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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: 08315)

UPDATE ON THE USE OF PROCEEDS FROM THE PLACING; AND NON-FULFILLMENT OF PROFIT GUARANTEE IN RESPECT OF THE ACQUISITION OF 25% EQUITY INTEREST IN MAGN INVESTMENT LIMITED

UPDATE ON USE OF PROCEEDS FROM THE PLACING

Reference is made to announcement of the Company dated 7 March 2017 in relation to the Placing (the “**Placing Announcement**”), the announcement of the Company dated 20 March 2017 in relation to the completion of the Placing (the “**Completion Announcement**”) and the 2017 annual report of the Company published on 27 June 2017 (the “**2017 Annual Report**”). Unless otherwise defined, terms used in this section shall have the same meanings as those defined in the Placing Announcement and the Completion Announcement.

As disclosed in the Completion Announcement, the net proceeds from the Placing, after deducting the placing commission and other related expenses incurred in the Placing (the “**Proceeds**”) amounted to approximately HK\$11,732,941. It was announced in the Completion Announcement that the Proceeds would primarily be used to develop and promote the Group’s mobile gaming business and also to replenish the general working capital of the Group. As disclosed in the 2017 Annual Report, the Proceeds have been fully used in the manner as set out in the Completion Announcement.

The breakdown of the actual use of the Proceeds is as set out in the below table:

	Expenses <i>(HK\$'000)</i> <i>(approximately)</i>	Approximate %
Develop and promote the mobile gaming business		
Investment in mobile game business	4,437	37.82%
Licensing fee of mobile games	3,390	28.89%
Other operating expenses	373	3.18%
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	8,200	69.89%
General working capital of the Group		
Administrative expenses	532	4.53%
Expenses of professional services	1,692	14.42%
Staff cost	1,309	11.16%
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	3,533	30.11%
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Total	11,733	100.00%
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NON-FULFILLMENT OF PROFIT GUARANTEE IN RESPECT OF THE ACQUISITION OF 25% EQUITY INTEREST IN MAGN INVESTMENT LIMITED

Reference is made the announcements of the Company dated 19 October 2015 and 24 November 2015 in relation to, among others, the acquisition of 25% equity interest in the Target Company by way of issue of the Consideration Shares (the “**Acquisition Announcements**”) and the announcement of the Company dated 29 June 2016, in relation to, among others, the non-fulfillment of the 2016 Guaranteed Profit (the “**Update Announcement**”). Unless otherwise defined, terms used in this section shall have the same meanings as those defined in the Acquisition Announcements.

As disclosed in the Acquisition Announcement, pursuant to the Equity Transfer Agreement and the Supplementary Agreement, the Vendor has guaranteed to the Company that the audited consolidated net profit after tax of the Target Company for the six (6) month period ended 31 March 2016 (the “**2016 Actual Profit**”) and the financial year ended 31 March 2017 (the “**2017 Actual Profit**”) shall be not less than HK\$20,000,000 (the “**2016 Guaranteed Profit**”) and HK\$45,000,000 (the “**2017 Guaranteed Profit**”) respectively. In the event that the 2016 Actual Profit is less than the 2016 Guaranteed Profit and/or the 2017 Actual Profit is less than the 2017 Guaranteed Profit, the Company shall be entitled to reduce and adjust the number of the Tranche A Consideration Shares and/or the Tranche B Consideration Shares according to the formulas set out thereunder.

The Board wishes to inform its Shareholders that according to the consolidated audited financial statements of the Target Company for the six (6) months ended 31 March 2016 received by the Company, the loss of the Target Company for the six (6) months ended 31 March 2016 was RMB1,032,000, which was due to the upfront cost in research and development of software and mobile games of the Target Group. Therefore, the 2016 Guaranteed Profit has not been met. Accordingly, in accordance with the terms and conditions stipulated in the Supplementary Agreement, the Company has not issued any Tranche A Consideration Share to the Vendor.

As at the date of this announcement, the auditors of the Target Company (the “**Auditors**”) are in the process of finalising the audited financial statements of the Target Company for the year ended 31 March 2017 (the “**2017 Financial Statements**”) because they are pending the return of a bank confirmation from the Target Company’s bank. The Auditors expect that they will be able to complete the audit of the 2017 Financial Statements by early February 2018, after which it will sign and deliver the 2017 Financial Statements to the Target Company.

According to the information that the Company obtained from the unaudited management accounts of the Target Company, it recorded a net profit after tax of approximately RMB2,169,000 for the year ended 31 March 2017, which is significantly lower than the 2017 Guaranteed Profit. Therefore, in accordance with the terms and conditions of the Equity Transfer Agreement and the Supplementary Agreement, it is expected that the 2017 Guaranteed Profit will not be met and the Tranche B Consideration Shares will be adjusted correspondingly.

The Company will make a further announcement when it receives the 2017 Financial Statements and after it has determined whether the 2017 Guaranteed Profit has been met and the number of the Tranche B Consideration Shares to be issued (if any).

By Order of the Board of
King Force Group Holdings Limited
Chen Yunchuo

Hong Kong, 29 January 2018

As at the date of this announcement, the executive Directors are Mr. Li Mingming, Mr. Cheng Rui, Ms. Li Liping and Mr. Chen Yunchuo; and the independent non-executive Directors are Mr. Xiong Hong, Mr. Wan Tat Wai David and Mr. Ho Yuk Ming Hugo.

This announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with 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 announcement 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 announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company’s website at www.kingforce.com.hk.