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)

SUPPLEMENTARY INFORMATION ON THE COMPANY'S ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2017

Reference is made to the annual report (the "**Annual Report**") of King Force Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 March 2017 (the "**Reporting Period**"). Unless otherwise defined in this announcement, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

The board of directors of the Company (the "**Board**") would like to make the following additional information available to the shareholders of the Company in relation to the Group's accounting treatment on the suspension of the Bei Dou Qualification (as defined below) and also in relation to its intangible assets reported in the Annual Report.

The impact of the suspension of the Bei Dou Qualification

Reference is made to the Company's announcement dated 19 October 2016 (the "**October 2016 Announcement**"), in which it was announced that a current subsidiary of the Group ("**Zhongshan Bei Dou**") had obtained the franchise of "Bei Dou Civil Operation Services Branch Qualification" (北斗民用分理運營服務資質) (the "**Bei Dou Qualification**") by Bei Dou Jiuyi Information Technology Industry (Beijing) Limited* (北斗九億資訊科技產業（北京）有限公司)) ("**Bei Dou Jiuyi**").

The Bei Dou Qualification of Bei Dou Jiuyi was subsequently suspended (the "**Suspension**"). Further details in relation to the Suspension were announced by the Company in its announcements dated 27 January 2017, 14 February 2017 and 16 June 2017 and the Annual Report published by the Company.

Notwithstanding the Suspension, as at the end of the Reporting Period the Board considered that there was no impairment required in its e-Education segment as the Group had entered into a cooperation agreement with Guangdong Bei Dou Platform Technology Limited* (廣東北斗平台科技有限公司), who also held the Bei Dou Qualification. Details of the cooperation agreement were announced in the Company's announcement dated 21 June 2017. In addition, the Group was informed at the relevant time that Bei Dou Jiuyi was preparing to submit the necessary documents for the purpose of lifting the Suspension.

The Group had engaged an independent valuer to conduct a valuation (the "**Bei Dou Valuation**") on Zhongshan Bei Dou, being the sole operating subsidiary in the e-Education cash generating unit ("**CGU**") as at 31 March 2017 based on the income approach (also known as the discounted cash flow method). The calculation used cash flow projections based on a five-year business plan approved by the management, and was based on the estimated number of schools, students and parents who would engage the services of Zhongshan Bei Dou during the initial five-year period. Beyond the initial five-year period, the average growth rate was assumed to be 3% and the discount rate used was 33.8%.

Set out below are the key bases and/or assumptions adopted in the valuation:

– it was assumed that Zhongshan Bei Dou would start generating revenue from January 2018, Zhongshan Bei Dou's revenue would be driven by the estimated number of users. The financial projections of the operation of Zhongshan Bei Dou were prepared based on the estimation made by the management of the Group on Zhongshan Bei Dou's revenue with an estimated compounded annual growth rate of 14.2% from the year ending 31 March 2019 to the year ending 31 March 2023; and

– the adopted discount rate of 33.8% was estimated with reference to the public and statistical information (e.g. weighted average cost of capital) obtained from sources which are deemed to be reputable, accurate and reliable. A specific risk premium is added to reflect the business risk.

The above estimations were made for the sole purpose of carrying out the Bei Dou Valuation and do not constitute a forecast on the e-Education CGU.

Based on the valuation, the 100% equity interest in Zhonghsan Bei Dou was valued at HK$89.2 million as at 31 March 2017. As the Group held an 59.5% effective interest in Zhonghsan Bei Dou, the carrying amount of the e-Education CGU was HK$79.9 million, which consisted of the gross up goodwill of HK$60.9 million (HK$36.3 million divided by 59.5%), the e-Education and security platform of HK$5.1 million, the Bei Dou qualification of HK$13.1 million, and property, plant and equipment of HK$0.8 million as at 31 March 2017. As the recoverable amount of HK$89.2 million was greater than the carrying amount of HK$79.9 million, it was considered at that time that there was no impairment of the e-Education CGU and hence there was no impairment of the goodwill, the e-Education and security platform and the Bei Dou qualification as at 31 March 2017.

As disclosed in the Company's announcement dated 16 June 2017, the Group filed a civil petition statement on 12 June 2017 at the First People's Court in Zhongshan City, Guangdong Province (the "**Court**") against Bei Dou Jiuyi, claiming that Bei Dou Jiuyi had breached the business cooperation agreement entered into between Zhongshan Bei Dou and Bei Dou Jiuyi on 15 June 2015, and sought an order against Bei Dou Jiuyi to, *inter alia*, return the consideration in the amount of RMB15 million. As disclosed in the Company's announcement dated 19 January 2018, on 18 January 2018, Zhongshan Bei

Dou received a judgement granted by the Court in favour of the Zhongshan Bei Dou that the business cooperation agreement entered into between Zhongshan Bei Dou and Bei Dou Jiuyi was ordered to be rescinded; Bei Dou Jiuyi shall return the consideration under the business cooperation agreement in the amount of RMB15 million together with the interests accrued thereon to Zhongshan Bei Dou; and the Court fees in the amount of RMB111,800 shall also be borne by Bei Dou Jiuyi. As a result of the Court order, the Company has fully written-off the carrying amount of RMB9 million of the Bei Dou Qualification franchised from Bei Dou Jiuyi as at 31 March 2018.

Intangible Assets in the Annual Report

Reference is made to the Annual Report. As at the end of the Reporting Period, the Group had several main categories of intangible assets.

The first category of intangible assets comprised the computerised operating and guarding systems, which are used in the security guarding segment. As this segment made a profit during the Reporting Period, there was no impairment indicator on intangible assets of this segment.

In particular, the main operating subsidiary of this segment, King Force Security Limited, owned one of these systems, which was purchased in the year preceding the Reporting Period. Another one of the Group's subsidiaries, King Force Service Limited, also purchased a computerised operating and guarding system (the "**KF Services System**") during the Reporting Period. King Force Service Limited was inactive during the Reporting Period. The Group had engaged an independent valuer to perform a valuation on the KF Services System using the income approach. The calculation used discounted cash flow projections based on a detailed ten-year budget plan approved by the management, and was based on the estimated number of customers who would engage the KF Services System during the ten-year period from which equipment installation income and service income would be derived.

For the sole purpose of carrying out a valuation on the KF Services System, the management had been provided with financial projections reflecting the respective operating lives for estimations of future cash flows and associated discount rate and growth rate assumption for the calculation purpose of the multi-period excess earnings method. Set out below were the key bases and/or assumptions adopted in the valuation:

– the revenue of the KF Services System was driven by the number of estimated customers. The financial projections of the operation of KF Services System, such as the equipment installation income and service income, were prepared based on the estimation made by the management of the Group, with an estimated average of 26 users per year and annual service income of HK$161,230 per user;

– the adopted discount rate of 15.57% was estimated with reference to the public and statistical information (e.g. weighted average cost of capital) obtained from sources which are deemed to be reputable, accurate and reliable;

- no terminal value was estimated in the financial projections due to the uncertainty on the future prospect after the ten-year period; and

- all licenses, permits, certificates and consents issued by any local, provincial or national government or other authorized entity or organisation that will affect the operation of KF Services System have been obtained or can be obtained upon request with an immaterial cost.

The above estimations were made for the sole purpose of carrying out a valuation of the KF Services System and do not constitute a forecast on performance of the Group's security guarding services CGU or King Force Services Limited.

Given that the results of the valuation showed that the recoverable amount of the KF Services System exceeded its carrying amount as at the end of the Reporting Period, there was no impairment indicator on the KF Services System.

The second category of intangible assets comprised the e-Education and security platform and the Bei Dou Qualification, which were used in the e-Education segment. As this segment recorded a loss during the Reporting Period, there was an impairment indicator. However, for the reasons mentioned in the section above, at the time of the preparation of the Annual Report, the Board considered that the Suspension did not materially impact the business prospects of the e-Education segment or its impairment assessment of this segment for the Reporting Period.

The third category of intangible assets comprised mobile game licenses in the mobile game segment. Based on valuations on the Group's mobile game licenses that had material carrying amounts, the recoverable amount was greater than the carrying amounts, and therefore there was no impairment recorded for these mobile game licenses during the Reporting Period. In conducting the impairment review on the Group's mobile game licenses, the Group had prepared a valuation by adopting the income approach, i.e. multi-period excess earnings method. It required estimates concerning future cash flows and associated discount rate and growth rate assumptions, which were based on the management's expectation of future business performance and prospects of the mobile games.

For the sole purpose of carrying out a valuation on the mobile game licenses held by the Group, the management had been provided with financial projections reflecting the mobile games' respective operating lives for estimating future cash flows and associated discount rate and growth rate assumption for the calculation purpose of the multi-period excess earnings method. Set out below were the key bases and/or assumptions adopted in the valuation:

- the revenues of the games are driven by the estimated number of monthly paying users ("**MPU**") and the estimated average revenue per paying user ("**ARPPU**"). The financial projections of the mobile games, such as MPU and ARPPU, were prepared based on the historical actual MPU and ARPPU, when available, reflecting estimates which have been scrutinised and modified, after due and careful consideration by management of the Group. The estimated MPU of the games ranged from 833 to 8,919 over their respective operating lives and the estimated ARPPU ranged from HK$90 to HK$455 for the games over their respective operating lives;

– the adopted discount rate of 25.78% was estimated with reference to the public and statistical information (e.g. weighted average cost of capital) obtained from sources which were deemed to be reputable, accurate and reliable;

– no terminal value was estimated in the financial projections due to the uncertainty on the future prospect; and

– all licenses, permits, certificates and consents issued by any local, provincial or national government or other authorised entity or organization that will affect the operation of the Group have been obtained or can be obtained upon request with an immaterial cost.

The above estimations were made for the sole purpose of carrying out a valuation on the mobile game licences held by the Group and do not constitute a forecast on performance of the Group's mobile game CGU.

For the year ended 31 March 2018, the Company has written-off the carrying amount of one of its mobile games in the amount of approximately HK$2.3 million for the year ended 31 March 2018 mainly due to i) the developer of this game failed to develop the game with high quality and ii) the development team from the developer was dissolved. The Company has also written-off the carrying amount of a number of other mobile games of an aggregate carrying amount of approximately HK$0.12 million for the year ended 31 March 2018.

In light of the above, the Directors considered the carrying amounts of the Group's intangible assets (including the Bei Dou Qualification) were properly supported at the time of preparation of the Annual Report.

The Company wishes to reiterate that the supplementary information contained in this announcement for the year ended 31 March 2017 does not affect other information contained in the Annual Report, and the contents of the Annual Report remain unchanged.

By Order of the Board of
King Force Group Holdings Limited
Chen Yunchuo
Chairman and Executive Director

Hong Kong, 25 June 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 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 a minimum period of 7 days from the date of its publication and on the Company's website at www.kingforce.com.hk.

* *for identification purposes only*