax liabilities of Timing Advertisement, and this could further result in late payment fees and other penalties to Timing Advertisement for under-paid taxes. As a result, any transfer pricing adjustment could have a material adverse effect on the Group's financial position and results of operations.

*Certain terms of the VIE Contracts may not be enforceable under PRC laws*

The VIE Contracts provides for dispute resolution by way of arbitration in accordance with the arbitration rules of the Arbitration Commission. The VIE Contracts contain provisions to the effect that the arbitrators may award remedies over the shares and/or assets of Timing Advertisement or provide mandatory remedies to MAGN Classic Technology (such as mandatory transfer of asset). In addition, the parties to the VIE Contracts may also by itself/himself or through the Arbitration Commission to apply for interim remedies in the place of incorporation of MAGN Classic Technology in appropriate cases. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in the VIE Group in case of disputes. Therefore, such remedies may not be available, notwithstanding the relevant contractual provisions contained in the VIE Contracts.

*A substantial amount of costs and time may be involved in transferring the ownership of the VIE Group to the Group under the Exclusive Call Option Agreement*

The Exclusive Call Option Agreement grants MAGN Classic Technology a right to acquire part or all of the equity interest in the registered capital or part or all of the assets of the Timing Advertisement at the lowest price permitted by PRC law, under which MAGN Classic Technology or its designee is entitled to acquire all or part of the equity interest of Timing Advertisement from the PRC Equity Owners and the assets of Timing Advertisement from of Timing Advertisement. Nevertheless, such rights can only be exercised by MAGN Classic Technology as and when permitted by the relevant PRC laws and regulations, in particular, when there are no limitations on foreign ownership in PRC companies that provide value-added telecommunications, Internet cultural business. In addition, a substantial amount of costs and time may be involved in transferring the ownership or assets of the VIE Group to MAGN Classic Technology if it chooses to exercise the exclusive right to acquire all or part of the equity interest and assets in the VIE Group under the Exclusive Call Option Agreement, which may have a material adverse impact on our Group's business, prospects and results of operation.

*The Company does not have any insurance which covers the risks relating to the VIE Contracts and the transactions contemplated thereunder*

The insurance of the Group does not cover the risks relating to the VIE Contracts and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Contracts in the future, such as those affecting the enforceability of the VIE Contracts and the relevant agreements for the transactions contemplated thereunder and the operation of Timing Advertisement, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, the Group will implement relevant internal control measures to reduce the operational risk.

### Mobile Gaming Business

Guanhui Huyu, which is 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 year ended 31 March 2018, the Group did not derive any revenue from this segment.

### E-Education

In line with the expansion of its security business, through China Bei Dou, 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 year ended 31 March 2018" of this section of this report.

## SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 MARCH 2018

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 Zhongshan Bei Dou Education Technology Limited* ("**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**").

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.

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 was 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.

For the year ended 31 March 2018, 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.

On 16 March 2018, since the name 北斗集團控股有限公司 has been registered by a third party, the Board proposed to change the English name of the Company from "King Force Group Holdings Limited" to "Bei Dou Technology Group Holdings Limited" and the Chinese name of the Company from "冠輝集團控股有限公司" to "北斗科技集團控股有限公司". On the other hand, the Board put forward a proposal to the shareholders to effect the share consolidation which involves the consolidation of every ten (10) issued and unissued existing shares with a par value of HK$0.001 each into one (1) consolidated share with a par value of HK$0.01 each (the "**Proposed Share Consolidation**"). The existing board lot of 10,000 Shares will remain unchanged upon the Share Consolidation taking place.

## MANAGEMENT DISCUSSION AND ANALYSIS

On 20 April 2018, since the resolutions for approving the change of company name and the share consolidation were not passed, the Proposed Change of Company Name and the Proposed Share Consolidation did not proceed.

For further details, please refer to the Company's announcements dated 25 October 2017, 16 March 2018, 29 March 2018 and 20 April 2018.

For the actual 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 Tranche A consideration shares for the acquisition of 25% equity interest in Magn Investment, please refer to the Company's announcement dated 29 January 2018.

On 12 March 2018, a total of 4,194,432 Tranche B consideration shares were allotted and issued to Magn Group for the acquisition of 25% equity interest in Magn Investment. Because the audited consolidated net profit after tax of Magn Investment for the financial year ended 31 March 2017 was significantly lower than the 2017 guaranteed profit as stated in the announcement dated 19 October 2015 and 24 November 2015, the consideration shares were adjusted correspondingly. Please refer to the Company's announcement dated 14 February 2018 and 12 March 2018.

On 26 March 2018, the Group entered into a non-legally binding memorandum of understanding pursuant to which the Group may subscribe for the shares of a company principally engaged in managing the operation platform of big data of health and medical industry in the PRC, please refer to the Company's announcement dated 26 March 2018 for details. The exclusivity period of the memorandum of understanding expired on 13 June 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 March 2018 and up to the date of this report.

### MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT

Save as disclosed in this report, the Group did not have any other material acquisition or disposal and significant investment during the year ended 31 March 2018.

### 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 Taiwan. The next step would be to enter the European markets.

Through the acquisition of China Bei Dou, the Group will continue to develop its own Bei Dou positioning technology and dynamic face recognition technology for applications in the sector of provision of students' security services, and next step would be to widespread its applications for broadening China Bei Dou's business scope.

Subject to the intention of the Offeror in relation to the Group, 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. 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.

Your attention is also drawn to "The Offeror's intention in relation to the Group" in "Letter from Emperor Securities" in the Composite Offer Document for disclosure on the Offeror's intentions in relation to the Group.

## FINANCIAL REVIEW

### Revenue

For the years ended 31 March 2017 and 2018, 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 years ended 31 March 2017 and 2018:

| | **Year ended 31 March** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **HK$'000** | **Percentage** | HK$'000 | Percentage |
| Manned Security Guarding Services | | | | |
| – Fixed | **95,438** | **85.4%** | 118,273 | 80.9% |
| – Temporary | **2,684** | **2.4%** | 6,892 | 4.7% |
| – Event | **13,685** | **12.2%** | 21,047 | 14.4% |
| Total | **111,807** | **100%** | 146,212 | 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$34,405,000 or 23.5% from approximately HK$146,212,000 for the year ended 31 March 2017 to approximately HK$111,807,000 for the year ended 31 March 2018. The decrease in revenue was mainly due to the decrease in the number of manned security guarding service contracts by approximately 22.4% as a result of keen competition in the market.

### Cost of services rendered

For the year ended 31 March 2017 and 2018, the cost of services rendered, which mainly consists of direct guard cost, was approximately HK$115,346,000 and HK$97,355,000, respectively representing approximately 78.9% and 87.1% 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 March 2018, the Group had a total of 948 employees, of which 878 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$16,414,000 or 53.2% from approximately HK$30,866,000 for the year ended 31 March 2017 to approximately HK$14,452,000 for the year ended 31 March 2018 while the Group's gross profit margin decreased from approximately 21.1% for the year ended 31 March 2017 to approximately 12.9% for the year ended 31 March 2018. The decrease in gross profit margin was mainly due to (i) the general decrease in the number of manned security guarding service contracts as a result of keen competition in the market; and (ii) the general increase in the guard costs in the market as discussed above.

### Other income and losses, net

The Group's other net losses was increased to approximately HK$267,000, as compared with the other income of approximately 14,751,000 for the same period in 2017. The change to net other losses for the year ended 31 March 2018 was mainly attributable to (i) an absence of the recognition of fair value gain of approximately HK$13,235,000 on contingent consideration payable (representing the consideration shares to be issued to Magn Group Limited); and (ii) the recognition of loss on change in fair value on financial asset at fair value though profit or loss for a contingent receivable arising from the acquisition of China Bei Dou related to the profit guarantee of approximately HK$2,200,000.

### Administrative expenses

The Group's administrative expenses increased by approximately HK$6,137,000 or 15.9% from approximately HK$38,502,000 for the year ended 31 March 2017 to HK$44,639,000 for the year ended 31 March 2018. The increase in the Group's administrative expenses was mainly due to the increase in amortisation of intangible assets and staff costs including share option expenses of approximately HK$4,009,000 recognised for the year ended 31 March 2018.

### Impairment loss of goodwill

With reference to the valuation reports issued by an independent external valuer, the Directors have made a one-off impairment loss of approximately HK$31,000,000 (2017: Nil) in respect of the carrying amount of the goodwill which arose from the acquisition of China Bei Dou in 2016, it is mainly due to the Group did not carry out this business as previously planned as a result of the suspension of Jiuyi Qualification and the subsequent legal proceeding against Bei Dou Jiuyi.

### Impairment loss of other intangible assets

With reference to the valuation reports issued by an independent external valuer, the Directors have made a one-off impairment loss of approximately HK$3,700,000 (2017: Nil) in respect of the carrying amount of intangible assets – mobile game licenses in the mobile game segment as a result of number of expected paying players of these games not achieving expected level.

### Write-off of other intangible assets

The Company wrote-off the carrying amount of certain mobile game licenses in the mobile segment of approximately HK$2,447,000 (2017: Nil) mainly due to i) the developer of the game failed to develop the game with high quality, and ii) the development team from the developer was dissolved. Also, the Company fully wrote-off the carrying amount of the Bei Dou Qualification franchised from Bei Dou Jiuyi of approximately HK$12,030,000 (2017: Nil) as a result of the Court order to rescind the business cooperation agreement between Bei Dou Zhongshan and Bei Dou Jiuyi.

### Share of result of associates and impairment loss on interests in associates

The Group's share of loss of its associated company for the year ended 31 March 2018 was approximately HK$33,000, as compared with the share of profit of approximately HK$1,127,000 in the same period last year, which 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 year did not perform well due to the high labor cost and the lower than expected demands. Also with reference to the valuation reports issued by an independent external valuer, the Directors have made a one-off impairment loss of approximately HK$1,700,000 (2017: Nil) in respect of the carrying amount of the goodwill of the interests in associates, which was arising from the acquisition of 45% equity interest of Magn Investment in 2015.

### Finance costs

The Group's finance costs increased by approximately HK$93,000 or 10.5% from HK$882,000 for the year ended 31 March 2017 to HK$975,000 for the year ended 31 March 2018. The increase in the finance costs was mainly due to the accrued interest on the Promissory Note (as defined below) for the year ended 31 March 2018.

### Income tax credit/expenses

The Group had income tax credit of approximately HK$788,000 for the year ended 31 March 2018 (for the year ended 31 March 2017: income tax expenses of approximately HK$1,804,000). The change from the income tax expenses for the year ended 31 March 2017 to the income tax credit for the year ended 31 March 2018 was mainly due to the overstated of income tax expenses in prior year and recognition of deferred tax credit in the current year incurred by the main operating subsidiary in Hong Kong.

### Loss for the period

Loss attributable to owners of the Company for the year ended 31 March 2018 was approximately HK$74,705,000 as compared with the profit of approximately $6,197,000 for the same period in 2017. The increase in the Group's loss for the period was mainly due to (i) the decrease in the Group's revenue; (ii) the Group's share of loss of its associated company during the Reporting Period as compared with the share of profits in the same period last year, which was due to a drop in turnover and higher operating costs of the associated company during the Reporting Period; (iii) the increase in administrative expenses, including the increase in amortisation of intangible assets and staff costs (including share option expenses recognised) during the Reporting Period; (iv) the decrease in other incomes during the Reporting Period, which was due to an absence of the recognition of fair value gain on contingent consideration payable (representing the consideration shares to be issued to Magn Group) , and the recognition of loss on change in fair value on financial asset at fair value through profit or loss for a contingent receivable arising from the acquisition of China Bei Dou related to the profit guarantee as stated above (v) the recognition of written off and/or impairment loss of certain intangible assets (including the franchise of Bei Dou Qualification and certain mobile game licenses). And (vi) the recognition of impairment loss of goodwill which was arising from the acquisition of China Bei Dou in 2016 and the acquisition of 45% equity interest of Magn Investment in 2015 as stated above.

### Services contracts

During the year ended 31 March 2018, the Group had entered into 281 new or renewed contracts, of which 207, 17 and 57 are fixed, temporary and event security guarding services contracts respectively. As at 31 March 2018, the Group had a total number of 130 unexpired security guarding services contracts.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

### Capital structure

The management reviews the capital structure regularly. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debts. As at 31 March 2018, the share capital and total equity attributable to owners of the Company amounted to approximately HK$7,870,000 and HK$60,750,000, respectively (as at 31 March 2017: approximately HK$7,680,000 and HK$132,988,000, respectively). The Group has a Promissory Note which is payable to a former director of the Company. Please refer to note 24 to the consolidated financial statements.

### Cash position

As at 31 March 2018, the cash at banks and in hand of the Group amounted to approximately HK$10,849,000 (as at 31 March 2017: approximately HK$30,482,000), representing a decrease of approximately HK$19,633,000 as compared to 31 March 2017.

### Charges over assets of the Group

As at 31 March 2017 and 2018, none of the Group's assets had been pledged.

### Gearing ratio

As at 31 March 2018, the gearing ratio of the Group was 17.7% (as at 31 March 2017: 15.4%), which remains healthy and stable. The gearing ratio is calculated based on the total debt at the end of the relevant period divided by the total equity at the end of the relevant period. Total debt includes the Promissory Note. As at 31 March 2018, the Group did not have any bank borrowings, bank overdrafts and obligations under finance leases.

### Capital expenditure

The Group had acquired property, plant and equipment amounting to approximately HK$75,000 for the year ended 31 March 2018, which mainly comprised furnitures and equipment (for the year ended 31 March 2017: approximately HK$9,554,000).

### Capital commitments

The details of the capital commitments incurred during the year ended 31 March 2018 are set out in note 32(b) to the consolidated financial statements (as at 31 March 2017: nil).

### Foreign Exchange Risk

The Group's business operations are primarily conducted in Hong Kong. The transactions, monetary assets and liabilities of the Group were mainly denominated in Hong Kong dollar. During the year ended 31 March 2018, there was no material impact to the Group arising from the fluctuation in the foreign exchange rates between the currencies.

The Group did not engage in any derivatives agreement and did not commit to any financial instruments to hedge its foreign exchange exposure during the year ended 31 March 2018.

### Material Risk Factors

Details of the Group's financial risk and analysis are set out in note 36 to the consolidated financial statements.

### Contingent Liabilities

As at 31 March 2017 and 2018, the Group had no material contingent liabilities.

### Significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies, and plans for material investments or capital assets

During the year ended 31 March 2018, the Company did not have any significant investment and had no material acquisition or disposal of subsidiaries or affiliated companies, and the Company has no plans for material investments or capital assets.

## EMPLOYEES AND REMUNERATION POLICY

The Group had 948 employees as at 31 March 2018 (as at 31 March 2017: 1,134 employees). The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offers competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The Group's remuneration policy is revised periodically and determined by reference to market terms, company performance, individual qualifications and performance, and in accordance with the statutory requirements of the respective jurisdiction where the employees are employed.

On 30 June 2017, the Group granted the share options to the eligible employees within the Group and certain of the Directors of the Company under the share option scheme adopted by the Company on 31 July 2014 (the "**Scheme**") to motivate and compensate their contributions to the Group. Details of the grant of the share options are set out in the Company's announcement dated 30 June 2017. The movements in the share options granted under the Scheme during the year ended 31 March 2018 are set out in the section headed "Share Option Scheme" in this report.

### Training and Development

Our security services are mainly divided into three parts: security guard services, event security services and VIP escorting services. All of our security staff personnel obtain the Security Patrol Permit to ensure the competence in providing security service for our clients. We value the experience and capability of our staff to elevate our service quality. Our on-the-job patrol monitoring system helps to guide and assist employees to achieve optimal performances. Our goal is to supervise and ensure customers' needs are satisfied. Training plans are established for new and existing employees to connect them to our values and assist them to perform their roles. Our training purpose is also to foster a safe environment for all employees against sexual harassment and promote efficient internal communication between employees and management. We comply with the appropriate local laws and regulations in relation to the restrictions on the employment of child and forced labor. Our employees are properly vetted to ensure they are of proper working age.

*Specialised Training*

We provide the fundamental knowledge of our online game business through massive open online courses ("**MOOC**"). MOOC is an online learning platform that engages students and improves their professional level. Our team has formulated an annual training plan for employees to ensure there is equal opportunity for improvement and development. The training plan is diversified to include internal and external training to ensure that our employees receive the most fitting knowledge.

## DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 March 2018 (for the year ended 31 March 2017: Nil).

## EVENTS AFTER THE REPORTING PERIOD

Details of events after the Reporting Period are set out in the note 40 to the consolidated financial statements.

On 25 April 2018 the Offeror, which is ultimately owned by Mr. Song Xiaoming ("**Mr. Song**") and Mr. Chen Yunchuo, entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**"), pursuant to which the Offeror conditionally agreed to purchase, and Mr. Chen conditionally agreed to sell, 1,304,000,000 Shares held by Mr. Chen, representing approximately 16.36% of the then entire issued share capital of the Company. Upon completion of the Sale and Purchase Agreement on 30 April 2018, the Offeror and parties acting in concert with it became interested in, and controlled the voting rights in respect of, a total of 3,149,900,000 Shares, representing approximately 39.51% of the then issued share capital of the Company. Pursuant to Rule 26.1 and Rule 13 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"), Emperor Securities Limited, for and on behalf of the Offeror and in compliance with the Takeovers Code, made mandatory conditional cash offers for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) and to cancel all outstanding share options of the Company on the terms set out in the Composite Offer Document. Details regarding the Offers are set out in the Composite Offer Document.

Saved as otherwise disclosed, the Group does not have any material subsequent event after the Reporting Period and up to the date of this report.

## CORPORATE GOVERNANCE REPORT

The Company is committed to maintain corporate governance of high standards and quality procedures. The Company has put in place governance practices with emphasis on the integrity to shareholders and quality of disclosure, transparency and accountability to shareholders for the sake of maximizing returns to shareholders.

### CORPORATE GOVERNANCE CODE

The Company had complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 March 2018, except CG Code provision A.5.1.

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 the chairman of the Board or an independent non-executive Director (the "**INED**"). 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.

Below are the major corporate governance practices adopted by the Company with specific reference to the CG Code.

### THE BOARD OF DIRECTORS

The Board is responsible for leading and controlling the Company, overseeing as well as the supervision of its business, approval of strategic plans and monitoring the Company's performance. The Board delegates the day-to-day operations to the executive directors and senior management, while reserving certain key matters for its approval.

### COMPOSITION

As at the date of this report, the Board comprised seven Directors, of which four are executive Directors, Mr. Chen Yunchuo, Mr. Li Mingming, Ms. Li Liping and Mr. Cheng Rui; and three are INEDs, Mr. Ho Yuk Ming Hugo, Mr. Wan Tat Wai David and Mr. Xiong Hong. There is no financial, business, family or other material/relevant relationship amongst the Directors. The Directors' biographical information is set out in pages 33 to 34 under the section headed "Biographies of Directors".

The Board includes a balanced composition of executive Directors and INEDs so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interests of the Company and that the current board size is adequate for its present operations. Each Director keeps abreast of his/her responsibility as the Director and of the conduct, business activities and development of the Company.

### UPDATE ON DIRECTOR'S INFORMATION

Mr. Wan Tat Wai David, an independent non-executive Director of the Company, ceased to be the chief operation officer of China Baoli Technologies Holding Limited (Stock Code: 164) in January 2018.

## BOARD MEETINGS

Code provision A.1.1 of the CG Code states that at least four regular Board meetings should be held each year at approximately quarterly intervals with active anticipation of a majority of directors, either in person or through other electronic means of communication.

Members of the Board met on a regular basis and on ad hoc basis to discuss the overall strategy as well as the operation and financial performance of the Group. There were 14 Board meetings held during the year ended 31 March 2018.

Attendance of individual Directors at Board meetings held during the year ended 31 March 2018 is set out in the below table:

| | **Attendance/Number of Board meetings held** |
|---|---|
| **Executive Directors** | |
| Mr. Chen Yunchuo | 14/14 |
| Mr. Li Mingming | 14/14 |
| Ms. Li Liping | 13/14 |
| Mr. Cheng Rui | 11/14 |
| **Independent Non-Executive Directors** | |
| Mr. Xiong Hong | 13/14 |
| Mr. Ho Yuk Ming Hugo | 13/14 |
| Mr. Wan Tat Wai David | 12/14 |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman of the Company (the "**Chairman**") is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role for setting its agenda and taking into account any matters proposed by other directors for inclusion in the agenda.

Throughout the year ended 31 March 2018 and up to the date of this report, Mr. Chen Yunchuo was the Chairman. The Company does not have any officer with the title of CEO and is currently of the view that there is no immediate need to set up of 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 subsidiary level for each business segments, who are held responsible for the oversight of each business segments' operations. The Company, from time to time, reviews the effectiveness of the Group's corporate governance structure and considers whether any changes, including the separation of the roles of Chairman and CEO, are necessary.

## NON-EXECUTIVE DIRECTORS

There were no non-executive Directors who are not INED(s) during the year ended 31 March 2018.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied at all times with rules 5.05(1) and (2), and 5.05A of the GEM Listing Rules that at least three INEDs sit in the Board (at least one third of the Board members) and at least one of them has appropriate professional accounting or related financial management expertise.

Each INED has made an annual confirmation of independence pursuant to rule 5.09 of the GEM Listing Rules. The Company is of the view that all INEDs meet the independence guidelines set out in rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

For the year ended 31 March 2018, all the INEDs have entered into a service contract with the Company for an initial term of three years, unless terminated by not less than three months' notice in writing served by either party on the other. The CG Code provision A.4.1 has been complied.

## CORPORATE GOVERNANCE STRUCTURE

The Board is entrusted with the duty to put in place a proper corporate governance structure of the Company. It is primarily responsible for setting directions, formulating strategies, monitoring performance and managing the risks of the Group. Under the Board, there are currently three committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the Nomination Committee. The Audit Committee and Remuneration Committee perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management. The Nomination Committee assists the Board in nominating candidates for directorship, reviewing the size and composition and board diversity of the Board and making recommendation to the Board on appointment of directors. Each of the committees is established with defined written terms of reference which are available on the Company's website and the GEM website.

## REMUNERATION COMMITTEE

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for remuneration of Directors and senior management and determining the specific remuneration packages of Directors and senior management of the Company.

The remuneration policy of the Directors is recommended by the Remuneration Committee, having regard to the market terms, individual experience, duties and responsibilities.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director for the year ended 31 March 2018 are set out in note 31 to the consolidated financial statements.

As at the date of this report, the Remuneration Committee comprised three INEDs, namely Mr. Ho Yuk Ming Hugo, Mr. Wan Tat Wai David and Mr. Xiong Hong. The Remuneration Committee is chaired by Mr. Ho Yuk Ming Hugo.

The Remuneration Committee is scheduled to meet at least once a year. Two meeting were held during the year ended 31 March 2018. The attendance of each member is set out as follows:

| | Attendance/ eligible to attend |
|---|---|
| **Independent Non-Executive Directors** | |
| Mr. Xiong Hong | 2/2 |
| Mr. Ho Yuk Ming Hugo *(chairman)* | 2/2 |
| Mr. Wan Tat Wai David | 2/2 |

**Summary of Works**

With reference to the terms of reference of the Remuneration Committee, the primary responsibilities of the Remuneration Committee include (for the complete terms of reference, please refer to the Group's website www.kingforce.com.hk):

1. consulting the Chairman and/or chief executive about their remuneration proposals for other executive Directors;

2. making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

3. reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

5. making recommendations to the Board on the remuneration of non-executive Directors;

6. considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company and its subsidiaries;

7. reviewing and approving compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and

8. reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

The Board is of the view that the Remuneration Committee had properly discharged its duties and responsibilities during the Reporting Period and up to the date of this report.

## NOMINATION COMMITTEE

The Nomination Committee is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

As at the date of this report, the Nomination Committee comprised three INEDs and one executive Director, namely Mr. Ho Yuk Ming Hugo, Mr. Wan Tat Wai David, Mr. Xiong Hong and Mr. Chen Yunchuo. The Board is also characterised by significant diversity, whether considered in terms of age, length of services, professional background and skills. During the Reporting Period, the Nomination Committee was chaired by Mr. Li Mingming, an executive Director, until 30 June 2017. Mr. Chen Yunchuo, an executive Director and the Chairman, was appointed as the chairman of the Nomination committee on 30 June 2017.

The Nomination Committee is scheduled to meet at least once a year for the review of the structure, size, composition and board diversity (including skills, knowledge and experience) of the Board. In addition, the Nomination Committee also meets as it is required to consider nomination related matters. Two meetings were held during the year ended 31 March 2018. The attendance of each member is set out as follows:

| | **Attendance/ eligible to attend** |
|---|---|
| **Executive Directors** | |
| Mr. Chen Yunchuo *(chairman)*[1] | 1/2 |
| Mr. Li Mingming[2] | 1/2 |
| **Independent Non-Executive Directors** | |
| Mr. Xiong Hong | 2/2 |
| Mr. Ho Yuk Ming Hugo | 2/2 |
| Mr. Wan Tat Wai David | 2/2 |

*Notes:*

1. Mr. Chen Yunchuo was appointed as the chairman of the Nomination Committee on 30 June 2017.

2. Mr. Li Mingming ceased to be the chairman of the Nomination Committee on 30 June 2017.

### Summary of Works

With reference to the terms of reference the Nomination Committee, the primary responsibilities of the Nomination Committee include (for the complete terms of reference please refer to the Group's website www.kingforce.com.hk):

1. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on proposed changes, if any, to the Board to complement the Company's corporate strategy;

2. reviewing the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy;

3. identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

4. assessing the independence of independent non-executive Directors; and

5. making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

The Board is of the view that the Nomination Committee had properly discharged its duties and responsibilities during the Reporting Period and up to the date of this annual report.

### Board Diversity Policy

The Group has adopted policy in relation to the diversity of the members of the Board and the summary of the policy is as follows:

1. selection of Board members will be based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service; and

2. the Nomination Committee will monitor the implementation of the diversity policy from time to time to ensure the effectiveness of the board diversity policy.

### Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

### Implementation and Monitoring

The Nomination Committee reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

The Nomination Committee has reviewed the board diversity policy to ensure its effectiveness and considered that the Group had complied the board diversity policy during the Report Period.

## AUDIT COMMITTEE

The Audit Committee is responsible to make recommendation to the Board on the appointment and removal of external auditor, to evaluate the overall effectiveness of the internal control and risk management frameworks, to review the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements, to monitor compliance with statutory and listing requirements and to oversee the relationship with the external auditors.

The Audit Committee reviews the quarterly, interim and annual reports before submission to the Board. At least one member has an appropriate professional qualification or accounting or related financial management expertise. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

Senior representatives of the external auditor, executive Directors and senior executives are invited to attend the meetings, if required. Each of the Audit Committee members has unrestricted access to the Group's external auditor and the management.

As at the date of this report, the Audit Committee comprised three INEDs, namely Mr. Ho Yuk Ming Hugo, Mr. Wan Tat Wai David and Mr. Xiong Hong. The Audit Committee is chaired by Mr. Ho Yuk Ming Hugo.

The Audit Committee is scheduled to meet at least four times a year. Four meetings were held during the year ended 31 March 2018. The attendance of each member is set out as follows:

| | **Attendance/ eligible to attend** |
|---|---|
| **Independent Non-Executive Directors** | |
| Mr. Xiong Hong | 4/4 |
| Mr. Ho Yuk Ming Hugo *(chairman)* | 4/4 |
| Mr. Wan Tat Wai David | 4/4 |

### Summary of Works

During the year ended 31 March 2018, the Audit Committee reviewed the quarterly and interim results; made recommendations to the Board on the terms of engagement of the external auditors; and reviewed the system of risk management and effectiveness of the internal control and the Group's internal audit function on an ongoing basis, and its other duties in accordance with the Audit Committee's written terms of reference. The Audit Committee had also reviewed audited annual results for the financial year ended 31 March 2018 and this report, and confirmed that this annual report complies with the applicable standard, the GEM Listing Rules, and other applicable legal requirements and that adequate disclosures have been made. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Board is of the view that the Audit Committee had properly discharged its duties and responsibilities during the Reporting Period and up to the date of this annual report.

The terms of reference of the Audit Committee are in line with the CG Code and are posted on the websites of the Company and the Stock Exchange. Under its terms of reference, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary quarterly results, interim results and annual financial statements and to monitor the integrity of the financial statements of the Group, to review the scope, extent and effectiveness of the Group's internal control system, internal audit and risk management matters and to review the Group's financial and accounting policies.

### Corporate Governance Functions

The Board is responsible for performing the corporate governance duties as set out in the terms of reference equivalent to code provision D.3.1 of the CG Code. During the year ended 31 March 2018, the policies of the corporate governance of the Company were reviewed by the Board.

## ACCOUNTABILITY AND AUDIT

### Directors' Responsibilities for Financial Reporting

The Directors acknowledged their responsibility for preparing the financial statements for each financial period to give a true and fair view of the state of affairs of the Company and their responsibilities stated on a statement by the auditors in the auditors' report on the financial statements. In preparing the financial statements for the year ended 31 March 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The statement of the external auditors of the Company regarding their reporting responsibilities on the financial statement of the Company is set out in the section "Independent Auditor's Report" of this report.

### External Auditor's Remuneration

During the year ended 31 March 2018, the fees for the services provided by the Company's auditor are set out as follows:

| | HKD'000 |
|---|---|
| Audit services | 900,000 |
| Non-audit services | 50,000 |
| | 950,000 |

### Risk Management and Internal Control

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually.

As a part of the Group's risk management and internal control systems, appropriate policies and controls have been designed and established by the Group to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed.

However, the risk management and internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group has adopted a three-tier risk management approach to identify, evaluate and manage significant risks. The operating units of the Group, as a first line of defence, identify, evaluate, mitigate and monitor the risks, and report such risk management activities to the Group's management on a regularly basis. The Group's management, as the second line of defence, provides support to the operating units and ensure that the significant risks are properly manage and within the acceptable range and report the situation to the Board at each regularly scheduled meeting. The Board, as the final line of defence, conducts an annual review of the overall effectiveness of the Group's risk management and internal control systems.

During the year, the Board has reviewed and discussed the risk management and internal control systems, which has covered all material controls, including financial, operational and compliance controls, with the Group's management and has conducted selective review of the effectiveness of internal control system of the Group and no material internal control fallings, weaknesses or deficiencies have been identified during the course of the review.

Based on the above, the Board was not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

## CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged at the expenses of the Company where necessary. During the year under review, each of the Directors has participated in continuous professional development by attending seminars and/or studying materials relevant to director's duties and responsibility.

During the Reporting Period, the Board held one general meeting, namely, the annual general meeting on 18 August 2017 (the "**2017 AGM**"). The attendance record of the Directors who was eligible to attend the 2017 AGM is set out below:

| Name of Directors | Attendance/ Number of general meetings |
|---|---|
| **Executive Directors** | |
| Mr. Chen Yunchuo | 0/1 |
| Mr. Li Mingming | 1/1 |
| Ms. Li Liping | 0/1 |
| Mr. Cheng Rui | 0/1 |
| **Independent Non-Executive Directors** | |
| Mr. Xiong Hong | 1/1 |
| Mr. Ho Yuk Ming Hugo | 1/1 |
| Mr. Wan Tat Wai David | 0/1 |

## COMPANY SECRETARY

The company secretary, Mr. Wong Ka Shing ("**Mr. Wong**"), is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully apprised of the relevant legislative, regulatory and corporate governance developments relating to the Group and facilitating the induction and professional development of directors. During the Reporting Period, Mr. Wong had attended relevant professional seminars to update his skills and knowledge. He met the training requirement set out in Rule 5.15 of the GEM Listing Rules.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by the Directors in respect of the Shares of the Company (the "**Code of Conduct**"). Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the required standards set out in the Code of Conduct during the Reporting Period.

## DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for appropriate insurance covering the liabilities of the Directors that may arise out the corporate activities, which has been complied with the CG Code. The insurance coverage is reviewed on an annual basis.

## RELATED PARTY TRANSACTIONS POLICY

During the year ended 31 March 2018, the related party transactions, if any, are periodically reviewed and approved by the Audit Committee.

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company uses two-way communication channels to account to shareholders and investors for the performance of the Company. In order to maintain good and effective communication, the Company together with the Board extend their invitation to all shareholders and encourage them to attend the forthcoming AGM and all future general meetings at which Directors are available to answer questions on the business. Extensive information about the Group's activities is provided in its annual report, interim report and quarterly reports which are sent to shareholders and investors. The Company's announcements, press releases and publications are published and are also available on the GEM website and on the Company's website at www.kingforce.com.hk.

### Convening of Extraordinary General Meeting on Requisition by Shareholders

Pursuant to Article 64 of the articles of association of the Company (the "**Articles**"), the Board may, whenever it thinks fit, convene an extraordinary general meeting ("**EGM**"). EGMs shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Procedures for Shareholders' Nomination of Directors

Pursuant to article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The period for lodgement of the notices required under the Articles will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

### Procedures for Putting Forward Proposals at General Meetings

Shareholders can also send enquiries and proposals to be put forward at general meetings for shareholders' consideration to the Board or company secretary by mail to the head quarter of the Company at Unit 1101, No. 118 Connaught Road West, Sai Ying Pun, Hong Kong.

### Procedures for Directing Shareholders' Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong for the attention of the company secretary.

### Significant Changes in Constitutional Documents

During the Reporting Period, there had been no significant changes in the constitutional documents of the Company.

## BIOGRAPHIES OF DIRECTORS

As at the date of this report, the biographies of Directors are set out as below:

### EXECUTIVE DIRECTORS

**Mr. Chen Yunchuo ("Mr. Chen")**, aged 50, was appointed as an executive Director on 1 February 2016. Mr. Chen graduated from Hunan University, the PRC, with a bachelor degree in industrial management engineering in December 1997 and completed an advanced research course in financial investment and capital operation from the Graduate School at Shenzhen, Tsinghua University, the PRC, in November 2014.

Mr. Chen founded Shenzhen MAGN Advertisement Co., Limited* (深圳市新動廣告有限公司) (currently known as Shenzhen MAGN Culture Communication Limited*) (深圳市新動文化傳播有限公司) in 2007. He served as a business director at the Shenzhen branch of Shanghai Qianjin Advertisement Co. Ltd.*(上海前錦廣告有限公司) from May 2001 to September 2003. During the period between October 2003 and June 2004, he was the senior vice president of Shenzhen Xunlei Networking Technologies, Co., Ltd.* (深圳市迅雷網絡技術有限公司). Mr. Chen was the executive general manager of the Shenzhen branch of Shanghai Fenzhong Adversity Communications Co. Ltd.* (上海分眾廣告傳播有限公司) from July 2004 to October 2005. He also held the positions of executive president and chief executive officer at Bus Online Holdings Co. Ltd.* (巴士在綫控股有限公司) from November 2005 to June 2007. He has experience in the media and mobile internet industry, particularly innovative ideas and outstanding number of success stories in the traditional industries and the internet industry as a combination of business models.

Mr. Chen is currently a director of Magn Investment Limited, an associated company (in which the Company currently holds 45% of the issued share capital). Mr. Chen is also a director of certain subsidiaries of the Company.

As disclosed in the announcements (the "**Announcements**") of the Company dated 19 October 2015 and 24 November 2015, pursuant to the sale and purchase agreement dated 19 October 2015 and the supplemental agreement thereto dated 24 November 2015 entered into between the Company and Magn Group Limited, the Company acquired 25% of the issued share capital of Magn Investment Limited for a maximum consideration of HK$28,750,000 (subject to downward adjustment) which shall be settled by the Company by way of allotment and issue of a maximum of 109,730,000 consideration shares to Magn Group Limited subject to the satisfaction of the guaranteed profit of Magn Investment Limited for the six months ending 31 March 2016 and the financial year ending 31 March 2017. For details, please refer to the Announcements. As at the date of this annual report, Mr. Chen holds approximately 96.19% interest in MAGN Media (China) Holdings Limited, which in turn holds approximately 55.22% interest in Magn Group Limited, thus Mr. Chen has a corporate interest in 109,730,000 shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

**Mr. Li Mingming ("Mr. Li")**, aged 30, was appointed as an executive Director on 24 September 2015. Mr Li graduated from Hubei University of Technology Engineering and Technology College (湖北工業大學工程技術學院) with a bachelor degree in communications engineering in June 2012. Mr. Li is also a director of certain subsidiaries of the Company.

Mr. Li served as a product manager in China Mobile Group Hubei Company Limited (中國移動通信集團湖北有限公司) in 2012 and an executive general manager in Jingmen City Tianlu Hotel Management Co., Ltd. (荊門市天祿酒店管理有限公司) from 2013 to 2014. He has experience in management.

**Ms. Li Liping ("Ms. Li")**, aged 48, was appointed as an executive Director on 7 December 2016. Ms. Li graduated from Zhuzhou Institute of Technology (株洲工學院), the PRC, with a bachelor degree in computerized accounting. Ms. Li served as a deputy general manager at Chenzhou Zhongda City Operation Development Company Limited* (郴州中大城市經營開發有限公司) from September 2006 to July 2010, and as a deputy general manager of Chenzhou Botai Ultrafine Graphite Holdings Company Limited* (郴州博太超細石墨股份有限公司) from August 2010 to August 2015. Ms. Li has been the general manager at Hunan Guosheng Graphite Technology Co., Ltd* (湖南國盛石墨科技有限公司) since August 2015. She is a senior financial planner of the PRC since 2014.

## BIOGRAPHIES OF DIRECTORS

**Mr. Cheng Rui ("Mr. Cheng")**, aged 24, was appointed as an executive Director on 8 February 2017. Mr. Cheng graduated from University of California, San Diego with a bachelor degree of science with a joint major in Mathematics and Economics. Mr. Cheng served as a manager of executive investment department at Guizhou Zhonghui Funds Management Company Limited* (貴州眾惠基金管理有限公司) from June 2016 to December 2016. Since November 2016, Mr. Cheng has acted as a consultant for Guanhui Huyu Technology (Hong Kong) Limited* (冠輝互娛科技(香港)有限公司) ("**Guanhui Huyu**"), an indirect wholly-owned subsidiary of the Company, in formulating future strategies and development plan of the Company. He has assisted in negotiation of strategic cooperation between Guanhui Huyu and technology companies in introducing mobile games to the Middle East and other overseas markets.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ho Yuk Ming Hugo ("Mr. Ho")**, aged 46, was appointed an independent non-executive Director on 19 September 2016, Mr. Ho is a qualified professional accountant with over 17 years of experience in auditing, accounting and financial management. He is an associate member of the Hong Kong Institute of Certified Public Accountants. He held senior position in a number of public and holding companies in Hong Kong. He graduated from the Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) with a honours diploma in accounting in July 1996. Currently, Mr. Ho is the chief financial officer and the company secretary of Future Bright Mining Holdings Limited (Stock code: 2212), and an independent non-executive director of each of Wuxi Sunlit Science and Technology Company Limited (Stock code: 1289) and Zuoli Kechuang Micro-finance Company Limited (Stock code: 6866), respectively, the shares of which are listed on the Main Board of the Stock Exchange.

**Mr. Wan Tat Wai David ("Mr. Wan")**, aged 58, was appointed as an independent non-executive Director on 19 September 2016. Mr. Wan holds a bachelor's degree in chemistry and a master degree in business administration from The University of Hong Kong. Mr. Wan started off his career in marketing field in 1983 specializing in sales and marketing of personal computers. He joined the Royal Hong Kong Police Force in 1986 in the rank of police inspector and was promoted to the rank of Chief Inspector in 1996. He has over 28 years of experience in internal supervision and management in various Police Departments. He also holds an executive diploma in legal risk for enterprise risk management from the school of professional and continuing education of The University of Hong Kong. From July 2015 to January 2018, Mr. Wan held the position of chief operation officer of China Baoli Technologies Holdings Limited (Stock code: 164), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Wan is currently an executive director of Future Bright Mining Holdings Limited (Stock code: 2212), the shares of which are listed on the Main Board of the Stock Exchange.

**Mr. Xiong Hong ("Mr. Xiong")**, aged 42, was appointed as an independent non-executive Director on 24 June 2016. Mr. Xiong holds a bachelor degree in business administration in corporate administration from Nanchang Hangkong University (南昌航空大學) and a master degree in executive master of business administration from Dongbei University of Finance & Economics (東北財經大學). Mr. Xiong has over 16 years of experience in finance industry. During the period between September 1998 and July 2007, he served as a department manager of the credit department of Agriculture Bank of China Yichun Branch* (中國農業銀行江西宜春分行). Mr. Xiong was the vice president of the president office of China Create Finance Holdings Group Co., Ltd.* (中科創金融控股集團有限公司) from August 2007 to October 2012. Since March 2013, he has served chairman and president at Shenzhen Gold Millennium Financial Co., Ltd.* (深圳市金千禧金融控股有限公司). He has experience in management and financial investment.

* *English name for identification purpose only.*

# REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited consolidated financial statements for the year ended 31 March 2018.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activity of the Company and its subsidiaries are set out in note 1 and note 29 to the consolidated financial statements, respectively.

## BUSINESS REVIEW

A review of the business of the Group for the Reporting Period and a discussion on the Group's future business development are provided in the Chairman's statement on page 4 and the Management Discussion and Analysis on pages 5 to 21. The principal risks and uncertainties facing the Group are provided in the Management Discussion and Analysis on page 11 and disclosed in the section headed "Financial risk management" in note 36 to the consolidated financial statements.

Important events affecting the Group is provided in the Management Discussion and Analysis on pages 5 to 21 and disclosed in the section headed "Events after the reporting date" in note 40 to the consolidated financial statements since the end of the financial year under review.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Five Years' Financial Summary on page 128. The Group is committed to supporting the environmental sustainability. The Group has complied with laws and regulations regarding environmental protection and adopted effective measures to achieve efficient use of resources and energy saving. Green initiatives and measures have been adopted in the Group's operation. More details will be disclosed in the "Environmental, Social and Governance Report" which will be issued in accordance with the requirements under the GEM Listing Rules.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors recognise that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners and improving the quality of services to the customers.

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated, strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

## CONSOLIDATED FINANCIAL STATEMENTS

The results of the Group and the state of the Group's and the Company's affairs for the year ended 31 March 2018 are set out in the consolidated financial statements on page 50 to 127.

## DIVIDEND

The Board did not recommend payment of final dividend to shareholders of the Company for the year ended 31 March 2018 (2017: nil).

## CLOSURE OF REGISTER OF MEMBERS

As the forthcoming annual general meeting of the Company (the "**AGM**") will be held on 28 August 2018 (Tuesday), the register of members of the Company will be closed from 23 August 2018 (Thursday) to 28 August 2018 (Tuesday) (both days inclusive) for the said AGM or any adjournment thereof. All transfer of the Company's Shares together with the relevant share certificates must be lodged with the Company's branch share registrar and transfer office no later than 4:30 p.m. on 22 August 2018 (Wednesday) in order to qualify for the right to attend and vote at the meeting (or any adjournment thereof). The share registrar and transfer office is at:

Address: Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years are set out on page 128.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group during the Reporting Period are set out in note 14 to the consolidated financial statements.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries during the Reporting Period are set out in note 29 to the consolidated financial statements.

## SHARE CAPITAL AND SHARE PREMIUM

The Company's total issued share capital as at 31 March 2018 was 7,869,794,432 ordinary Shares of HK$0.001 each.

Details of movements of the share capital and the share premium of the Company during the Reporting Period are set out in notes 25 and 26 to the consolidated financial statements, respectively.

## EMOLUMENT POLICY FOR DIRECTORS

The Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors of the Group. The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

## RESERVES

Details of movements of reserves of the Group are set out in the consolidated statement of changes in equity on page 53.

As at 31 March 2018, the reserves of the Company available for distribution, as calculated under the provisions of Cayman Islands' legislation, was approximately HK$22,626,000 (2017: approximately HK$84,422,000).

## DIRECTORS

The Directors during the year ended 31 March 2018 and up to the date of this report were:

| | Appointed on | Resigned/ Retired on |
|---|---|---|
| **Executive Directors** | | |
| Mr. Chen Yunchuo | 1/2/2016 | N/A |
| Mr. Li Mingming | 24/9/2015 | N/A |
| Ms. Li Liping | 7/12/2016 | N/A |
| Mr. Cheng Rui | 8/2/2017 | N/A |
| **Independent non-executive Directors** | | |
| Mr. Xiong Hong | 24/6/2016 | N/A |
| Mr. Ho Yuk Ming Hugo | 19/9/2016 | N/A |
| Mr. Wan Tai Wai David | 19/9/2016 | N/A |

The Directors' biographical details are set out in the section headed "Biographies of Directors" in this report.

Information regarding Directors' emoluments is set out in note 31 to the consolidated financial statements.

An annual confirmation of independence pursuant to the requirements under Rule 5.09 of the GEM Listing Rules has been received from each of the independent non-executive Directors.

## DIRECTORS' SERVICE CONTRACT

Each of the existing executive Directors has entered into service contract with the Company for the year ended 31 March 2018. Each of the INEDs has entered into a service contract with the Company for a term of three years unless terminated by not less than three months' notice in writing served by either party on the other.

No director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation. The non-executive Director of the Company was appointed for a fixed period but subject to retirement from office and re-election at the AGM of the Company in accordance with the Articles .

In accordance with Article 112 of the Articles, any director appointed by the Board either to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to Article 108 of the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

In accordance with Article 108 of the Articles, Mr. Chen Yunchuo, Mr. Li Mingming and Ms. Li Liping will retire from office as Directors and being eligible, have offered themselves for re-election as Directors at the AGM.

Each of the executive Directors shall also be entitled to discretionary bonus to be determined by the Board based on, among other things, the performance of the individual directors and the overall financial position of the Group, and is subject to the recommendation of the Remuneration Committee.

## 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 March 2018, the interests and short positions of the Directors and chief executive of the Company in 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 held/ interested | Percentage of shareholding |
|---|---|---|---|
| Mr. Chen Yunchuo | Beneficial owner | 1,304,000,000 | 16.57% |
| Ms. Li Liping | Beneficial owner *(Note 1)* | 64,000,000 | 0.81% |
| Mr. Li Mingming | Beneficial owner *(Note 2)* | 64,000,000 | 0.81% |
| 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 share option scheme adopted by the Company on 31 July 2014 (the "**Share Option 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 Share Option 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 Share Option 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 Share Option 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 Share Option Scheme.

Save as disclosed above, as at 31 March 2018, 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 March 2018, 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 | Percentage of shareholding |
|---|---|---|---|
| Greatwalle Holding Limited | Beneficial owner | 1,294,400,000 | 16.45% |
| 廣州南沙區匯銘投資業務有限公司 (Guangzhou Nansha District Hui Ming Investment Business Co., Ltd.*) ("**Nansha Huiming**") | Interest of corporation controlled by the substantial Shareholder *(Note 1)* | 1,294,400,000 | 16.45% |
| 深圳匯理九號投資 諮詢企業（有限合夥）(Shenzhen Huili No. 9 Investment Consulting Enterprise (Limited Partnership*) ("**Huili Jiu Hao Investment**") | Interest of corporation controlled by the substantial Shareholder *(Note 1)* | 1,294,400,000 | 16.45% |
| 深圳長城匯理投資股份有限公司 (Shenzhen Great Walle Investment Corp., Ltd.*) ("**Great Walle Investment**") | Interest of corporations controlled by the substantial Shareholder *(Notes 1 & 2)* | 1,572,850,000 | 19.99% |
| 宋曉明 (Mr. Song Xiaoming) ("**Mr. Song**") | Interest of corporations controlled by the substantial Shareholder *(Notes 1 & 2)* | 1,572,850,000 | 19.99% |

*Note:*

1. As at 31 March 2018, 1,294,400,000 Shares were held by Greatwalle Holding Limited in the capacity of beneficial owner. Greatwalle Holding Limited is 99.99% owned by Nansha Huiming, while Nansha Huiming is 99.99% owned by Huili Jiu Hao Investment, which is in turn 99% owned by Great Walle Investment. Accordingly, Nansha Huiming and Huili Jiu Hao Investment were deemed to have interests in 1,294,400,000 Shares as at 31 March 2018.

2. According to the information available to the Company as at 31 March 2018, 278,450,000 Shares were held by Bohou Investment Limited in the capacity of beneficial owner. Bohou Investment Limited is wholly-owned by上海則理投資有限公司 (Shanghai Zeli Investment Co., Ltd.*), which is in turn wholly-owned by深圳長城匯理資產管理有限公司 (Shenzhen Great Walle Capital Management Co. Ltd.*) ("**Great Walle Capital Management**"). Great Walle Capital Management is owned as to 99.95% and 0.05% by Great Walle Investment and Mr. Song, respectively. Great Walle Investment is owned as to approximately 70.94% and 22.00% by Mr. Song and 深圳弘德商務服務有限公司(Shenzhen Hongde Business Services Co., Limited*), which is wholly owned by Mr. Song. Pursuant to Part XV of the SFO, Mr. Song and Great Walle Investment are deemed to have interests in the aggregate of 1,572,850,000 Shares as at 31 March 2018.

Other than as disclosed above, as at 31 March 2018, the Company had not been notified of other interests or short positions of any other person (other than the Directors, chief executives and substantial shareholders of the Company) in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 31 July 2014 which will remain in force for a period of 10 years from the effective date of the Share Option Scheme. The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards them for their contribution. The Directors consider the Share Option 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 Share Option 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 Share Option Scheme was approved by the shareholders in the annual general meeting of the Company held on 18 August 2017. As at the date of this report, the total number of Shares available for issue under the Share Option Scheme was 179,200,000 Shares, respectively 2.2% of the issued Shares of the Company as at the date of this report.

The maximum entitlement of each participant under the Share Option Scheme shall not exceed 1% of the Shares in issue and an offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

As at 31 March 2018, the share options to subscribe for an aggregate of 358,400,000 Shares of the Company granted pursuant to the Share Option Scheme were outstanding. The details of the Share Option Scheme and the movements of the share options under the Share Option Scheme for the year ended 31 March 2018 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 March 2018 |
| **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 | 185,600,000 *(Note 3)* | – | – | 211,200,000 |

*Notes:*

1. The closing price of the Shares immediately before the date of grant of share options (being 30 June 2017) (the "**Date of Grant**") was HK$0.018.

2. The share options are valid and effective for a period of three years from the Date of Grant ). The exercise price of the share options is HK$0.02 per option Share. All of the share options granted have no vesting period or vesting condition.

3. During the Reporting Period, a total of 185,600,000 share options were exercised at an exercise price of HK$0.02 per share option. The weighted average closing price of the Company's Shares disclosed by the Stock Exchange immediately before the exercise date of the share options was HK$0.031 per Share.

Other than the share options stated above, no share options had been granted by the Company to other participants pursuant to the Share Option Scheme for the year ended 31 March 2018. Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed for the year ended 31 March 2018.

## FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS

The fair value of share options granted is recognised as employee cost with a corresponding increase in share option reserve within equity over the relevant vesting periods.

The Group recognised an expense of approximately HK$4,009,000 for the year ended 31 March 2018 in relation to share options exercised by option holders of the Company.

The fair value of share options granted on the Date of Grant was HK$4,009,000, which was calculated using the binomial option pricing model (the "**Model**") with the following inputs:

| | |
|---|---|
| Date of Grant: | 30 June 2017 |
| Closing price of the Shares on the date of grant: | HK$0.018 |
| Exercise price: | HK$0.020 |
| Expected volatility *(Note 1)*: | 70.79% |
| Expected life of option: | 3 years |
| Expected dividend yield *(Note 2)*: | 0% |
| Risk free rate *(Note 3)*: | 0.943% |

The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

*Notes:*

1. The expected volatility was determined based on the historical volatility of the Share prices of the Company.

2. The expected dividend yield was determined based on the historical dividend payment record of the Company.

3. The risk-free rate was determined with reference to the yield rate of the Hong Kong Government Bond with duration similar to the expected life of the share option.

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

As disclosed in the Company's announcement dated 14 February 2018, the Company issued 4,194,432 Shares as consideration shares on 12 March 2018 in respect of the acquisition of 25% equity interest in MAGN Investment Limited. The 4,194,432 consideration shares were issued at a price of HK$0.262 per share.

Save for the foregoing, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2018.

## MAJOR CUSTOMERS

During the Reporting Period, the Group's five largest customers accounted for approximately 29.6% (2017: 23.6%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 8.3% (2017: 6.9%) of the total revenue.

None of the Directors or any of their close associates, or any shareholder (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

## DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

Save for the disclosed under the heading "Connected transactions" below and the related party transactions disclosed in note 34 to the consolidated financial statements, no contract of significance to which the Company, its holding Company or any of its subsidiaries was a party and in which a Director had a material interest directly or indirectly subsisted at the end of the Reporting Period or at any time during the Reporting Period. No contract of significance has been entered into during the Reporting Period between the Company or any of its subsidiaries and the controlling Shareholders or any its subsidiaries.

No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder of the Company or any of its subsidiaries was entered into during the Reporting Period and as at the date of this report.

## MANAGEMENT CONTRACTS

No management contracts concerning the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Directors are aware, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the section headed "Share Option Scheme" disclosed above, at no time during the year ended 31 March 2018 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## CONNECTED TRANSACTIONS

During the year ended 31 March 2018, save as disclosed below, there were no transactions which need to be disclosed as connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

On 1 March 2016, King Force Service Limited, a wholly-owned subsidiary of the Company, as tenant, and Ms. Liu Lai Ying, as landlord, entered into a tenancy agreement (the "**HK Office Tenancy Agreement**") in relation to the lease of an office located at 19/F., So Tao Centre, 11-15 Kwai Sau Road, Kwai Chung, N.T. The agreement has a term of not more than two years commencing from 1 March 2016 and expiring on 28 February 2018 at an annual rental of HK$600,000 (exclusive of management fees, government rates and utility charges). Ms. Liu was former executive Director, who resigned as the Director on 24 June 2016, and a spouse of a former executive Director, Mr. Fu Yik Lung, who resigned as the Director on 12 January 2017. As such, Ms. Liu was a connected person of the Company until 11 January 2018 according to Rule 20.10(1) (a) of the GEM Listing Rules. Therefore, the HK Office Tenancy Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company until 11 January 2018. The Directors (including the independent non-executive Directors) have confirmed that the HK Office Tenancy Agreement has been entered into and the transactions contemplated thereunder will be carried out in the ordinary and usual course of business of our Group on normal commercial terms, and that the terms of the continuing connected transaction (including the rental) are fair and reasonable and in the interest of our Company and the Shareholders as a whole. As the aggregate annual amount payable under the HK Office Tenancy Agreement does not exceed HK$3 million and none of the applicable percentage ratios set out in Rule 20.74 of the GEM Listing Rules in respect thereof exceeds 5% and the transactions are conducted on normal commercial terms, the transactions contemplated under the HK Office Tenancy Agreement constituted continuing connected transactions exempt from shareholders' approval, annual review and all disclosure requirements under Rule 20.72 of the GEM Listing Rules.

On 6 May 2016, the Company as the issuer and Mr. Fu Yik Lung, as noteholder, entered into a promissory note with an aggregate principal amount of HK$19,500,000 (the "**Promissory Note**"). Mr. Fu was a former executive Director of the Company who resigned as the Director of the Company on 12 January 2017. As such, Mr. Fu was a connected person of the Company until 11 January 2018 according to Rule 20.07(2) of the GEM Listing Rules. Therefore, the Promissory Note and the transactions contemplated thereunder constituted connected transactions of the Company until 11 January 2018. The Promissory Note is non-secured, bears an interest rate of 5% per annum for a term of 2 years. Since the Promissory Note is a financial assistance from a connected person of the Company to the Group, it is not secured by any asset of the Group, and the Directors consider that the Promissory Note is on normal commercial terms or better, such connected transaction was exempted from shareholders' approval, annual review and all disclosure requirements under Rule 20.88 of the GEM Listing Rules.

On 22 July 2016, Guanhui Huyu Technology (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company, as lender (the "**Lender**"), entered into the loan agreement (the "**Loan Agreement**") with Magn Investment Limited, an associate company indirectly owned as 45% by the Company, as borrower (the "**Borrower**"), a connected person of the Company. Pursuant to the Loan Agreement, the Lender has agreed to grant the loan facility to the Borrower with a principal amount of HK$5,000,000.00, unsecured, bearing interest at a rate of 6% per annum for a term of two years from the date of the Loan Agreement (the "**Loan Facility**"). The grant of the Loan Facility constitutes a connected transaction of the Company. As the relevant percentage ratios under the GEM Listing Rules did not exceed 25% and the total consideration was less than HK$10 million, the Loan Facility is exempt from the circular and independent shareholders approval requirements under Chapter 20 of the GEM Listing Rules. Further details of the Loan Facility are set out in the announcement of the Company dated 22 July 2016 and note 20 to the consolidated financial statements.

On 28 September 2016, 29 December 2016 and 29 March 2017, Mr. Xie Zhongming (謝中明) ("Mr. Xie") entered into three loan agreements with 深圳前海冠輝互娛科技有限公司 (Shenzhen Qianhai Guanhui Huyu Technology Limited*), an indirect wholly-owned subsidiary of the Company, pursuant to which loans in the aggregate amount of RMB6.0 million were extended to Mr. Xie. In February 2017 Mr. Xie first became a director of a subsidiary of the Company and became a connected person of the Company, and the provision of the relevant loans constituted the provision of financial assistance to a connected person.

A summary of the related party transactions entered into by the Group during the year ended 31 March 2018 is disclosed in note 34 to the consolidated financial statements. Save for the aforementioned transactions, the related party transactions do not constitute connected transactions of the Company during the Reporting Period which are required to be disclosed under the GEM Listing Rules.

## INTERESTS IN COMPETING BUSINESS

During the year ended 31 March 2018, 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.

## SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information that is publicly available to the Company, at least 25% of the Company's issued share capital were held by the public as at the date of this report.

## PERMITTED INDEMNITY CLAUSE

For the year ended 31 March 2018, pursuant to the Articles, all legal costs, expenses, fees, losses, damages and expenditures incurred during the performance of duties by executive Directors of the Company may be indemnified by the assets and profits of the Company.

## AUDITOR

BDO Limited ("**BDO**") shall retire in the forthcoming AGM and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of BDO as auditor of the Company will be proposed at the forthcoming AGM. The Company had not changed its external auditor during the three years ended 31 March 2018 and up to the date of this report.

## AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company established 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. 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 had reviewed the audited annual result of the Group for the financial year ended 31 March 2018, and was of the opinion that the audited consolidated financial statements had been prepared in compliance with the applicable accounting standards and the GEM Listing Rules.

On behalf of the Board
**Chen Yunchuo**
*Chairman*

Hong Kong, 25 June 2018

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**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF KING FORCE GROUP HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of King Force Group Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 50 to 127, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Impairment assessment on goodwill and other intangible assets in relation to the e-Education business

**Refer to notes 15 and 16 to the consolidated financial statements**

The Group has goodwill and other intangible assets of net carrying amount of approximately HK$5,255,000 and HK$4,786,000 relating to the cash generating unit of developing and manufacturing of education and security system for protection of the students' safety in the PRC ("e-Education") as at 31 March 2018, respectively. Management performed impairment assessment of goodwill and concluded that an impairment loss on goodwill of approximately HK$31,000,000 was recognised for the year ended 31 March 2018. This conclusion was based on the recoverable amount of the cash generating unit of this business with reference to the value-in-use calculation based on cash flow forecasts prepared by the management and with assistance of an independent external valuation specialist as the management's expert. The value-in-use calculation is based on several key assumptions which are made by management, and are by nature judgemental. Key assumptions include the expected future cash flows for the forecasting period, the discount rate and perpetual growth rate.

We consider impairment assessment on goodwill and other intangible assets in relation to this business as a key audit matter because it requires the management to exercise significant judgment and make estimations, and was assessed by us to be a significant risk of material misstatement.

**Our response:**

Our key procedures in relation to the management's impairment assessment on goodwill and other intangible assets of this business included:

– Involving an auditor's valuation expert to assist our work in assessing management's estimation of the recoverable amount;

– Assessing the appropriateness of the methodology adopted for the value-in-use calculation;

– Challenging the reasonableness of management's key assumptions adopted in the cash flow forecasts;

– Testing mathematical accuracy of the calculations; and

– Evaluating competence, capabilities and objectivity of the auditor's expert and management's expert.

## OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**BDO Limited**
Certified Public Accountants

**Tsui Ka Che, Norman**
Practising Certificate number P05057

Hong Kong, 25 June 2018

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 MARCH 2018*

| | Notes | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 7 | **111,807** | 146,212 |
| Cost of services rendered | | **(97,355)** | (115,346) |
| **Gross profit** | | **14,452** | 30,866 |
| Other income and losses, net | 8 | **(267)** | 14,751 |
| Administrative expenses | | **(44,639)** | (38,502) |
| Impairment loss on goodwill | | **(31,000)** | – |
| Impairment loss on other intangible assets | | **(3,700)** | – |
| Write-off of other intangible assets | | **(14,477)** | – |
| Share of result of associates | 17 | **(33)** | 1,127 |
| Impairment loss on interests in associates | 17 | **(1,700)** | – |
| Finance costs | 9 | **(975)** | (882) |
| **(Loss)/Profit before income tax** | 10 | **(82,339)** | 7,360 |
| Income tax credit/(expense) | 11 | **788** | (1,804) |
| **(Loss)/Profit for the year** | | **(81,551)** | 5,556 |
| **Other comprehensive income that may be reclassified subsequently to profit or loss:** | | | |
| Exchange difference on translation of financial statements of foreign operations | | **1,453** | 286 |
| Share of exchange difference on translation of foreign associates | | **–** | 60 |
| Other comprehensive income for the year | | **1,453** | 346 |
| **Total comprehensive income for the year** | | **(80,098)** | 5,902 |
| **(Loss)/Profit for the year attributable to:** | | | |
| Owners of the Company | | **(74,705)** | 6,197 |
| Non-controlling interests | | **(6,846)** | (641) |
| | | **(81,551)** | 5,556 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **(73,703)** | 6,441 |
| Non-controlling interests | | **(6,395)** | (539) |
| | | **(80,098)** | 5,902 |
| | | **HK cents** | HK cents |
| **(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company** | 13 | | |
| – Basic | | **(0.97)** | 0.094 |
| – Diluted | | **(0.97)** | 0.078 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 MARCH 2018*

| | Notes | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **12,676** | 15,522 |
| Goodwill | 15 | **5,255** | 36,255 |
| Other intangible assets | 16 | **20,302** | 36,068 |
| Interests in associates | 17 | **16,450** | 18,183 |
| Investment in a life insurance policy | 18 | **1,169** | 1,148 |
| Financial asset at fair value through profit or loss | 19 | **–** | 2,200 |
| Loan to an associate | 20 | **–** | 5,000 |
| Amount due from a non-controlling equity holder of a subsidiary | 20 | **2,269** | 1,948 |
| | | **58,121** | 116,324 |
| **Current assets** | | | |
| Trade receivables | 21 | **12,600** | 18,309 |
| Prepayments, deposits and other receivables | 21 | **2,781** | 3,108 |
| Amount due from a director | 20 | **236** | – |
| Amount due from an associate | 20 | **5** | 208 |
| Amount due from a related party | 20 | **4,864** | 4,705 |
| Loan to an associate | 20 | **4,300** | – |
| Tax recoverables | | **1,610** | – |
| Cash at banks and in hand | | **10,849** | 30,482 |
| | | **37,245** | 56,812 |
| **Current liabilities** | | | |
| Trade payables | 22 | **693** | 2,116 |
| Accrued expenses and other payables | 22 | **11,989** | 16,111 |
| Amount due to a director | 20 | **161** | 169 |
| Amount due to an associate | 20 | **416** | 363 |
| Amount due to a related party | 20 | **–** | 247 |
| Promissory note payable | 24 | **21,357** | – |
| Tax payables | | **–** | 233 |
| | | **34,616** | 19,239 |
| **Net current assets** | | **2,629** | 37,573 |
| **Total assets less current liabilities** | | **60,750** | 153,897 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 23 | **–** | 527 |
| Promissory note payable | 24 | **–** | 20,382 |
| | | **–** | 20,909 |
| **Net assets** | | **60,750** | 132,988 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 MARCH 2018*

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 25 | **7,870** | 7,680 |
| Reserves | 26 | **51,360** | 117,393 |
| | | **59,230** | 125,073 |
| Non-controlling interests | | **1,520** | 7,915 |
| **Total equity** | | **60,750** | 132,988 |

On behalf of the directors

**Chen Yunchuo**
*Director*

**Li Mingming**
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED 31 MARCH 2018*

| | Share capital HK$'000 | Share premium* HK$'000 | Share options reserve* HK$'000 | Merger reserve* HK$'000 | Foreign exchange reserve* HK$'000 | Capital reserve* HK$'000 | Retained earnings/ Accumulated losses* HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2016 | 6,400 | 39,008 | – | (5,270) | 11 | 4,054 | 15,575 | 59,778 | – | 59,778 |
| Issue of consideration shares *(note 25 (i))* | 727 | 49,426 | – | – | – | – | – | 50,153 | – | 50,153 |
| Issue of shares upon placing *(note 25 (ii))* | 553 | 11,616 | – | – | – | – | – | 12,169 | – | 12,169 |
| Arising from acquisition of subsidiaries *(note 30)* | – | – | – | – | – | – | – | – | 8,454 | 8,454 |
| **Transactions with owners** | 1,280 | 61,042 | – | – | – | – | – | 62,322 | 8,454 | 70,776 |
| Profit for the year | – | – | – | – | – | – | 6,197 | 6,197 | (641) | 5,556 |
| *Other comprehensive income:* | | | | | | | | | | |
| Exchange difference on translation of financial statements of foreign operations | – | – | – | – | 184 | – | – | 184 | 102 | 286 |
| Share of exchange difference on translation of foreign associates | – | – | – | – | 60 | – | – | 60 | – | 60 |
| **Total comprehensive income for the year** | – | – | – | – | 244 | – | 6,197 | 6,441 | (539) | 5,902 |
| Share of an associate's capital reserve | – | – | – | – | – | (3,468) | – | (3,468) | – | (3,468) |
| **At 31 March 2017 and 1 April 2017** | 7,680 | 100,050 | – | (5,270) | 255 | 586 | 21,772 | 125,073 | 7,915 | 132,988 |
| Issue of consideration shares *(note 25 (iii))* | 4 | 134 | – | – | – | – | – | 138 | – | 138 |
| Equity-settled share options expenses *(note 27)* | – | – | 4,009 | – | – | – | – | 4,009 | – | 4,009 |
| Share options exercised *(note 27)* | 186 | 4,878 | (1,351) | – | – | – | – | 3,713 | – | 3,713 |
| **Transactions with owners** | 190 | 5,012 | 2,658 | – | – | – | – | 7,860 | – | 7,860 |
| Loss for the year | – | – | – | – | – | – | (74,705) | (74,705) | (6,846) | (81,551) |
| *Other comprehensive income:* | | | | | | | | | | |
| Exchange difference on translation of financial statements of foreign operations | – | – | – | – | 1,002 | – | – | 1,002 | 451 | 1,453 |
| **Total comprehensive income for the year** | – | – | – | – | 1,002 | – | (74,705) | (73,703) | (6,395) | (80,098) |
| **At 31 March 2018** | 7,870 | 105,062 | 2,658 | (5,270) | 1,257 | 586 | (52,933) | 59,230 | 1,520 | 60,750 |

* The total of these accounts represents "Reserves" in the consolidated statement of financial position.

## CONSOLIDATED STATEMENT OF CASH FLOWS

*FOR THE YEAR ENDED 31 MARCH 2018*

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss)/Profit before income tax | **(82,339)** | 7,360 |
| Adjustments for: | | |
| Amortisation of other intangible assets | **3,719** | 2,829 |
| Bad debts written-off | **517** | 58 |
| Bank interest income | **(1)** | (1) |
| Depreciation of property, plant and equipment | **2,995** | 2,678 |
| Loss/(Gain) on disposal of property, plant and equipment | **3** | (50) |
| Imputed interest income on amount due from a non-controlling equity holder of a subsidiary | **(102)** | (32) |
| Interest income of a life insurance policy | **(39)** | (39) |
| Interest income from loan to an associate | **(297)** | (208) |
| Interest income from amount due from a related party | **(318)** | – |
| Equity-settled share options expenses | **4,009** | – |
| Fair value loss/(gain) on financial asset at fair value through profit of loss | **2,200** | (600) |
| Fair value loss/(gain) on contingent consideration payable | **32** | (13,235) |
| Premium charged on a life insurance policy | **18** | 17 |
| Share of result of associates | **33** | (1,127) |
| Interest charges on promissory note | **975** | 882 |
| Write-off of other intangible assets | **14,477** | – |
| Write-off of prepayment | **420** | – |
| Write-off of property, plant and equipment | **–** | 875 |
| Impairment loss on goodwill | **31,000** | – |
| Impairment loss on other intangible assets | **3,700** | – |
| Impairment loss on interests in associates | **1,700** | – |
| Operating loss before working capital changes | **(17,298)** | (593) |
| Decrease/(Increase) in trade receivables | **5,192** | (617) |
| Increase in prepayments, deposits and other receivables | **(93)** | (147) |
| Increase in amount due from a director | **(236)** | – |
| Decrease in amount due from an associate | **500** | – |
| (Decrease)/Increase in trade payables | **(1,423)** | 2,116 |
| Decrease in accrued expenses and other payables | **(4,016)** | (108) |
| Increase in amount due to an associate | **53** | 363 |
| (Decrease)/Increase in amount due to a director | **(8)** | 169 |
| (Decrease)/Increase in amount due to a related party | **(247)** | 247 |
| Cash (used in)/generated from operations | **(17,576)** | 1,430 |
| Net income tax paid | **(1,582)** | (2,193) |
| Interest received | **1** | 1 |
| *Net cash used in operating activities* | **(19,157)** | (762) |
| **Cash flows from investing activities** | | |
| Purchase of other intangible assets | **(5,020)** | (18,548) |
| Proceeds from disposal of property, plant and equipment | **2** | 50 |
| Purchase of property, plant and equipment | **(75)** | (8,807) |
| Proceeds from repayment of loan from an associate | **700** | – |
| Loan to an associate | **–** | (5,000) |
| Repayment to/(Increase in) amount due from a related party | **159** | (4,705) |
| Cash and cash equivalents acquired from the acquisition of a subsidiary *(note 30)* | **–** | 94 |
| *Net cash used in investing activities* | **(4,234)** | (36,916) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

*FOR THE YEAR ENDED 31 MARCH 2018*

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Share options exercised | **3,713** | – |
| Proceeds from issue of shares upon placing, net of share issue expense | **–** | 12,169 |
| Proceeds from issuance of promissory note | **–** | 19,500 |
| *Net cash generated from financing activities* | **3,713** | 31,669 |
| **Net decrease in cash and cash equivalents** | **(19,678)** | (6,009) |
| **Cash and cash equivalents at beginning of year** | **30,482** | 36,457 |
| **Effect of foreign exchange rates change** | **45** | 34 |
| **Cash and cash equivalents at end of year** | **10,849** | 30,482 |
| **Analysis of balances of cash and cash equivalents** | | |
| Cash at banks and in hand | **10,849** | 30,482 |

## 1. GENERAL INFORMATION

King Force Group Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 2 January 2014. The Company's registered office is located at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. Its 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 Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 August 2014.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries (together with the Company hereinafter referred to as the "Group") are set out in note 29 to the consolidated financial statements.

The consolidated financial statements for the year ended 31 March 2018 were approved for issue by the board of directors on 25 June 2018.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of new or amended HKFRSs – effective 1 April 2017

In the current year, the Group has applied for the first time the following new or amended HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are relevant to and effective for the Group's financial statements for the annual year beginning on 1 April 2017:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKFRS 12, Disclosure of Interests in Other Entities |

*Amendments to HKAS 7 – Disclosure Initiative*

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the cash flow statement, note 39.

*Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – Continued

### (a) Adoption of new or amended HKFRSs - effective 1 April 2017 – Continued

*Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

### (b) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| HKFRS 16 | Leases[2] |
| Annual improvements to HKFRSs 2014-2016 Cycle | Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards[1] |
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKAS 28, Investments in Associates and Joint Ventures[1] |
| Annual Improvement to HKFRSs 2015-2017 Cycle | Amendments to HKFRS 3 Business Combinations, HKFRS 11 Joint Arrangements, HKAS 12 Income Taxes and HKAS 23 Borrowing costs[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-Based Payment Transactions[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| HK(IFRIC)–Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[2] |

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – Continued

### (b) New or amended HKFRSs that have been issued but are not yet effective – Continued

*HKFRS 9 – Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 might result in earlier provision of credit losses in relation to the Group's trade receivables measured at amortised costs. However, management expect the effect would not be significant.

*HKFRS 15 – Revenue from Contracts with customers*

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – Continued

### (b) New or amended HKFRSs that have been issued but are not yet effective – Continued

*HKFRS 15 – Revenue from Contracts with customers – Continued*

In 2016, the HKICPA issued Clarifications to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The directors of the Company have assessed its performance obligations of its security guarding services pursuant to HKFRS 15 and has concluded that there are no significant differences on the timing and amounts of revenue recognised for these revenue streams in the respective reporting periods. The principles of principal and agent pursuant to HKFRS 15 do not have much difference with those currently applied by the Group in accordance with HKAS 18. Accordingly, the implementation of the HKFRS 15 would not result in any significant impact on the Group's financial position and results of operations.

*HKFRS 16 – Leases*

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases "and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2018, the Group has non-cancellable operating lease commitments of approximately HK$1,273,000 as disclosed in Note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

*Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – Continued

### (b) New or amended HKFRSs that have been issued but are not yet effective – Continued

*Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

*Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions*

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

*Amendments to HKFRS 9 – Prepayment Features with Negative Compensation*

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

*Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)*

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

*Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

*HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration*

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – Continued

### (b) New or amended HKFRSs that have been issued but are not yet effective – Continued

*HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments*

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

## 3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which collective terms include all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The consolidated financial statements have been prepared under historical cost convention, except for the financial asset at fair value through profit or loss, available-for-sale financial assets and contingent consideration payable which are stated at fair value. All value are rounded to the nearest thousand except when otherwise indicated.

It should be noted that accounting estimates and judgements are used in the preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

The carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights, to variable returns from the investee; and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 4.3 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.4 Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as joint ventures where the Group has rights to only the net assets of the joint arrangements.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures in the same manner as interests in associates (i.e. using the equity method – see note 4.3).

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

### 4.5 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.5 Goodwill – Continued

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

### 4.6 Foreign currencies translation

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Company (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of the reporting period. Exchange differences arisen, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost over their estimated useful lives on a straight-line basis. The estimated useful lives are, at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | 4% |
| Leasehold improvements | 4% to 12% or over the lease term, whichever is shorter |
| Furniture and equipment | 20% – 33% |
| Motor vehicles | 25% |

The assets' depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at the end of reporting date.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.8 Other intangible assets

Other intangible assets acquired separately are initially recognised at cost. Subsequently, other intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses (note 4.14). The costs of other intangible assets under development are not subject to amortisation until they are completed and available for use.

Other intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Amortisation on other intangible assets with finite useful life is provided on a straight-line basis over their useful lives as follows. The amortisation expense is recognised in profit or loss and included in administrative expenses.

| | |
|---|---|
| Computerised operating and guarding system | 33% |
| Mobile game licenses | 25%-50% or over the license term, whichever is shorter |
| e-Education and security platform | 11% |
| Franchise of Bei Dou Qualification | 20% |

### 4.9 Financial instruments

#### (i) Financial assets

The Group's financial assets mainly comprise financial asset at fair value through profit or loss which is a contingent consideration receivable arising from a profit guarantee, available-for-sale financial assets which is an investment in a life insurance policy, and loans and receivables including loans to an associate, amounts due from a non-controlling equity holder of a subsidiary/an associate/a related party/a director, trade and other receivables, deposits and cash at banks and in hand.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.9 Financial instruments – Continued

#### (i) Financial assets – Continued

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

*Financial assets at fair value through profit or loss*

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

*Available-for-sale financial assets*

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequently to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

*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 subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.9 Financial instruments – Continued

#### (ii) Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial asset includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of the debtor's financial difficulty; and

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

*Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.9 Financial instruments – Continued

#### (ii) Impairment of financial assets – Continued

If, in 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, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Financial assets other than trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of receivables is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### (iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.9 Financial instruments – Continued

#### (iii) Financial liabilities – Continued

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

*Financial liabilities measured at amortised cost*

Financial liabilities at amortised cost including accrued expenses and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

#### (iv) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

#### (v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.9 Financial instruments – Continued

#### (vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### 4.10 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

*Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair values of the leased assets, or, if lower, the present value of the minimum lease payments (the "initial value"), of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance lease charges, are recorded as finance lease liabilities.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance lease charges.

Finance lease charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the finance lease liabilities for each accounting period.

*Operating lease charges as the lessee*

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the period in which they are incurred.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.11 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand as well as short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### 4.12 Revenue and other income recognition

Revenue comprises the fair value of the consideration received or receivable for the rendering of services and the use by others of the Group's assets yielding interest, net of discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Revenue from provision of security guarding services are recognised in the accounting period in which the services are rendered.

Interest income is accrued on a time apportionment basis using the effective interest method.

### 4.13 Accounting for income taxes

Income tax comprises current tax and deferred tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.14 Impairment of non-financial assets

Property, plant and equipment, goodwill, other intangible assets and interests in associates and subsidiaries are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the assets.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.15 Employee benefits

*Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

*Defined contribution retirement plan*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. Contributions are made based on a percentage of the employees' basic salaries to the maximum mandatory contributions as required by the MPF Scheme. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets, respectively, as they are normally of a short-term nature. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

### 4.16 Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 4.17 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.18 Related parties

A party is considered to be related to the Group if:

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### 4.19 Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share options reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

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

### (a) Impairment of receivables

The policy for the impairment of receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

### (b) Depreciation and amortisation

The Group depreciated the property, plant and equipment and amortised the other intangible assets on a straight-line basis over their estimated useful lives, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' best estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and other intangible assets.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – Continued

### (c) Impairment of goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of the value-in-use of the cash generation units ("CGUs") to which the goodwill and other intangible assets have been allocated. Value-in-use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing the goodwill and other intangible assets using suitable discount rates. Where the expected future cash flows arising from the relevant CGUs differ from the original estimation, an impairment loss may arise.

### (d) Estimate of current tax and deferred tax

The Group is subject to income taxes in Hong Kong. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such final tax liabilities determination is made.

### (e) Contingent consideration receivable

The consideration of the acquisition of China Bei Dou Communications Technology Group Limited ("China Bei Dou") as set out in note 30 contains a profit guarantee measured at fair value at the acquisition date with the best estimates of the outcome of the future events, such as earn-out arrangement. As the profit guarantee meets the definition of a financial asset at fair value through profit or loss, it is subsequently remeasured to fair value at the end of each reporting period. The determination of the fair value is based on the expected compensation in cash. One of the key assumptions estimating the fair value is the probability that China Bei Dou meeting the profit target for two years ending 31 December 2017 and 2018 and the credit risk of the compensation.

### (f) Contingent consideration payable

The consideration of the acquisition of Magn Investment Limited ("Magn Investment") is measured at fair value at the acquisition date with the best estimates of the outcome of the future events, such as earn-outs arrangement. As the contingent consideration payable has met the definition of a financial liability, it was subsequently remeasured to fair value at the end of each reporting period. The estimation of the fair value was based on the expected adjustment on consideration shares to be issued. One of the key assumptions that has been taken into consideration was the probability that Magn Investment meeting the profit target for the six months ended 31 March 2016 and the year ended 31 March 2017.

## 6. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

(a) "Security Guarding" segment involves provision of security guarding services;

(b) "Mobile Game" segment involves provision of mobile game business;

(c) "e-Education" segment involves provision of students' e-education and security services

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group use for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that interest income from loan to an associate, fair value (loss)/gain of contingent consideration payable, impairment loss on interests in associates, finance costs, share of results of associates, corporate income, corporate expense and income tax expense are excluded from segment results.

No asymmetrical allocations have been applied to reportable segments.

The executive directors have identified the Group's three service lines as reportable segments. These segments are monitored and strategic decisions are made on the basis of adjusted segment operating result.

## 6. SEGMENT INFORMATION – Continued

Revenue generated, (loss)/profit incurred from operations, total assets and liabilities by each of the Group's operating segments are summarised as follows:

| | Security Guarding | | Mobile Game | | e-Education | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Revenue from external customers** | **111,807** | 146,212 | **–** | – | **–** | – | **111,807** | 146,212 |
| **Total segment (loss)/profit from operations** | **(10,389)** | 7,674 | **(9,295)** | (3,977) | **(50,788)** | (1,006) | **(70,472)** | 2,691 |
| Interest income from loan to an associate | | | | | | | **297** | 208 |
| Fair value (loss)/gain on contingent consideration payable | | | | | | | **(32)** | 13,235 |
| Share of results of associates | | | | | | | **(33)** | 1,127 |
| Impairment loss on interests in associates | | | | | | | **(1,700)** | – |
| Finance costs | | | | | | | **(975)** | (882) |
| Unallocated corporate income | | | | | | | **–** | 1 |
| Unallocated corporate expenses | | | | | | | **(9,424)** | (9,020) |
| (Loss)/Profit before income tax | | | | | | | **(82,339)** | 7,360 |
| Income tax credit/(expense) | | | | | | | **788** | (1,804) |
| **(Loss)/Profit for the year** | | | | | | | **(81,551)** | 5,556 |

There were no inter-segment transfers during the years ended 31 March 2018 and 2017.

## 6. SEGMENT INFORMATION – Continued

Unallocated corporate expenses mainly comprise legal and professional fees, remuneration and salaries.

| | Security Guarding | | Mobile Game | | e-Education | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Other segment information** | | | | | | | | |
| Depreciation of property, plant and equipment | **2,631** | 2,444 | **3** | 17 | **112** | 30 | **2,746** | 2,491 |
| Unallocated depreciation with head office and corporate assets | | | | | | | **249** | 187 |
| Total depreciation | | | | | | | **2,995** | 2,678 |
| Amortisation of other intangible assets | **1,100** | 1,661 | **–** | – | **2,619** | 1,168 | **3,719** | 2,829 |
| Write-off of other intangible assets | **–** | – | **2,446** | – | **12,031** | – | **14,477** | – |
| Impairment loss on other intangible assets | **–** | – | **3,700** | – | **–** | – | **3,700** | – |
| Impairment loss on goodwill | **–** | – | **–** | – | **31,000** | – | **31,000** | – |
| Income tax (credit)/expense | **(788)** | 1,804 | **–** | – | **–** | – | **(788)** | 1,804 |
| Capital expenditure | **1,544** | 10,786 | **3,397** | 16,017 | **154** | 56,175 | **5,095** | 82,978 |
| Unallocated capital expenditure associated with head office and corporate assets | | | | | | | **–** | 497 |
| Total capital expenditure* | | | | | | | **5,095** | 83,475 |

* Capital expenditure consists of additions to property, plant and equipment, goodwill and other intangible assets.

## 6. SEGMENT INFORMATION – Continued

All assets are allocated to operating segments other than unallocated assets (mainly comprising interests in associates, investment in a life insurance policy, loan to an associate, amount due from an associate, tax recoverables, certain other receivables and certain cash and cash equivalents).

| | Security Guarding | | Mobile Game | | e-Education | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment assets** | **38,775** | 55,517 | **20,184** | 23,935 | **12,194** | 59,974 | **71,153** | 139,426 |
| Interests in associates | | | | | | | **16,450** | 18,183 |
| Investment in a life insurance policy | | | | | | | **1,169** | 1,148 |
| Loan to an associate | | | | | | | **4,300** | 5,000 |
| Amount due from an associate | | | | | | | **5** | 208 |
| Tax recoverables | | | | | | | **1,610** | – |
| Other corporate assets | | | | | | | **679** | 9,171 |
| **Total assets** | | | | | | | **95,366** | 173,136 |

All liabilities are allocated to operating segments other than unallocated liabilities (mainly comprising promissory note payable, contingent consideration payable, tax payables and deferred tax liabilities).

| | Security Guarding | | Mobile Game | | e-Education | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment liabilities** | **8,440** | 13,202 | **1,411** | 2,074 | **2,280** | 2,120 | **12,131** | 17,396 |
| Contingent consideration payable | | | | | | | **–** | 106 |
| Tax payables | | | | | | | **–** | 233 |
| Deferred tax liabilities | | | | | | | **–** | 527 |
| Promissory note payable | | | | | | | **21,357** | 20,382 |
| Other corporate liabilities | | | | | | | **1,128** | 1,504 |
| **Total liabilities** | | | | | | | **34,616** | 40,148 |

## 6. SEGMENT INFORMATION – Continued

### Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments and interests in associates ("Specified non-current assets").

| | **Revenue from external customers** | | **Specific non-current assets** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong (place of domicile) | **111,807** | 146,212 | **32,697** | 68,883 |
| The People's Republic of China ("PRC") | **–** | – | **5,536** | 18,962 |
| | **111,807** | 146,212 | **38,233** | 87,845 |

### Information about major customers

There is no single customer contributed to 10% or more revenue to the Group's revenue for the years ended 31 March 2018 and 2017.

## 7. REVENUE

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

## 8. OTHER INCOME AND LOSSES, NET

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Bank interest income | **1** | 1 |
| Gain on disposal of property, plant and equipment | **–** | 50 |
| Imputed interest income on amount due from a non-controlling equity holder of a subsidiary | **102** | 32 |
| Interest income of a life insurance policy | **39** | 39 |
| Interest income from loan to an associate | **297** | 208 |
| Interest income from amount due from a related party | **318** | – |
| Fair value (loss)/gain on financial asset at fair value through profit or loss | **(2,200)** | 600 |
| Fair value (loss)/gain on contingent consideration payable *(note 22)* | **(32)** | 13,235 |
| Sundry income | **1,208** | 586 |
| | **(267)** | 14,751 |

## 9. FINANCE COSTS

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Interest charges on promissory note repayable within two years | **975** | 882 |

## 10. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging/(crediting):

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Auditor's remuneration[1] | **900** | 1,010 |
| Amortisation of other intangible assets[1] | **3,719** | 2,829 |
| Bad debts written-off *(note 21)*[1] | **517** | 58 |
| Cost of services rendered | **97,355** | 115,346 |
| Depreciation of property, plant and equipment[1] | **2,995** | 2,678 |
| Employee benefits expenses (including directors' emoluments in note 31): | | |
| Salaries, allowances and benefits in kind included in: | | |
| – Cost of services rendered | **84,568** | 109,131 |
| – Administrative expenses | **15,798** | 10,771 |
| Retirement benefits – Defined contribution plans[2] included in: | | |
| – Cost of services rendered | **3,754** | 5,119 |
| – Administrative expenses | **137** | 155 |
| Equity-settled share options expenses[1] | **4,009** | – |
| | **108,266** | 125,176 |
| Fair value loss/(gain) on financial asset at fair value through profit or loss | **2,200** | (600) |
| Fair value loss/(gain) on contingent consideration payable *(note 22)* | **32** | (13,235) |
| Legal and professional fees[1] | **2,843** | 4,727 |
| Loss on disposal of property, plant and equipment[1] | **3** | – |
| Gain on disposal of property, plant and equipment | **–** | (50) |
| Write-off of other intangible assets | **14,477** | – |
| Write-off of prepayment[1] | **420** | – |
| Write-off of property, plant and equipment[1] | **–** | 875 |
| Impairment loss on goodwill | **31,000** | – |
| Impairment loss on other intangible assets | **3,700** | – |
| Impairment loss on interests in associates | **1,700** | – |
| Operating lease charges in respect of: | | |
| – Rented premises | **2,371** | 2,682 |
| – Office equipment | **71** | 1,037 |
| | **2,442** | 3,719 |

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 year

## 11. INCOME TAX (CREDIT)/EXPENSE

The amount of taxation in the consolidated statement of profit or loss and other comprehensive income represents:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Current tax | | |
| – Hong Kong Profits Tax | | |
| – Tax for the year | **–** | 1,851 |
| – Over provision in prior years | **(261)** | (96) |
| | **(261)** | 1,755 |
| Deferred tax | | |
| – (Credited)/Charged for the year *(note 23)* | **(527)** | 49 |
| | **(788)** | 1,804 |

The Company was incorporated in the Cayman Islands that is tax-exempted as no business is carried out in the Cayman Islands under the laws of the Cayman Islands.

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits of subsidiaries operating in Hong Kong for the year. Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

The income tax (credit)/expense for the year can be reconciled to the (loss)/profit before income tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| (Loss)/Profit before income tax | **(82,339)** | 7,360 |
| Tax calculated at the statutory tax rate applicable to profits in the respective jurisdictions | **(9,271)** | 971 |
| Tax effect on non-deductible expenses | **7,199** | 1,971 |
| Tax effect on non-taxable income | **(47)** | (2,475) |
| Tax effect of temporary difference not recognised | **232** | 305 |
| Tax effect of tax losses not recognised | **1,497** | 1,128 |
| Utilisation of tax losses from prior years | **(137)** | – |
| Over provision in prior years | **(261)** | (96) |
| Income tax (credit)/expense | **(788)** | 1,804 |

## 12. DIVIDEND

No dividend has been paid or declared by the Company during the year (2017: Nil).

## 13. (LOSS)/EARNINGS PER SHARE

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

| **(Loss)/Earnings** | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| (Loss)/Earnings for the purposes of basic (loss)/earnings per share | **(74,705)** | 6,197 |
| Effect of dilutive potential ordinary shares: Fair value gain on contingent consideration payable | **–** | (994) |
| (Loss)/Earnings for the purposes of diluted (loss)/earnings per share | **(74,705)** | 5,203 |

| Number of shares | **2018 '000** | 2017 '000 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share | **7,731,699** | 6,625,763 |
| Effect of dilutive potential ordinary shares: Consideration shares to be issued on contingent consideration payable | **–** | 4,419 |
| Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share | **7,731,699** | 6,630,182 |

No adjustment had been made to the basic loss per share amounts presented for the year ended 31 March 2018 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2016 | 6,293 | 1,082 | 2,201 | 4,364 | 13,940 |
| Additions | – | 6,280 | 1,375 | 1,152 | 8,807 |
| Acquisition of subsidiaries | – | 747 | – | – | 747 |
| Disposal/write-off | – | (1,082) | (338) | (795) | (2,215) |
| Exchange realignment | – | 8 | (1) | – | 7 |
| At 31 March 2017 and 1 April 2017 | 6,293 | 7,035 | 3,237 | 4,721 | 21,286 |
| Additions | – | – | 75 | – | 75 |
| Disposal/write-off | – | – | (7) | – | (7) |
| Exchange realignment | – | 83 | 8 | – | 91 |
| **At 31 March 2018** | 6,293 | 7,118 | 3,313 | 4,721 | 21,445 |
| **Accumulated depreciation** | | | | | |
| At 1 April 2016 | 1,007 | 173 | 1,091 | 2,156 | 4,427 |
| Depreciation | 252 | 504 | 894 | 1,028 | 2,678 |
| Disposal/write-off | – | (216) | (329) | (795) | (1,340) |
| Exchange realignment | – | (1) | – | – | (1) |
| At 31 March 2017 and 1 April 2017 | 1,259 | 460 | 1,656 | 2,389 | 5,764 |
| Depreciation | 252 | 768 | 853 | 1,122 | 2,995 |
| Disposal/write-off | – | – | 2 | – | 2 |
| Exchange realignment | – | 10 | (2) | – | 8 |
| **At 31 March 2018** | **1,511** | **1,238** | **2,509** | **3,511** | **8,769** |
| **Net book value** | | | | | |
| **At 31 March 2018** | **4,782** | **5,880** | **804** | **1,210** | **12,676** |
| At 31 March 2017 | 5,034 | 6,575 | 1,581 | 2,332 | 15,522 |

## 15. GOODWILL

The amount of goodwill capitalised as an asset recognised in the consolidated statement of financial position, arising from business combination is as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| **Cost** | | |
| At the beginning of the year | **36,255** | – |
| Acquisition of subsidiaries *(note 30)* | **–** | 36,255 |
| Impairment loss | **(31,000)** | – |
| At the end of the year | **5,255** | 36,255 |

Goodwill acquired through business combination has been allocated to the cash generating unit of developing and manufacturing of education and security system for protection of the students' safety in the PRC ("e-Education CGU") for impairment testing.

For the purpose of impairment testing, goodwill and other intangible assets of e-Education and security platform (note 16) have been allocated to e-Education CGU.

The recoverable amount for the e-Education CGU has been determined based on a value-in-use calculation estimated by the management with reference to the valuation performed by an independent firm of professional valuer. The calculation covered a period estimated by the Group to be indefinite as there is no foreseeable limitation on the period of time over which the CGU is expected to generate economic benefits to the Group. The calculation uses cash flow projections based on a detailed five-year budget plan approved by the management.

The key assumptions were determined by the management based on its expectations for the business development. The estimated cash flows include budget revenue based on the estimation of market development and future performance of the e-Education CGU made by the management of the Group. The discount rate used is pre-tax and reflect specific risks relating to the industry in relation to the e-Education CGU.

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

| | **2018** | 2017 |
|---|---|---|
| Terminal growth rate | **3%** | 3% |
| Discount rate | **38.9%** | 33.8% |

The Group is of the opinion, based on the impairment assessment of the e-Education CGU, the goodwill allocated to e-Education CGU is partially impaired by approximately HK$31,000,000 (2017: Nil) which was charged to profit or loss in the current year. The above impairment loss is mainly attributable to unfavourable changes in (i) the estimated discount rate; (ii) risks associated with the business and operation of e-Education CGU; and (iii) its business plan in which the Group did not carry out this business as previously planned as a result of the suspension of Jiuyi Qualification and the subsequent legal proceeding against Bei Pou Jiuyi.

As the cash generating unit has been reduced to its recoverable amount of HK$16,770,000, any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

Apart from the considerations described in determining the value-in-use of the cash-generating unit above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

On 15 June 2015, Zhongshan Bei Dou Education Technology Limited ("Bei Dou Zhongshan"), which became an indirectly owned subsidiary of the Company on 16 December 2016, entered into a business cooperation agreement with, an independent third party, Bei Dou Jiuyi Information Technology Industry (Beijing) Limited ("Bei Dou Jiuyi"), pursuant to which Bei Dou Jiuyi had agreed to franchise Bei Dou Zhongshan to conduct relevant Bei Dou services under its Branch Services Trial Qualification ("Bei Dou Qualification"), subject to the terms and conditions therein.

## 15. GOODWILL – Continued

On 27 January 2017, the Company found that there are changes to information in relation to Bei Dou Qualification on the official website of China National Administration of GNSS and Application ("CNAGA") (the "Website") on 25 January 2017, which includes a word of suspension and a notice that Bei Dou Jiuyi did not pass the annual inspection and qualification renewal check, the Bei Dou Qualification has been suspended (the "Suspension"), and Bei Dou Jiuyi was required to carry out remedial works within six months. If Bei Dou Jiuyi successfully carries out the rectifications required, the Bei Dou Qualification will be renewed, otherwise, the Bei Dou Qualification would be revoked by CNAGA.

The Company has made telephone enquiry with the managing center of China National Administration of GNSS and Application after being aware of the suspension of the Bei Dou Qualification. The Company was informed that:

(a) the period of validity of the Bei Dou Qualification is four years, but its yearly renewal is subject to the annual inspection check (the "Annual Check");

(b) during the period of rectification and improvement (the "Period"), although the Bei Dou Qualification is currently suspended, it is not withdrawn and still remains in force. As such, Bei Dou Jiuyi is entitled to operate relevant business and co-operate with its business partners under the Bei Dou Qualification; and

(c) after Bei Dou Jiuyi has submitted all the documents required by the Annual Check during the Period, the suspension will be lifted.

On 12 June 2017, the Group has filed a civil petition statement at the First People's Court in Zhongshan City, Guangdong Province ("Zhongshan First People's Court") against Bei Dou Jiuyi, claiming that Bei Dou Jiuyi has breached the business cooperation agreement entered with Bei Dou Zhongshan, a subsidiary of the Company on 15 June 2015 and seeking the court for an order against that Bei Dou Jiuyi to, inter alia, return the consideration under the agreement amounted to RMB15,000,000 together with interests. On 15 June 2017, the Group received the notice of acceptance of the case issued by Zhongshan First People's Court. Details are disclosed in the Company's announcements dated 27 January 2017, 14 February 2017 and 16 June 2017.

On 21 June 2017, the Group entered into an agreement with Guangdong Bei Dou Platform Technology Company Limited ("Guangdong Bei Dou"), which has the same qualification as that of Bei Dou Jiuyi, to grant the franchise of the Bei Dou Qualification to Bei Dou Zhongshan, a subsidiary of the Company, in its e-Education business. Details are disclosed in the Company's announcement dated 21 June 2017.

On 18 January 2018, the Group received a judgement granted by Zhongshan First People's Count (the "Judgement") in favour of Bei Dou Zhongshan. The contents of the Judgement are summarized that:

(a) the business cooperation agreement with Bei Dou Jiuyi was rescinded;

(b) Bei Dou Jiuyi shall, within seven days from the effective date of the Judgement, return the consideration of the Bei Dou Qualification amounted to RMB15,000,000 together with the interest accrued (the "Refund of Consideration"); and

(c) the court fee amounted to RMB111,800 shall be borne by Bei Dou Jiuyi.

Therefore, the management has written-off the Franchise of Bei dou Qualification with net carrying amount of HK$11,626,000 (note 16) to profit or loss for the year ended 31 March 2018. At the reporting date, the Group has not received any compensation from the Judgement and the management has considered the Refund of Consideration is a contingent asset as disclosed in note 33(b).

## 16. OTHER INTANGIBLE ASSETS

| | Computerised operating and guarding system HK$'000 | Mobile game licenses* HK$'000 | e-Education and security platform HK$'000 | Franchise of Bei Dou Qualification HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2016 | 2,683 | – | – | – | 2,683 |
| Additions | 2,555 | 15,993 | – | – | 18,548 |
| Acquisition of subsidiaries *(note 30)* | – | – | 5,318 | 13,800 | 19,118 |
| Exchange realignment | – | – | 55 | 144 | 199 |
| At 31 March 2017 and 1 April 2017 | 5,238 | 15,993 | 5,373 | 13,944 | 40,548 |
| Additions | 1,479 | 3,390 | 151 | – | 5,020 |
| Write-off | – | (2,446) | (507) | (14,585) | (17,538) |
| Exchange realignment | – | – | 565 | 641 | 1,206 |
| **At 31 March 2018** | **6,717** | **16,937** | **5,582** | **–** | **29,236** |
| **Accumulated amortisation and impairment** | | | | | |
| At 1 April 2016 | 1,677 | – | – | – | 1,677 |
| Amortisation | 1,661 | – | 277 | 891 | 2,829 |
| Exchange realignment | – | – | (6) | (20) | (26) |
| At 31 March 2017 and 1 April 2017 | 3,338 | – | 271 | 871 | 4,480 |
| Amortisation | 1,100 | – | 571 | 2,048 | 3,719 |
| Write-off | – | – | (102) | (2,959) | (3,061) |
| Impairment | – | 3,700 | – | – | 3,700 |
| Exchange realignment | – | – | 56 | 40 | 96 |
| **At 31 March 2018** | **4,438** | **3,700** | **796** | **–** | **8,934** |
| **Net book value** | | | | | |
| **At 31 March 2018** | **2,279** | **13,237** | **4,786** | **–** | **20,302** |
| At 31 March 2017 | 1,900 | 15,993 | 5,102 | 13,073 | 36,068 |

* The mobile game licenses represented licenses fee for games under development, which are mobile games being licensed from developers and under modification. Upon completion of the significant modification and successful test for commercial production, the mobile games with finite useful life being measured initially at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses.

For the year ended 31 March 2018, an impairment loss of approximately HK$3,700,000 (2017: Nil) (note 10) was recognised, which represented the impairment loss of license fee paid for certain games obtained by the Group to the recoverable amounts as a result of number of expected paying players of these games not achieving expected level. The impairment loss was recognised in the consolidated statement of profit or loss and other comprehensive income. The recoverable amounts of HK$13,652,000 have been determined with reference to the fair value less cost of disposal calculations based on cash flow projections from approved budgets covering a period of one to three years which is the expected useful life of these games estimated by the management (level 3 fair value measurements). Budgeted gross margin is determined based on the past performance on similar games published by the associate and management's expectations for market development. The discount rate used is approximately 20.3% (2017: 25.8%).

## 17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The balances recognised in the consolidated statement of financial position are as follows:

| | Notes | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| Associates | a | **16,450** | 18,183 |
| Joint venture | b | **–** | – |
| As at 31 March | | **16,450** | 18,183 |

The amounts recognised in the profit or loss are as follows:

| | Notes | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| Associates | a | **(1,733)** | 1,127 |
| Joint venture | b | **–** | – |
| For the year ended 31 March | | **(1,733)** | 1,127 |

### (a) Interests in associates

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Share of net assets | **–** | 33 |
| Goodwill | **18,150** | 18,150 |
| | **18,150** | 18,183 |
| Impairment loss | **(1,700)** | – |
| Carrying amount as at 31 March | **16,450** | 18,183 |

## 17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – Continued

### (a) Interest in associates – Continued

Particulars of associates as at 31 March 2018 are as follows:

| Name of companies | Place of incorporation/ operations | Percentage of interest held | | Principal activities |
|---|---|---|---|---|
| | | Directly | Indirectly | |
| Magn Investment Limited ("Magn Investment") | Hong Kong | 25% | 20% | Investment holding |
| Magn Media (China) Holdings Limited# ("Magn Media (China)") | PRC | – | 45% | Investment holding |
| Shenzhen Timing Advertisement Co., Limited# ("Timing Advertisement") | PRC | – | 45% | Investment holding |
| Shenzhen Magn Classic Technology Co., Limited# ("Magn Classic Technology") | PRC | – | 45% | Investment holding |
| Shenzhen Magn Cultural Media Co., Limited# ("Magn Cultural Media") | PRC | – | 45% | Game publishing business |
| Shenzhen Magn Interactive Entertainment Cultural Media Co., Limited# | PRC | – | 45% | Dormant |
| Shenzhen Magn Firms Co., Limited# | PRC | – | 45% | Dormant |
| Shenzhen Weiyouhui Information Technology Co., Limited# | PRC | – | 45% | Investment holding |

# English name for identification purpose only

The mobile game business of Magn Investment is operated through controlling Timing Advertisement and its subsidiaries in the PRC (the "VIE Group") through VIE Contracts.

VIE Contracts included (i) Exclusive Consulting Service Agreement, (ii) Exclusive Call Option Agreement, (iii) Shareholders' Voting Right Entrustment Agreement, and (iv) Equity Pledge Agreement.

## 17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – Continued

### (a) Interests in associates – Continued

The above VIE Contracts enable Magn Classic Technology, a wholly-owned subsidiary of Magn Investment to:

- exercise effective financial and operational control over the VIE Group;
- exercise shareholders' voting rights of the VIE Group;
- receive substantially all of the economic interest and returns generated by the VIE Group in consideration for the business support, technical and consulting services provided by Magn Classic Technology, at Magn Classic Technology's discretion;
- obtain an exclusive right to purchase the entire equity interest in the VIE Group from the registered equity owners; and
- obtain a pledge over the entire equity interest of the VIE Group from the registered equity owners as collateral security to guarantee performance of all of the obligations of registered equity owners and the VIE Group under the VIE Contracts.

As a result of the VIE Contracts, Magn Investment has rights to variable returns from its involvement with the VIE Group, has the ability to affect those returns through its power over the VIE Group, and is considered to have control over the VIE Group. Consequently, the VIE Group is considered to be subsidiaries of Magn Investment.

However, the PRC government may determine that the VIE Contracts do not comply with the applicable laws and regulations. There can be no assurance that the VIE Contracts will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing or future applicable PRC laws and regulations, or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that the VIE Contracts will be deemed to be in compliance of the PRC laws and regulations.

The insurance of the Group does not cover the risks relating to the VIE Contracts and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Contracts in the future, such as those affecting the enforceability of the VIE Contracts and the relevant agreements for the transactions contemplated thereunder and the operation of Timing Advertisement, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, the Group will implement relevant internal control measures to reduce the operational risk.

## 17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – Continued

### (a) Interests in associates – Continued

**Summarised financial information for associates**

Set out below is the summarised consolidated financial information for Magn Investment which is accounted for using the equity method.

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **As at 31 March** | | |
| Non-current assets | **10,408** | 9,297 |
| Current assets | **77,038** | 90,385 |
| Current liabilities | **(80,657)** | (94,609) |
| Non-current liabilities | **(10,088)** | (5,000) |
| Net (liabilities)/assets | **(3,299)** | 73 |
| Proportion of the Group's ownership | **45.0%** | 45.0% |
| Group's share of net assets of associates | **–** | 33 |
| **Year ended 31 March** | | |
| Revenue | **10,894** | 82,664 |
| (Loss)/profit for the year | **(3,155)** | 2,504 |
| Other comprehensive income for the year | **(214)** | 133 |
| Total comprehensive income for the year | **(3,369)** | 2,637 |
| Aggregate amount of the Group's share of associates | | |
| Profit or loss | **33** | 1,127 |
| Other comprehensive income | **–** | 60 |
| Total comprehensive income | **33** | 1,187 |

At 31 March 2018, the Group unrecognised share of loss and other comprehensive income of Magn Investment for the year cumulatively amounted to HK$1,387,000 and HK$97,000 respectively.

For the impairment testing of interests in associates, which is considered an individual CGU, the recoverable amount of the CGU has been determined based on value-in-use by using income approach (discounted cash flow method). A pre-tax discount rate of 26.9% was applied on the projected cash flow of the calculation. As a result, according to the impairment test result used by the Group, the recoverable amount of interests in associates is lower than its carrying amount due to decrease in number of games published led to decrease in cash inflows, and impairment of approximately HK$1,700,000 was recorded in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2018.

## 17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – Continued

### (b) Investment in a joint venture

The primary business of this joint venture is research and development of security system software for intelligence building automatic system. This joint venture is of small scale and, accordingly, the directors considered it is immaterial to the Group.

The contractual arrangement provides the Group with only the rights to the net assets of the joint arrangement, with the rights to the assets and obligation for the liabilities of the joint arrangement resting primarily with Shenzhen Guanhui Xindong Technology Development Co., Limited. Under HKFRS 11 this joint arrangement is classified as a joint venture and has been included in the consolidated financial statements using the equity method.

Joint venture is accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the joint venture's net assets except that losses in excess of the Group's interest in the joint venture is not recognised unless there is an obligation to make good those losses.

For the year ended 31 March 2018, the unrecognised share of losses and accumulated unrecognised share of losses of a joint venture was amounted to nil (2017: HK$1,000) and HK$1,000 (2017: HK$1,000) respectively.

Particulars of a joint venture as at 31 March 2018 are as follows:

| Name of company | Place of incorporation/ operations | Percentage of interest held | Principal activities |
|---|---|---|---|
| Shenzhen Guanhui Xindong Technology Development Co., Limited# | PRC | 50% | Research and development of security system software for intelligence building automatic system |

# English name for identification purpose only

**Commitment in respect of joint venture**

| | **2018** RMB'000 | 2017 RMB'000 |
|---|---|---|
| Commitment to provide funding | **5,000** | 5,000 |

## 18. INVESTMENT IN A LIFE INSURANCE POLICY

The Group entered into a life insurance policy with an insurance company to insure a former director of the Company, Mr. Fu Yik Lung (the "Insured"). Under the policy, the beneficiary and policy holder is the Group and the total insured sum is US$550,000 (equivalent to HK$4,290,000). The Group was required to pay a one-off premium payment of US$145,217 (equivalent to HK$1,132,693). The Group can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the premium payment plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge ("Cash Value").

For the maturity date of the life insurance policy, the policy provides for continuation of the policy until the death of the Insured, unless there is full cash surrender or a loan causes the policy to lapse. The insurance charge is the cost of insurance that the insurance company charged for provision of the insurance benefits on the death of the Insured at range from 0.084% to 35.93% per annum throughout the policy. In addition, if withdrawal and termination of the policy are made between the 1st to 15th policy year, there is a specified amount of surrender charge. The surrender charge on full or partial termination would be calculated based on the number of years the policy has been in force which is charged at the range from 0.9% to 13.5% of the premium.

The surrender charge of withdrawal is calculated by the insurance company based on the Insured's age and the number of years the policy has been in force and will be deducted from the Cash Value if withdrawal is made within the 1st to 15th policy year which is charged at the range from 1% to 4% of the withdrawal amount. The insurance company will pay the Group an interest on the outstanding Cash Value of the policy at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 1.8% per annum is guaranteed by the insurance company.

The investment in the life insurance policy is denominated in US$, a currency other than the functional currency of the Group.

The directors consider that the carrying amount of the investment in the life insurance policy approximate its fair value.

The fair value of the investment in a life insurance policy is provided by the insurance company which is determined with reference to the Cash Value.

## 19. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial asset at fair value through profit or loss represents a contingent consideration receivable arising from the profit guarantee in relation to the acquisition of 100% equity interest of China Bei Dou as disclosed in note 30. Pursuant to the profit guarantee, the potential undiscounted amount of the contingent consideration receivable that the Group could receive is between nil and HK$51,170,000.

The fair value of the financial asset at fair value through profit or loss was determined by applying the income approach and after considering the probability of the weighted average estimated profit or loss of the guaranteed two-year period under discounted cash flow method and the credit risk of the compensation that the Group could receive.

For the year ended 31 March 2018, a fair value loss of HK$2,200,000 was recognised to profit or loss (2017: a fair value gain of HK$600,000).

## 20. LOAN TO AN ASSOCIATE/AMOUNTS DUE FROM/(TO) NON-CONTROLLING EQUITY HOLDER OF A SUBSIDIARY/RELATED PARTY/AN ASSOCIATE/A DIRECTOR

Disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows:

| **Borrower** | Notes | **As at 31 March 2018 HK$'000** | As at 31 March 2017 HK$'000 | **Maximum balance outstanding during the year ended 31 March 2018 HK$'000** |
|---|---|---|---|---|
| Loan to an associate | (i) | **4,300** | 5,000 | **5,000** |
| Amount due from an associate | (i), (iv) | **5** | 208 | **208** |
| Amount due from a related party | (ii) | **4,864** | 4,705 | **5,974** |
| Amount due from a director | (iii), (iv) | **236** | – | **236** |

*Notes:*

(i) The director of the Company, Mr. Chen Yunchuo, has interest in the associate.

(ii) The balance is due from a director of a subsidiary.

(iii) Amount due from a director is interest free, unsecured and no fixed terms of repayment.

(iv) There was no amount due for repayment but has not been paid and no provision has been made against the loan or interest on the loan.

### (a) Loan to an associate/amount due from an associate/amount due to an associate

On 22 July 2016 and 25 February 2018, Guanhui Huyu Technology (Hong Kong) Limited ("Guanhui Huyu"), a subsidiary of the Company, as lender, entered into a loan agreement and a supplementary agreement respectively with Magn Investment, as borrower ("Loan Agreements"). Pursuant to the Loan Agreements, Guanhui Huyu has agreed to grant the loan facility to Magn Investment with a principal amount of HK$4,500,000 (2017: HK$5,000,000), unsecured, bearing interest at a rate of 6% per annum. Given that there is no demand clause and the loan to an associate is repayable on 28 February 2019 (2017: 21 July 2018), the loan is classified as current assets (2017: non-current assets) as at 31 March 2018. The loan is facilitating the business development of Magn Investment.

The amount due from an associate represented interest receivable arising from the loan to an associate and is repayable on 1 March 2019 (2017: 22 July 2017).

The amount due to an associate is unsecured, interest-free and repayable on demand.

### (b) Amount due from a related party

On 28 September 2016, 29 December 2016 and 29 March 2017, Shenzhen Qianhai Guanhui Huyu Technology Limited ("Shenzhen Huyu"), a subsidiary of the Company, as lender, entered into agreements with a director of a subsidiary, as borrower ("Related Party Loan Agreements"). Pursuant to the Related Party Loan Agreements, Shenzhen Huyu has agreed to grant the loan facility to the director of a subsidiary with principal amount of RMB2,500,000, RMB2,000,000 and RMB1,500,000 and the loans and their interests are repayable on 30 September 2018, 31 December 2018 and 31 March 2019 respectively. The loans are unsecured and bearing interest at a rate of 5% per annum. Given that there is a demand clause, the loans are classified as current assets (2017: current assets) as at 31 March 2018. The loan is facilitating the business development of Magn Investment indirectly.

## 20. LOAN TO AN ASSOCIATE/AMOUNTS DUE FROM/(TO) NON-CONTROLLING EQUITY HOLDER OF A SUBSIDIARY/RELATED PARTY/AN ASSOCIATE/A DIRECTOR – Continued

### (c) Amounts due from/(to) a non-controlling equity holder of a subsidiary/a related party/a director

The amounts due are unsecured, interest-free and repayable on demand except for the amount due from a non-controlling equity holder of a subsidiary with carrying amount of HK$2,269,000 (2017: HK$1,948,000) which is unsecured, interest-free and repayable on 30 May 2035 (2017: 30 May 2035). The effective interest rate of the amount due from a non-controlling equity holder of a subsidiary is 4.9% (2017: 4.9%) per annum.

## 21. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Trade receivables | **12,600** | 18,309 |
| Prepayments | **1,745** | 2,023 |
| Deposits | **404** | 478 |
| Other receivables | **632** | 607 |
| | **2,781** | 3,108 |
| Total trade receivables, prepayments, deposits and other receivables | **15,381** | 21,417 |

Trade receivables generally have credit terms of 7 to 30 days (2017: 7 to 30 days).

The ageing analysis of trade receivables (net of impairment loss) based on invoice dates, as of the end of the reporting period is as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Not more than 30 days | **6,224** | 9,406 |
| 30-90 days | **6,025** | 8,634 |
| Over 90 days | **351** | 269 |
| | **12,600** | 18,309 |

The ageing analysis of trade receivables (net of impairment loss), based on past due date, as of the end of the reporting period is as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Neither past due nor impaired | **9,689** | 12,937 |
| Not more than 30 days past due | **1,149** | 2,280 |
| 30-90 days past due | **1,547** | 2,935 |
| Over 90 days past due | **215** | 157 |
| | **12,600** | 18,309 |

## 21. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – Continued

At the end of the reporting period, the Group reviews receivables for evidence of impairment on both individual and collective basis. During the year ended 31 March 2018, the Group has written off trade receivables of HK$517,000 (2017: HK$58,000) directly to the profit or loss for the year (note 10).

Trade receivables that were past due but not impaired related to a number of customers that the Group had continuing business relationships with these customers including services to and settlements from these customers in general, which in the opinion of the directors, have no indication of default. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of trade receivables past due but not impaired.

## 22. TRADE PAYABLES, ACCRUED EXPENSES AND OTHER PAYABLES

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Trade payables | **693** | 2,116 |
| Accrued expenses and other payables | **11,989** | 16,111 |
| Total trade payables, accrued expenses and other payables | **12,682** | 18,227 |

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

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Not more than 30 days | **–** | 731 |
| 30-90 days | **–** | – |
| Over 90 days | **693** | 1,385 |
| | **693** | 2,116 |

As at 31 March 2017, included in other payables was a contingent consideration payable by the Group of HK$106,000 for the acquisition of 45% equity interest of Magn Investment.

As at 31 March 2017, the contingent consideration payable represented the consideration shares to be issued to Magn Group Limited subject to the profit guarantee of Magn Investment for the six months ended 31 March 2016 and the year ended 31 March 2017. The consideration shares were issued on 12 March 2018 (note 25(iii)).

## 23. DEFERRED TAX LIABILITIES

Details of deferred tax liabilities recognised and the movements during the current and prior years are as follows:

| | Accelerated tax depreciation HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 April 2016 | 478 | – | 478 |
| Charged to profit or loss *(note 11)* | 49 | – | 49 |
| At 31 March 2017 and 1 April 2017 | 527 | – | 527 |
| Changed/(credited) to profit or loss *(note 11)* | 75 | (602) | (527) |
| **At 31 March 2018** | **602** | **(602)** | **–** |

At 31 March 2018, as there is unpredictability of future profit streams, the Group did not recognise deferred income tax assets in respect of tax losses of HK$13,858,000 (2017: HK$5,361,000) that can be carried forward against future taxable income, of which, tax losses of HK$9,625,000 (2017: HK$2,499,000) can be carried forward indefinitely. The remaining balances of tax losses will expire on within five years.

## 24. PROMISSORY NOTE PAYABLE

On 6 May 2016, the Company issued a promissory note to a former director of the Company, Mr. Fu Yik Lung to raise funding for the Group's working capital on the daily operation and the development of its existing businesses and any other future development opportunities.

The amount is unsecured and interest-bearing at 5% per annum. The principal sum of HK$19,500,000 together with its interest accrued are to be repaid on the date falling two years from 6 May 2016. The fair value of HK$19,500,000 on initial recognition is measured by computing the present value of estimated future cash flows at the effective interest rate of 5% per annum.

During the year, imputed interest expense of HK$975,000 (2017: HK$882,000) was charged to the profit or loss.

Subsequent to the end of the reporting period, on 10 May 2018, the Group had entered into an extension agreement with the noteholder of the promissory note on pursuant to which the maturity date of the promissory note was extended to 4 August 2019 and the extended promissory note would bear fixed interest in the amount of HK$200,000 per month.

## 25. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| **Authorised:** | | |
| *Ordinary shares of HK$0.001 each* | | |
| At 31 March 2016, 2017 and 2018 | 20,000,000,000 | 20,000 |
| **Issued:** | | |
| *Ordinary shares of HK$0.001 each* | | |
| At 1 April 2016 | 6,400,000,000 | 6,400 |
| Issue of consideration shares *(note (i))* | 726,846,591 | 727 |
| Issue of shares upon placing *(note (ii))* | 553,153,409 | 553 |
| At 31 March 2017 and 1 April 2017 | 7,680,000,000 | 7,680 |
| Issue of consideration shares *(note (iii))* | 4,194,432 | 4 |
| Share options exercised *(note (iv))* | 185,600,000 | 186 |
| **At 31 March 2018** | **7,869,794,432** | **7,870** |

*Notes:*

(i) On 16 December 2016, 726,846,591 new shares of HK$0.001 each of the Company were issued to satisfy the Share Consideration on the acquisition of China Bei Dou (note 30) at a fair value of HK$50,153,000 of an issue price of HK$0.069 each. The premium received was credited to the share premium account.

(ii) On 20 March 2017, 553,153,409 new shares of the Company were issued to the public by way of placing at HK$0.022 each (the "Placing"). The net proceeds were used in the Group's mobile gaming business and the Group's general working capital. The premium received was credited to the share premium account.

(iii) On 12 March 2018, 4,194,432 new shares of the Company were issued to satisfy the compensated amount from the consideration shares on the acquisition of the 25% equity interest in Magn Investment Limited in relation to non-fulfillment of the 2017 Guaranteed Profit.

(iv) During the year ended 31 March 2018, the subscription rights attaching to 185,600,000 share options issued pursuant to the share option scheme of the Company (note 27) were exercised at the subscription price of HK$0.02 per share, resulting in the issue of aggregate of 185,600,000 shares of HK$0.001 each for a total cash consideration of approximately HK$3,713,000. The premium received was credited to the share premium account.

## 26. RESERVES

Details of the movements on the Group's reserves are as set out in the consolidated statement of changes in equity of the financial statements. The natures and purposes of reserves within equity are as follows:

Share premium

The share premium account of the Group represents the excess of the proceeds received over the nominal value of the Company's shares issued.

Merger reserve

It represents the difference between the nominal value of the share capital of the subsidiary held by the Group and the nominal value of the share capital of the Company issued pursuant to the group reorganisation prior to the listing of the Company's shares.

Share options reserve

The share options reserve represents the cumulative expenses recognised on the granting of share options to the employees and directors over the vesting period.

## 27. SHARE OPTION SCHEME

A share option scheme (the "Scheme") adopted by the Company was approved by the shareholders on 31 July 2014.

A summary of the Scheme is set out below:

The Scheme became effective for a period of 10 years commencing on 31 July 2014. Under the Scheme, the directors shall, in its absolute discretion select, make an offer to any eligible participants to subscribe for shares of the Company at a subscription price being not less than the highest of (i) the closing price of shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option, which must be a business day; or (ii) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the share on the date of grant of the option. The offer of a grant of options may be accepted within seven days inclusive of the day on which such offer was made.

The options granted shall be exercisable in whole or in part in the effective option period. The exercise period of the options granted is determined and notified by the directors to the grantee thereof at the time of making an offer provided that such period shall not exceed the period of 10 years from the date of the grant of the option is made, subject to the provisions for early termination thereof.

The maximum number of shares to be issued upon the exercise of all outstanding options granted at any time under the Scheme together with options which may be granted under any other share option schemes for the time being of the Company must not in aggregate exceed 10% of all the shares of the Company in issue as at the date of the annual general meeting held on 18 August 2017 being 768,000,000 shares.

## 27. SHARE OPTION SCHEME – Continued

Options granted during the year ended 31 March 2018 are as follows:

| | Numbers of options | | | | | | |
|---|---|---|---|---|---|---|---|
| | At 1 April 2017 | Granted during the year | Exercised during the year | At 31 March 2018 | Date of grant of share options | Exercise period of share options | Exercise price of share options |
| **Directors** | | | | | | | |
| Li Mingming | – | 64,000,000 | – | 64,000,000 | 30 June 2017 | Period 1 | 0.02 |
| Li Liping | – | 64,000,000 | – | 64,000,000 | 30 June 2017 | Period 1 | 0.02 |
| Ho Yuk Ming Hugo | – | 6,400,000 | – | 6,400,000 | 30 June 2017 | Period 1 | 0.02 |
| Xiong Hong | – | 6,400,000 | – | 6,400,000 | 30 June 2017 | Period 1 | 0.02 |
| Wan Tat Wai David | – | 6,400,000 | – | 6,400,000 | 30 June 2017 | Period 1 | 0.02 |
| | | 147,200,000 | – | 147,200,000 | | | |
| Employees in aggregate | – | 396,800,000 | (185,600,000) | 211,200,000 | 30 June 2017 | Period 1 | 0.02 |
| Total | – | 544,000,000 | (185,600,000) | 358,400,000 | | | |

*Notes:*

Period 1: 30 June 2017 to 29 June 2020

For the year ended 31 March 2017, no share options were granted under the Scheme. At 31 March 2017, there were no outstanding options under the Scheme.

The vesting date of the share options for the period from 30 June 2017 to 29 June 2020 is the date of grant.

No share options were lapsed under the Scheme during the year.

Equity-settled share options expenses of HK$4,009,000 (2017: Nil) has been included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2018. It gave rise to a share options reserve. No liabilities were recognised due to equity-settled share-based payment transactions.

The fair values of the share options granted under the Scheme were determined using the binomial option pricing model. Significant inputs into the model and assumptions were as follows:

| Parameter | 30 June 2017 |
|---|---|
| Share price | HK$0.018 |
| Exercise price | HK$0.020 |
| Risk-free rate | 0.943% |
| Expected option life | 3 years |
| Expected volatility | 70.79% |
| Early exercise behavior (of the exercise price) | 220%-280% |

## 27. SHARE OPTION SCHEME – Continued

The expected volatility represents the historical volatility of the share price of the ordinary shares of the Company.

The share options and weighted average share price are summarised as follows for the reporting periods presented:

| | 2018 | |
|---|---|---|
| | **Number of share options** | **Weighted average exercise price HK$** |
| Granted | **544,000,000** | **0.02** |
| Exercised | **(185,600,000)** | **0.02** |
| Outstanding at 31 March | **358,400,000** | **0.02** |

The share options outstanding at 31 March 2018, which are all exercisable, had exercise price of HK$0.02 and a weighted average remaining contractual life of 1.25 years.

At the end of the reporting period, the Company had 358,400,000 share options outstanding under the Scheme which representing approximately 4.6% of the Company's shares in issue as at 31 March 2018. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 358,400,000 additional ordinary shares of the Company and additional share capital of HK$358,400 and share premium of HK$6,809,600 (before issue expenses).

Subsequent to the end of the reporting period, 179,200,000 share options were exercised resulted in the issue of 179,200,000 ordinary shares of the Company and additional share capital of HK$179,200 and share premium of HK$3,404,800 (before issue expenses).

At the date of approval of these financial statements, the Company has 179,200,000 share options outstanding under the Scheme, which represented approximately 2.2% of the Company's share in issue as at that date.

According to the composite offer document issued on 31 May 2018, there are the mandatory conditional cash offers to cancel all outstanding share options of the Company at HK$0.017 in cash.

## 28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

### (a) Statement of financial position of the Company

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current asset** | | | |
| Investments in subsidiaries | | **15,390** | 58,148 |
| **Current assets** | | | |
| Prepayments | | **365** | 229 |
| Amount due from an associate | | **4** | 2 |
| Amount due from a director | | **128** | – |
| Amounts due from subsidiaries | | **42,797** | 52,853 |
| Cash at bank | | **128** | 8,551 |
| | | **43,422** | 61,635 |
| **Current liabilities** | | | |
| Accrued expenses | | **1,049** | 1,388 |
| Amounts due to subsidiaries | | **5,910** | 5,911 |
| Promissory note payable | | **21,357** | – |
| | | **28,316** | 7,299 |
| **Net current assets** | | **15,106** | 54,336 |
| **Total assets less current liabilities** | | **30,496** | 112,484 |
| **Non-current liability** | | | |
| Promissory note payable | | **–** | 20,382 |
| **Net assets** | | **30,496** | 92,102 |
| **EQUITY** | | | |
| Share capital | 25 | **7,870** | 7,680 |
| Reserves | 28(b) | **22,626** | 84,422 |
| **Total equity** | | **30,496** | 92,102 |

On behalf of the directors

**Chen Yunchuo**
*Director*

**Li Mingming**
*Director*

## 28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – CONTINUED

### (b) Reserves of the Company

| | Share premium HK$'000 | Contributed surplus HK$'000 (note) | Share options reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2016 | 39,008 | 7,996 | – | (15,487) | 31,517 |
| Issue of consideration shares *(note 25(i))* | 49,426 | – | – | – | 49,426 |
| Issue of shares upon placing *(note 25(ii))* | 11,616 | – | – | – | 11,616 |
| Loss for the year | – | – | – | (8,137) | (8,137) |
| At 31 March 2017 and 1 April 2017 | 100,050 | 7,996 | – | (23,624) | 84,422 |
| Issue of consideration shares *(note 25(iii))* | 134 | – | – | – | 134 |
| Equity-settled share options expenses *(note 27)* | – | – | 4,009 | – | 4,009 |
| Share options exercised *(note 27)* | 4,878 | – | (1,351) | – | 3,527 |
| Loss for the year | – | – | – | (69,466) | (69,466) |
| **At 31 March 2018** | **105,062** | **7,996** | **2,658** | **(93,090)** | **22,626** |

*Note:*

The contributed surplus of the Company represented the difference between the net asset value of the subsidiary acquired and the nominal value of the share capital of the Company issued in exchange thereof pursuant to the group reorganisation prior to the listing of the Company's shares.

## 29. SUBSIDIARIES

### (a) General information of subsidiaries

At 31 March 2018, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out as follows:

| Name of subsidiaries | Place of incorporation/ operations | Issued and paid-up share/ registered capital | Percentage of equity interest attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Million Joyce Global Limited | BVI/Hong Kong | 1,000 shares of US$1 each | 100% | – | Investment holding |
| King Force Service Limited | Hong Kong | HK$1 | – | 100% | Inactive |
| King Force Security Limited | Hong Kong | HK$10,000 | – | 100% | Provision of security guarding services |
| Golden Cross Trading Limited | BVI/Hong Kong | 1 share of US$1 each | 100% | – | Investment holding |
| Macro Getter Limited | Hong Kong | HK$1 | – | 100% | Investment holding |
| Loyal Salute Limited | BVI/Hong Kong | 1 share of US$1 each | 100% | – | Investment holding |
| Billion Getting Limited | Hong Kong | HK$1 | – | 100% | Inactive |
| Shiny Lotus Global Limited | BVI/Hong Kong | 1 share of US$1 each | 100% | – | Investment holding |
| Wise Creator Limited | Hong Kong | HK$1 | – | 100% | Inactive |
| King Force Star Technology Limited | BVI/Hong Kong | 1 share of US$1 each | 100% | – | Investment holding |
| Bei Dou Technology Group Holdings Limited (formerly known as King Force Star Technology (Hong Kong) Limited) | Hong Kong | HK$1 | – | 100% | Inactive |
| Guanhui Huyu Technology Limited | Samoa | 1 share of US$1 each | 100% | – | Investment holding |
| Guanhui Huyu Technology (Hong Kong) Limited | Hong Kong/PRC | HK$1 | – | 100% | Provision of mobile game business |
| Shenzhen Jiahonglitian Technology Development Co. Ltd# | PRC | RMB2,000,000 | – | 100% | Investment holding |

## 29. SUBSIDIARIES – Continued

### (a) General information of subsidiaries – Continued

| Name of subsidiaries | Place of incorporation/ operations | Issued and paid-up share/ registered capital | Percentage of equity interest attributable to the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Shenzhen Qianhai Guanhui Huyu Technology Limited# | PRC | HK$3,000,000 | – | 100% | Software development |
| China Bei Dou Communications Technology Group Limited | Hong Kong | HK$24,117,049 | – | 100% | Investment holding |
| Bei Dou Internet Education Technology (Shen Zhen) Limited# | PRC | RMB30,000,000 | – | 70% | Investment holding |
| Zhongshan Bei Dou Education Limited# ("Bei Dou Zhongshan") | PRC | RMB25,800,000 | – | 59.5% | Provision of students' e-education and e-security services |

# English name for identification purpose only.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

### (b) Material non-controlling interests

Bei Dou Zhongshan, a 59.5% owned subsidiary of the Company, has material non-controlling interests ("NCI"). The NCI of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

Summarised financial information in relation to the NCI of Bei Dou Zhongshan, before intra-group eliminations, is presented below:

## 29. SUBSIDIARIES – Continued

### (b) Material non-controlling interest – Continued

| | Bei Dou Zhongshan | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| **NCI percentage** | **40.5%** | 40.5% |
| **As at 31 March** | | |
| Current assets | **344** | 254 |
| Non-current assets | **7,804** | 20,361 |
| Current liabilities | **(2,861)** | (1,193) |
| Net assets | **5,287** | 19,422 |
| **Equity attributable to** | | |
| Ordinary shareholders | **3,334** | 11,556 |
| NCI | **1,953** | 7,866 |
| | **5,287** | 19,422 |
| Carrying amount of NCI | **1,953** | 7,866 |
| **For the year/period ended 31 March** | | |
| Revenue | **–** | – |
| Loss for the year/period | **(15,796)** | (1,483) |
| Other comprehensive income | **1,196** | (182) |
| Total comprehensive income | **(14,600)** | (1,665) |
| Loss allocated to NCI | **(6,397)** | (601) |
| Dividends paid to NCI | **–** | – |
| **For the year/period ended 31 March** | | |
| Cash flows from operating activities | **(358)** | 47 |
| Cash flows from investing activities | **(154)** | (55) |
| Cash flows from financing activities | **497** | – |
| Net cash outflows | **(15)** | (8) |

Bei Dou Zhongshan was acquired by the Group on 16 December 2016 (note 30).

## 30. BUSINESS COMBINATION

On 18 October 2016, the Group entered into a sale and purchase agreement (the "S&P Agreement") with Zheng Gang ("Mr. Zheng"), an independent third party, pursuant to which the Group acquired 100% of the issued share capital of China Bei Dou at a consideration of HK$51,170,000 (the "Share Consideration"), subject to a profit guarantee that the total audited consolidated net profit after taxation of China Bei Dou, prepared in accordance with HKFRSs and audited by auditors, shall not be less than HK$18 million for the two financial years ending 31 December 2017 and 2018 (the "Profit Guarantee"). In the event that the Profit Guarantee is not met, Mr. Zheng shall compensate China Bei Dou on a dollar-for-dollar basis on the shortfall by cash (the "Contingent Consideration Receivable"). If China Bei Dou records a loss for the two financial years ending 31 December 2017 and 2018, the compensation amount will be the same as the consideration, HK$51,170,000 and Mr. Zheng shall pay the compensation within one month after the issue date of the audited report for the two financial years ending 31 December 2017 and 2018.

On 16 December 2016, the Company issued 726,846,591 shares at a price of HK$0.069 per share to satisfy the Share Consideration. The acquisition was completed on 16 December 2016. Accordingly, the Group owns 100% of the issued share capital of China Bei Dou and which has become a subsidiary of the Group thereafter. China Bei Dou is principally engaged in investment holding and its major subsidiary, Bei Dou Zhongshan, 59.5% interest indirectly held by China Bei Dou, is principally engaged in developing and manufacturing of education and security system to protect the safety of students.

The provisional fair value of identifiable assets acquired and liabilities assumed of China Bei Dou as at the date of acquisition, 16 December 2016, are as follows:

| | HK$'000 |
|---|---|
| Other intangible assets *(note 16)* | 19,118 |
| Property, plant and equipment *(note 14)* | 747 |
| Amount due from a non-controlling equity holder | 1,897 |
| Other receivables and prepayments | 463 |
| Cash and cash equivalents | 94 |
| Trade and other payables | (1,567) |
| Less: non-controlling interests | (8,454) |
| | 12,298 |
| The provisional fair value of consideration transfer: | |
| Share Consideration issued | 50,153 |
| Contingent Consideration Receivable, at fair value *(note 19)* | (1,600) |
| Total purchase consideration | 48,553 |
| Goodwill arising on the acquisition of China Bei Dou *(note 15)* | 36,255 |

Net cash inflow arising from the acquisition:

| | HK$'000 |
|---|---|
| Cash and bank balances acquired | 94 |

## 30. BUSINESS COMBINATION – Continued

The above consideration transferred includes a performance-based contingent consideration adjustment, which is principally based on the Profit Guarantee in a two-year period after acquisition on a dollar-for-dollar basis. The adjustment will be settled in cash after the end of the two-year period. The potential undiscounted amount of the contingent consideration adjustment that the Group could receive or be required to make under this arrangement is between nil and HK$51,170,000. At the acquisition date, the fair value of the Contingent Consideration Receivable of HK$1,600,000 was estimated by applying the income approach and the probability of the weighted average estimated profit at a post-tax discount rate of 35% and the estimated profit of China Bei Dou for the two-year period in the range of HK$7,618,000 to HK$21,859,000. As of 31 March 2017, the fair value of the Contingent Consideration Receivable was increased by HK$600,000 as the estimated profit of China Bei Dou was recalculated to be in the range of HK$6,532,000 to HK$23,188,000 and the increase was recognised in current year's profit or loss.

The fair value of other receivables and prepayments amounted to HK$463,000 and amount due from a non-controlling equity holder amounted to HK$1,897,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The fair value of the shares issued was determined by reference to their quoted market price of HK$0.069 per share at the date of acquisition.

The goodwill of HK$36,255,000, which is not deductible for tax purposes, comprises the acquired reputation, the expected future profitability and the benefits from diversifying the revenue stream of the Group.

The Group has elected to measure the non-controlling interests in Bei Dou Zhongshan at the non-controlling interests' proportionate share of identifiable net assets. The amount of the non-controlling interests at the acquisition date amounted to HK$8,454,000.

The deferred tax liabilities arising on the acquisition is minimal.

Since the acquisition, China Bei Dou contributed nil to the Group's revenue and a loss of HK$1,606,000 to the consolidated profit for the year ended 31 March 2017.

Had the combination been taken place at the beginning of the year, on 1 April 2016, the Group's revenue would be unchanged and the Group's profit for the year would have been decreased by HK$12,581,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the group that actually would have been achieved had the acquisition been completed on the beginning of the year, nor is it intended to be a projection of future performance.

## 31. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### Directors' emoluments

### For the year ended 31 March 2018

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Retirement scheme contributions HK$'000 | Equity-settled share options expenses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Chen Yunchuo | – | 600 | – | – | 600 |
| Li Mingming | – | 240 | – | 487 | 727 |
| Li Liping | – | 240 | – | 487 | 727 |
| Cheng Rui | – | 240 | – | – | 240 |
| **Independent non-executive directors** | | | | | |
| Ho Yuk Ming Hugo | 165 | – | – | 49 | 214 |
| Xiong Hong | 165 | – | – | 49 | 214 |
| Wan Tat Wai David | 165 | – | – | 48 | 213 |
| Total | 495 | 1,320 | – | 1,120 | 2,935 |

## 31. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS – Continued

### Directors' emoluments – Continued

### For the year ended 31 March 2017

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Chen Yunchuo | – | 600 | – | 600 |
| Li Mingming | – | 240 | – | 240 |
| Li Liping (appointed on 7 December 2016) | – | 76 | – | 76 |
| Cheng Rui (appointed on 8 February 2017) | – | 35 | – | 35 |
| Liu Lai Ying (resigned on 24 June 2016) | – | 69 | 3 | 72 |
| Chung Pui Yee Shirley (resigned on 8 August 2016) | – | 106 | 5 | 111 |
| Fu Yik Lung (resigned on 12 January 2017) | – | 681 | 14 | 695 |
| **Independent non-executive directors** | | | | |
| Ho Yuk Ming Hugo (appointed on 19 September 2016) | 64 | – | – | 64 |
| Xiong Hong (appointed on 24 June 2016) | 92 | – | – | 92 |
| Wan Tat Wai David (appointed on 19 September 2016) | 64 | – | – | 64 |
| Professor Lam Sing Kwong Simon (resigned on 24 June 2016) | 28 | – | – | 28 |
| Au Man Yi (resigned on 19 September 2016) | 56 | – | – | 56 |
| Ong Chi King (resigned on 19 September 2016) | 56 | – | – | 56 |
| Total | 360 | 1,807 | 22 | 2,189 |

No directors waived any emoluments in the year ended 31 March 2018 (2017: Nil).

Notes

1. Mr. Fu Yik Lung had resigned as executive Director on 12 January 2017. Upon his resignation, he remained as a senior management of the Group and the remuneration attributable to such position is HK$583,000 for the year ended 31 March 2017.

2. Ms. Liu Lai Ying had resigned as executive Director on 24 June 2016. Upon her resignation, she remained as a senior management of the Group and the remuneration attributable to such position is HK$669,000 for the year ended 31 March 2017.

3. Ms. Chung Pui Yee Shirley had resigned as executive Director on 8 August 2016. Upon her resignation, she remained as a senior management of the Group and the remuneration attributable to such position is HK$242,000 for the year ended 31 March 2017.

## 31. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS – Continued

### Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2017: two) is a director of the Company who emoluments is included in the disclosure of directors' emoluments above. The emoluments of the remaining four individuals (2017: three individuals) were as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Salaries and other emoluments | 5,996 | 1,503 |
| Retirement scheme contributions | 72 | 48 |
| Equity-settled share options expenses | 606 | – |
| | 6,674 | 1,551 |

Their emoluments were within the following bands:

| | 2018<br>Number of<br>Individuals | 2017<br>Number of<br>Individuals |
|---|---|---|
| HK$2,000,001 to HK$3,000,000 | 2 | – |
| HK$1,000,001 to HK$2,000,000 | 1 | – |
| Nil to HK$1,000,000 | 1 | 3 |
| | 4 | 3 |

During both years ended 31 March 2018 and 2017, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group as compensation for loss of office.

### Senior management emoluments

The emoluments paid or payable to members of senior management fell within the following:

| | 2018<br>Number of<br>Individuals | 2017<br>Number of<br>Individuals |
|---|---|---|
| HK$2,000,001 to HK$3,000,000 | 2 | – |
| Nil to HK$1,000,000 | – | 2 |

## 32. COMMITMENTS

### (a) Operating leases

**As lessee**

Future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **989** | 2,203 |
| In the second to fifth year | **284** | 555 |
| | **1,273** | 2,758 |

The Group leases a number of premises and office equipment under operating leases. The leases run for an initial period of one year to five years (2017: one year to five years). The above lease commitments only include commitments for basic rental and none of the lease includes any contingent rental.

### (b) Capital commitments

As at 31 March 2018, the Group had capital commitments for acquisition of other intangible assets on mobile game licenses of approximately HK$2,255,000 (2017: Nil).

## 33. LEGAL PROCEEDINGS, CONTINGENT LIABILITIES AND CONTINGENT ASSET

### (a) Contingent liabilities

As at 31 March 2018, the Group, as the defendant, has a total of three cases pending or unresolved with three plaintiffs related to occupational injury and illness. The risks relating to such contingent liabilities are covered by adequate insurance.

### (b) Contingent asset

In respect of the business cooperation with Bei Dou Jiuyi, the Group received the Judgement granted by Zhongshan First People's Count in favour of Bei Dou Zhongshan on 18 January 2018. The contents of the Judgement are disclosed in note 15.

The directors consider the Judgement is in favour of the Group, as the plaintiff, and believe that an inflow of economic benefits from the Refund of Consideration amounted to RMB15,000,000 (equivalent to HK$18,762,000) is, therefore, probable. However, the contingent asset has not been recognised as a receivable at 31 March 2018 as it is not virtually certain that an inflow of economic benefits will arise.

## 34. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following transactions carried out with related parties during the year:

| | Notes | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| Operating lease and related charges paid to a former director, Ms. Liu Lai Ying | | **605** | 600 |
| Interest income from an associate, Magn Investment | (a) | **297** | 208 |
| Interest income from a director of a subsidiary | | **270** | – |
| Interest expense to a former director of the Company/a director of a subsidiary, Mr. Fu Yik Lung | (a) | **975** | 882 |

Note:

(a) The transactions above were carried out on the terms agreed between the relevant parties.

(ii) Compensation of key management personnel

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Short-term employee benefits | **8,055** | 5,171 |
| Post employment benefits | **92** | 115 |
| Equity-settled share options expenses | **1,120** | – |
| | **9,267** | 5,286 |

## 34. RELATED PARTY TRANSACTIONS – Continued

(iii) Balances with related parties

| | Notes | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| **Receivable from/(payable to)** | | | |
| Ms. Liu Lai Ying, a former director of the Company | (a) | **100** | 100 |
| Mr. Chen Yunchuo, a director of the Company | (b) | **236** | – |
| A director of a subsidiary | (c) | **4,864** | 4,705 |
| | (c) | **–** | (247) |
| Magn Investment, an associate | (d) | **4,305** | 5,208 |
| | (d) | **(416)** | (363) |
| Mr. Li Mingming, a director of the Company | (e) | **(161)** | (169) |
| Mr. Fu Yik Lung, a former director of a subsidiary/a director of a subsidiary | (f) | **(21,357)** | (20,382) |

(a) Balance with Ms. Liu Lai Ying, a former director of the Company represented rental deposit paid to her. She has resigned as a director of the Company on 24 June 2016.

(b) Balance with Mr. Chen Yunchuo, a director of the Company, represented the amount due from a director.

(c) Balances with a director of a subsidiary, represented the amount due from a related party of HK$4,864,000 (2017: HK$4,705,000) and amount due to a related party of nil (2017: HK$247,000).

(d) Balance with Magn Investment, an associate of the Group, represented the loan to an associate and amount due from/to an associate.

(e) Balance with Mr. Li Mingming, a director of the Company, represented the amount due to a director.

(f) Balance with Mr. Fu Yik Lung, a former director of the Company and a director of a subsidiary, represented promissory note payable and its accrued interests of HK$21,357,000 (2017: HK$20,382,000) in total.

## 35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount and fair value of financial assets and liabilities:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| **Non-current** | | |
| Available-for-sale financial assets: | | |
| – Investment in a life insurance policy | **1,169** | 1,148 |
| Financial asset measured at fair value through profit or loss: | | |
| – Contingent consideration receivable | **–** | 2,200 |
| Loans and receivables | | |
| – Loan to an associate | **–** | 5,000 |
| – Amount due from a non-controlling equity holder of a subsidiary | **2,269** | 1,948 |
| | **3,438** | 10,296 |
| **Current** | | |
| Loans and receivables (including cash and cash equivalents): | | |
| – Trade receivables | **12,600** | 18,309 |
| – Deposits and other receivables | **1,036** | 1,085 |
| – Amount due from a director | **236** | – |
| – Amount due from an associate | **5** | 208 |
| – Amount due from a related party | **4,864** | 4,705 |
| – Loan to an associate | **4,300** | – |
| – Cash at banks and in hand | **10,849** | 30,482 |
| | **33,890** | 54,789 |
| | **37,328** | 65,085 |
| **Financial liabilities** | | |
| **Non-current** | | |
| Financial liabilities measured at amortised cost: | | |
| – Promissory note payable | **–** | 20,382 |
| **Current** | | |
| Financial liabilities measured at amortised cost: | | |
| – Trade payables | **693** | 2,116 |
| – Accrued expenses and other payables | **11,984** | 16,005 |
| – Amount due to a director | **161** | 169 |
| – Amount due to an associate | **416** | 363 |
| – Amount due to a related party | **–** | 247 |
| – Promissory note payable | **21,357** | – |
| | **34,611** | 18,900 |
| Financial liabilities measured at fair value through profit or loss: | | |
| – Contingent consideration payable | **–** | 106 |
| | **34,611** | 19,006 |
| | **34,611** | 39,388 |

## 36. FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks which result from the use of financial instruments in its ordinary course of operations. The financial risks include market risks (mainly foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The directors meet regularly to identify and evaluates risks and formulates strategies to manage financial risks on timely and effective manner. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below.

### Foreign currency risk

The Group has transactional and translational currency exposures. These exposures arise from expenses incurred by operating units in currencies other than the units' functional currencies. The Group's monetary assets, monetary liabilities, financing and transactions are principally denominated in RMB and HK$. The Group is exposed to the foreign exchange risk arising from changes in the exchange rate of HK$ against RMB. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's result (due to changes in the fair value of monetary assets and liabilities).

| | **Increase/ (decrease) in RMB rate** | **Increase/ (Decrease) in result** | **Increase/ (decrease) in equity** |
|---|---|---|---|
| | % | HK$'000 | HK$'000 |
| **2018** | | | |
| If Hong Kong dollar weakens against RMB | **5** | **95** | **213** |
| If Hong Kong dollar strengthens against RMB | **(5)** | **(95)** | **(213)** |
| 2017 | | | |
| If Hong Kong dollar weakens against RMB | 5 | (143) | 229 |
| If Hong Kong dollar strengthens against RMB | (5) | 143 | (229) |

## 36. FINANCIAL RISK MANAGEMENT – Continued

### Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the end of the reporting period, the Group's exposure to interest rate risk mainly arises from bank deposits which earn interests at floating rates, a fixed rate loan to an associate (note 20(a)), a fixed rate amount due from a related party (note 20(b)), a fixed rate amount due from a non-controlling equity holder of a subsidiary and a fixed rate promissory loan note (note 24). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk. The directors considered that the Group's exposure to interest rate risk is not significant.

### Credit risk

The Group's exposure to credit risk related to the financial assets summarised in the note 35. Details of the Group's exposures to credit risk on loan to an associate, trade receivables, and amounts due from a related party/an associate/a non-controlling equity holder of a subsidiary/a director are disclosed in notes 20 and 21.

The Group's trade receivables are actively monitored to avoid concentration of credit risk with exposure spread over a number of customers.

The Group continuously evaluates the credit risk of its customers to ensure appropriateness of the amount of credit granted. Credit terms are extended to certain customers based on the evaluation of individual customer's financial conditions. In addition, the Group reviews the recoverable amount of each individual trade debt at that reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by the Group during the year and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level. The Group's bank balances are all deposited with licensed banks in Hong Kong and the PRC.

The management considers the credit risk on a related party/an associate is not significant as a director of the associate/a director of the Company has provided the financial guarantee to undertake the liabilities from a related party/an associate. The credit risk from a non-controlling equity holder of a subsidiary is not significant as the equity holder has adequate assets, its interests in that subsidiary, to recover the amount due from.

## 36. FINANCIAL RISK MANAGEMENT – Continued

### Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables, accrued liabilities, other payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The liquidity policies have been followed by the Group during the year and are considered by the directors to have been effective in managing liquidity risk.

Analysed below is the Group's remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group are required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group are committed to pay.

| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | Total contractual undiscounted cash flows HK$'000 | Carrying amounts HK$'000 |
|---|---|---|---|---|
| **As at 31 March 2018** | | | | |
| **Non-derivatives:** | | | | |
| Trade payables | **693** | **–** | **693** | **693** |
| Accrued expenses and other payables | **11,984** | **–** | **11,984** | **11,984** |
| Amount due to a director | **161** | **–** | **161** | **161** |
| Amount due to an associate | **416** | **–** | **416** | **416** |
| Amount due to a related party | **–** | **–** | **–** | **–** |
| Promissory note payable | **22,480** | **–** | **22,480** | **21,357** |
| | **35,734** | **–** | **35,734** | **34,611** |
| **As at 31 March 2017** | | | | |
| **Non-derivatives:** | | | | |
| Trade payables | 2,116 | – | 2,116 | 2,116 |
| Accrued expenses and other payables | 16,005 | – | 16,005 | 16,005 |
| Amount due to a director | 169 | – | 169 | 169 |
| Amount due to an associate | 363 | – | 363 | 363 |
| Amount due to a related party | 247 | – | 247 | 247 |
| Promissory note payable | – | 21,450 | 21,450 | 20,382 |
| | 18,900 | 21,450 | 40,350 | 39,282 |

## 37. FAIR VALUE MEASUREMENTS

Fair values of the Group's financial assets and liabilities measured at amortised cost are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments.

The following table provides an analysis of financial instruments carried at fair value by level of the Fair Value Hierarchy:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: Fair value measured based on valuation techniques using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs.

Level 3: Fair value measured based on valuation techniques using significant unobservable inputs (i.e. not derived from market data).

| | **Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| **At 31 March 2018** | | | | |
| **Financial assets** | | | | |
| Available-for-sale financial assets: | | | | |
| – Investment in a life insurance policy | **–** | **1,169** | **–** | **1,169** |
| Financial assets at fair value through profit or loss: | | | | |
| – Contingent consideration receivable | **–** | **–** | **–** | **–** |
| | **–** | **1,169** | **–** | **1,169** |
| **Financial liability** | | | | |
| Financial liability at fair value through profit or loss: | | | | |
| – Contingent consideration payable | **–** | **–** | **–** | **–** |

| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **At 31 March 2017** | | | | |
| **Financial asset** | | | | |
| Available-for-sale financial assets: | | | | |
| – Investment in a life insurance policy | – | 1,148 | – | 1,148 |
| Financial assets at fair value through profit or loss: | | | | |
| – Contingent consideration receivable | – | – | 2,200 | 2,200 |
| | – | 1,148 | 2,200 | 3,348 |
| **Financial liability** | | | | |
| Financial liability at fair value through profit or loss: | | | | |
| – Contingent consideration payable | – | – | 106 | 106 |

## 37. FAIR VALUE MEASUREMENTS – Continued

### Information about level 2 for fair value measurements

The fair value of the investment in a life insurance policy is determined by the insurance company with reference to the Cash Value.

### Information about level 3 for fair value measurements

*Contingent consideration receivable*

The fair value of the contingent consideration receivable on the Profit Guarantee of China Bei Dou was based on the income approach and the probability of the weighted average estimated profit under discounted cash flow method.

The contingent consideration receivable is subject to the performance requirement as stipulated in the S&P Agreement. Pursuant to the S&P Agreement, Mr. Zheng undertakes China Bei Dou shall achieve the Profit Guarantee that the total audited consolidated net profit after taxation of China Bei Dou, prepared in accordance with HKFRSs and audited by auditors, shall not be less than HK$18 million for the two financial years ending 31 December 2017 and 2018. In the event that the Profit Guarantee is not achieved, Mr. Zheng shall compensate China Bei Dou on a dollar-for-dollar basis on the shortfall by cash. If China Bei Dou records a total loss for the two financial years ending 31 December 2017 and 2018, the compensation amount will be the same as the consideration of HK$51,170,000.

The fair value of the contingent consideration receivable was estimated by the management with the assistance of a firm of professional valuers after considering the probability that China Bei Dou could meet the Profit Guarantee and the credit risk of the compensation.

The significant unobservable inputs used in calculating the fair value measurement of the contingent consideration receivable is the present value of the expected profits and the credit risk of the compensation. With all other variables held constant, an increase/decrease in the estimated profits by 5% would have decreased/increased the Group’s result by nil (2017: HK$110,000). With all other variables held constant, an increase/decrease in the credit risk of the compensation by 5% would have decreased/increased the Group’s result by nil/HK$2,470,000 (2017: HK$110,000/nil).

There were no changes in valuation techniques during the year.

## 37. FAIR VALUE MEASUREMENTS – Continued

### Information about level 3 for fair value measurements – Continued

*Contingent consideration payable*

The consideration shares to be issued to Magn Group Limited in relation to the acquisition of Magn Investment, are subject to the performance requirement as set out in the adjustment mechanism stipulated in the supplemental agreement. Pursuant to the supplemental agreement, Magn Group Limited undertakes that Magn Investment shall achieve the "Guaranteed Profit" as below:

Magn Group Limited guaranteed to the Company that the audited consolidated net profit after tax of Magn Investment for the financial year ended 31 March 2017 (the "2017 Actual Profit") shall be not less than HK$45,000,000 (the "2017 Guaranteed Profit").

In the event that the 2017 Actual Profit fails to meet the 2017 Guaranteed Profit, Magn Group Limited shall indemnify the Company the amount of the 2017 Compensated Amount (as defined below) by deducting the 2017 Compensated Amount from the consideration shares.

The "2017 Compensated Amount" = (2017 Guaranteed Profit – 2017 Actual Profit) x 0.4425

The fair value of the consideration shares was estimated by management of the Company after considering the probability that Magn Investment could meet the 2017 Guaranteed Profit and the market price of the shares of the Company.

The key unobservable inputs in calculating the fair value of the contingent consideration payable were the assumptions used in Magn Investment's profit forecast for the year ended 31 March 2017 which were the estimated number of active paying players of mobile games and the estimated average monthly spending on the mobile games by them, and the estimated market price of the consideration shares to be issued. For the year ended 31 March 2017, with all other variables held constant, an increase/(decrease) in the estimated share price by 5% would have decreased/(increased) the Group's result by HK$5,000.

## 37. FAIR VALUE MEASUREMENTS – Continued

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| *Contingent consideration receivable* | | |
| At 1 April | **2,200** | – |
| Arising from acquisition of subsidiaries *(note 30)* | **–** | 1,600 |
| Fair value (loss)/gain on contingent consideration receivable recognised in profit or loss during the year | **(2,200)** | 600 |
| At 31 March | **–** | 2,200 |
| *Contingent consideration payable* | | |
| At 1 April | **106** | 13,341 |
| Fair value (loss)/gain on contingent consideration payable recognised in profit or loss during the year | **32** | (13,235) |
| Settlement of contingent consideration | **(138)** | – |
| At 31 March | **–** | 106 |

There were no transfers between levels during the year.

## 38. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year.

The Group sets the amount of capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debts.

Management of the Company regards total equity as capital. The amount of capital as at 31 March 2018 and 2017 amounted to HK$60,750,000 and HK$132,988,000 respectively, which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity attributable to owners of the Company. Net debt includes promissory note payable less cash and cash equivalents. The Group's policy is to maintain a gearing ratio at a reasonable level.

## 38. CAPITAL MANAGEMENT– Continued

The gearing ratios as at the end of the reporting periods were as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Promissory note payable | **21,357** | 20,382 |
| Total debt | **21,357** | 20,382 |
| Less: Cash and cash equivalents | **(10,849)** | (30,482) |
| Net debt | **10,508** | N/A |
| Total equity attributable to owners of the Company | **59,230** | 125,073 |
| Gearing ratio | **18%** | N/A |

## 39. NOTE SUPPORTING CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities

| | Promissory note payable HK$'000 |
|---|---|
| At 1 April 2017 | 20,382 |
| Accrued Interest on promissory note (note 9) | 975 |
| At 31 March 2018 | 21,357 |

## 40. EVENTS AFTER THE REPORTING DATE

On 10 May 2018, the Group had entered into an extension agreement with the noteholder of the promissory note (note 24) on pursuant to which the maturity date of the promissory note was extended to 4 August 2019 and the extended promissory note would bear fixed interest in the amount of HK$200,000 per month.

## FIVE YEAR'S FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements in this annual report and the prospectus of the Company, is as follows.

### FINANCIAL RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **111,807** | 146,212 | 146,224 | 130,302 | 111,059 |
| Gross profit | **14,452** | 30,866 | 27,574 | 24,792 | 23,033 |
| (Loss)/profit before income tax | **(82,339)** | 7,360 | 1,302 | 4,394 | 10,936 |
| (Loss)/profit for the year | **(81,551)** | 5,556 | (55) | 2,926 | 8,362 |
| Attributable to: | | | | | |
| Owners of the Company | **(74,705)** | 6,197 | (55) | 2,926 | 8,362 |
| Non-controlling interests | **(6,846)** | (641) | – | – | – |
| | **(81,551)** | 5,556 | (55) | 2,926 | 8,362 |

### ASSETS AND LIABILITIES

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Non-current assets | **58,121** | 116,324 | 32,109 | 14,660 | 10,699 |
| Current assets | **37,245** | 56,812 | 56,705 | 54,210 | 29,626 |
| Current liabilities | **34,616** | 19,239 | 28,558 | 12,217 | 20,317 |
| Non-current liabilities | **–** | 20,909 | 478 | 885 | 294 |
| Net assets | **60,750** | 132,988 | 59,778 | 55,768 | 19,714 |
| Total equity attributable to: | | | | | |
| Owners of the Company | **59,230** | 125,073 | 59,778 | 55,768 | 19,714 |
| Non-controlling interests | **1,520** | 7,915 | – | – | – |
| | **60,750** | 132,988 | 59,778 | 55,768 | 19,714 |