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## **King Force Security Holdings Limited**

**冠輝保安控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 08315)**

### **MAJOR TRANSACTION**

#### **IN RELATION TO THE ACQUISITION OF 80% EQUITY INTEREST IN MAGN INVESTMENT LIMITED AND ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE**

##### **THE ACQUISITION**

On 19 October 2015 (after trading hours), the Company, entered into the Equity Transfer Agreement with the Vendor, pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell 80% equity interest in the Target Company for a maximum Consideration of HK\$92,000,000 (subject to downward adjustment depending on the performance of the Target Company for the six (6) month period ending 31 March 2016 and the financial year ending 31 March 2017 as detailed in the section headed “The Acquisition – Adjustment to Consideration” in this announcement). The Consideration shall be settled by way of issue of the Consideration Shares at the Issue Price of HK\$0.262 each.

Upon completion of the Acquisition, the Company will hold the entire issued share capital of the Target Company.

The Target Company is an investment holding company which holds the entire issued share capital of MAGN Media (China) (WOFE), which in turn holds the entire issued share capital of Shenzhen Weiyuhui and the entire issued share capital of MAGN Classic Technology which through the VIE Contracts, has effective control over the financing and operations of Timing Advertisement, and enjoy the economic interest and benefits of Timing Advertisement and its subsidiaries. For more information of the VIE Contracts, please refer to the section headed “Information of the VIE Contracts” in this announcement. For more information of the Target Group, please refer to the section headed “Information of the Target Group” in this announcement.

The Consideration Shares shall be allotted and issued pursuant to the General Mandate, and shall rank *pari passu* with the Shares in issue.

Assuming no downward adjustment is made to the Consideration, the Consideration Shares represent (i) approximately 5.49% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 5.20% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

## **GEM LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios under Chapter 19 of the GEM Listing Rules exceed(s) 25% but less than 100%, the Acquisition constitutes a major transaction for the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

## **GENERAL**

A circular containing, among other things, details of the Equity Transfer Agreement, financial information of the Group and the Target Group, the unaudited pro forma financial information of the Group assuming completion and other information as required under the GEM Listing Rules will be despatched to the Shareholders.

On the basis that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the Shareholders' approval of the Acquisition; and (ii) written approval of the transaction has been obtained from Optimistic King Limited, being the controlling Shareholder of the Company which is entitled to vote on the resolutions in relation to the Acquisition and holding 3,480,000,000 Shares (representing 54.375% of the issued share capital of the Company as at the date of this announcement), no physical general meeting will be convened to approve the Acquisition pursuant to Rule 19.44 of the GEM Listing Rules.

The circular is expected to be despatched to the Shareholders on or before 10 November 2015.

## **BACKGROUND**

Reference is made to the announcements of the Company dated 16 April 2015 and 30 September 2015 in relation to, among other things, the conditional subscription of 20% new shares of the Target Company by Golden Cross, a wholly-owned subsidiary of the Company, at a consideration of HK\$2,000,000, and the establishment of the Joint Venture on 30 September 2015. As all conditions precedent to the Subscription Agreement were fulfilled on 30 September 2015, the Subscription has completed in accordance with the Subscription Agreement. As at the date of this announcement, the Target Company is owned as to 80% by the Vendor and 20% by the Group.

## THE ACQUISITION

On 19 October 2015 (after trading hours) the Company, entered into the Equity Transfer Agreement with the Vendor, the principal terms of which are set out as follows:

**Date:** 19 October 2015

**Parties:** the Company (as purchaser);  
the Vendor (as vendor)

### **Subject matter:**

Pursuant to the Equity Transfer Agreement, the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell 80% equity interest in the Target Company, subject to the terms and conditions therein.

### **Consideration:**

The maximum Consideration is HK\$92,000,000 (subject to downward adjustment), which shall be settled by way of issue of the Consideration Shares at the Issue Price of HK\$0.262 each in accordance with the following manner:

- (i) 108,045,801 Consideration Shares (the “**Tranche A Consideration Shares**”) (or the adjusted number of the Consideration Shares in the event that the 2016 Guaranteed Profit (as defined below) is not satisfied) shall be released to the Vendor within 30 calendar days after the issue of the audited consolidated accounts of the Target Group for the six (6) month period ending 31 March 2016; and
- (ii) 243,099,237 Consideration Shares (the “**Tranche B Consideration Shares**”) (or the adjusted number of the Consideration Shares in the event that the 2017 Guaranteed Profit (as defined below) is not satisfied) shall be released to the Vendor within 30 calendar days after the issue of the audited consolidated accounts of the Target Group for the financial year ending 31 March 2017.

### **Consideration Shares:**

The Consideration Shares shall be allotted and issued pursuant to the General Mandate, and shall rank *pari passu* with the Shares in issue on the date of allotment and issue including the rights to all dividends, distributions and other payments made or to be made for which the record date falls or after the date of such allotment and issue. The Consideration Shares are subject to a lock-up period of 3 months after issuance.

The General Mandate has not been utilized since the date of grant on 1 September 2015 up to the date of this announcement.

Shareholders’ approval will not be required for the allotment and issue of the Consideration Shares as the Consideration Shares will be issued under the General Mandate.

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

The Issue Price of HK\$0.262 per Consideration Share represents:

- (i) a discount of approximately 9.66% to the closing price of HK\$0.290 per Share as quoted on the Stock Exchange on 19 October 2015, being the date of the Equity Transfer Agreement;
- (ii) equivalent to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the date of the Equity Transfer Agreement of HK\$0.262 per Share; and
- (iii) a discount of approximately 7.09% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive full trading days up to and including the date of the Equity Transfer Agreement of HK\$0.282 per Share.

Assuming that no downward adjustment is made to the Consideration, the Consideration Shares represent (i) approximately 5.49% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 5.20% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

### **Adjustment to Consideration:**

#### *Guaranteed Profits*

Pursuant to the Equity Transfer Agreement, the Vendor guaranteed to the Company that the audited consolidated net profit after tax of the Target Company for the six (6) month period ending 31 March 2016 (the “**2016 Actual Profit**”) and the financial year ending 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 (collectively, the “**Guaranteed Profits**”).

#### *Adjustment to Consideration for 2016*

In the event that the 2016 Actual Profit fails to meet the 2016 Guaranteed Profit, the Vendor shall indemnify the Company the amount of the 2016 Compensated Amount (as defined below) by deducting the 2016 Compensated Amount from the aggregate consideration of the Tranche A Consideration Shares and the Company shall issue the adjusted number of the Tranche A Consideration Shares to the Vendor. The 2016 Compensated Amount shall be determined in accordance with the formula below:

the “**2016 Compensated Amount**” = (2016 Profit Guarantee-2016 Actual Profit) x 1.4154

### *Adjustment to Consideration for 2017*

In the event that the 2017 Actual Profit fails to meet the 2017 Guaranteed Profit, the Vendor shall indemnify the Company the amount of the 2017 Compensated Amount (as defined below) by deducting the 2017 Compensated Amount from the aggregate consideration of the Tranche B Consideration Shares and the Company will issue the adjusted number of the Tranche B Consideration Shares to the Vendor. The 2017 Compensated Amount shall be determined in accordance with the formula below:

the “**2017 Compensated Amount**” = (2017 Profit Guarantee-2017 Actual Profit) x 1.4154

The 2016 Actual Profit and/or 2017 Actual Profit should be treated as zero if the Target Company recorded a net loss after taxation for the relevant financial period.

If the net profit for the relevant financial period exceeds the Guaranteed Profits, the balance of the Consideration shall not be adjusted.

### **Basis of Consideration:**

The Consideration was determined among the parties to the Acquisition based on arm’s length negotiations after taking into account, among others, (i) the Valuation on the market value of 100% equity interest in the Target Company prepared by an independent valuer; (ii) the future prospects of the Target Group; (iii) the Guaranteed Profits provided by the Vendor for each of the six (6) month period ending 31 March 2016 and the financial year ending 31 March 2017 as described in the subsection headed “Adjustment to Consideration” above; (iv) the downward adjustments mechanism to the Consideration to protect the Group’s interests as described in the subsection headed “Adjustment to Consideration” above; (v) the price to earning ratios of the other companies listed on the Stock Exchange engaging in similar businesses of the Target Group; and (vi) the benefits to be derived by the Group from the Acquisition as described herein below.

As the Valuation was prepared on a discounted cash flow basis under the income approach, pursuant to Rule 19.61 of the GEM Listing Rules, any valuation based on discounted cash flows will be regarded as a profit forecast. The Company will comply with the requirements of Rules 19.60A and 19.62 of the GEM Listing Rules by way of supplemental announcement or circular (as the case may be).

### **Conditions Precedent:**

Completion of the Equity Transfer Agreement is conditional upon the fulfilment or waiver (as the case may be save for condition (iii) below) of, among others, the following conditions:

- (i) the Company, in its absolute discretion, being satisfied with the results of the due diligence review on, the financial condition, commerce, trade, asset, corporation, taxation, operation and other conditions of each of the Target Group companies;

- (ii) the Company having obtained a legal opinion, on among others, each of the Target Group companies, the legality and enforceability of the VIE Contracts, and the transactions contemplated under the transaction documents in relation to the Equity Transfer Agreement, issued by a PRC law firm authorized by the Company, in form and substance satisfactory to the Company in its absolute discretion;
- (iii) the Company having obtained all necessary consents and approvals from the relevant authorities (including but not limited to the Stock Exchange) and the Shareholders of the Company in relation to the Equity Transfer Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Consideration Shares to the Vendor); and
- (iv) no material adverse change in the financial condition, commerce, trade, asset, corporation, taxation, operation or other conditions the Target Group companies has occurred since the date of the Equity Transfer Agreement to the completion date of the Acquisition.

### **Repurchase Obligation**

In the event that any term or condition of the VIE Contracts becomes illegal or unenforceable due to any change or implementation of PRC law, rule, regulation or governmental policy, the Vendor is obliged to repurchase the VIE Group by cash at the consideration equivalent to the higher of the then valuation of the VIE Group to be prepared by an independent valuer to be agreed by the parties or the then latest audited net asset value of the VIE Group within 15 business days upon receiving written notice from the Company.

Such repurchase obligation shall remain in full force and effect after completion or termination of the Equity Transfer Agreement.

### **Non-competition**

The Vendor and the PRC Equity Owners agree that for a period of five (5) years starting from the date of completion, any of them shall not, and shall ensure that none of their related parties shall, engage or hold any interest in any business or activity (including research, developing, marketing and/or promotion of mobile gaming) in Hong Kong or the PRC, either directly or indirectly, solely or jointly with others, or through the establishment of any business entity directly or indirectly, solely or jointly with others.

### **Completion**

Completion shall take place on the 7th Business Day after all conditions precedent have been fulfilled or waived (save for condition (iii) which cannot be waived) or such other date as the parties hereto may mutually agree in writing.

Upon completion of the Acquisition, the Company will hold the entire issued share capital of the Target Company and the Target Company will become a subsidiary of the Company.

## EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below are the shareholding structures of the Company (i) as at the date of this announcement; and (ii) upon the issue of the maximum number of Consideration Shares, assuming there is no other change in the shareholding structure of the Company since the date of this announcement that:

Shareholders	As at the date of this announcement		Upon issue of the maximum number of Consideration Shares	
	<i>Number of Shares</i>	<i>Approximate % of the interest held</i>	<i>Number of Shares</i>	<i>Approximate % of the interest held</i>
Optimistic King Limited <sup>(1)</sup>	3,480,000,000	54.375%	3,480,000,000	51.547%
Vendor	—	—	351,145,038	5.201%
Public	2,920,000,000	45.625%	2,920,000,000	43.252%
Total	<u>6,400,000,000</u>	<u>100%</u>	<u>6,751,145,038</u>	<u>100%</u>

*Note:*

1. The entire issued share capital of Optimistic King Limited is owned by Mr. Fu Yik Lung, an executive Director. Accordingly, Mr. Fu Yik Lung and his spouse, Ms. Liu Lai Ying, are deemed or taken to be interested in all of the Shares held by Optimistic King Limited. Mr. Fu Yik Lung is also one of the directors of Optimistic King Limited.

## FUND RAISING DURING THE PAST TWELVE MONTHS

The Company does not have any equity fund raising activity of during the past 12 months immediately preceding the date of this announcement.

## REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors are of the view that intelligence building automation system is a growing trend in Hong Kong and more and more software and information technology system are required to be utilized when providing security guarding services to the clients. Therefore it is essential for the Company to have support from a strong team of programmers in order to further grow our business. The Directors believe that forming a joint venture with a software company is the quickest and most cost-efficient way to achieve this. To cope with it, the Group has entered in the subscription agreement with Magn Investment Limited on 16 April 2015, pursuant to which the Group conditionally agreed to subscribe 20% of the enlarged issued shares of the Magn Investment Limited, and entered into the Joint Venture Agreement with Shenzhen Weiyohui on 30 September 2015 in relation to the formation of the Joint Venture to research and develop security system software for intelligence building automation system. The Board are of the view that the further acquisition of equity interest in Magn Investment Limited, where the Group will hold the entire issued share capital of Magn Investment Limited upon completion, can better



utilize or grant the Group with flexibility in managing our relevant man power, such as programmers, and other resources, such as developed intellectual assets, in the course of developing our intelligence building automation system business. In addition, the Board considers that the acquisition pursuant to the Equity Transfer Agreement will diversify the Group's businesses and broaden its revenue base.

The Directors are of the view that the terms of the Equity Transfer Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

## INFORMATION OF THE TARGET GROUP

The Target Company is a company incorporated in Hong Kong with limited liability. It is an investment holding company which holds the entire equity interest of MAGN Media (China), which in turn holds the entire equity interest in Shenzhen Weiyohui and the entire share capital of MAGN Classic Technology which will enjoy the entire economic interests and benefits of the VIE Group through the VIE Contracts.

The Target Group is principally engaged in (i) 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 (ii) through the VIE Contracts, the operation of advertising business, the resource integration of media in public transport and the research, development and operation of gaming products.

## Financial Information

Set out below is the financial information of the Target Company based on the unaudited consolidated financial statements for the two years ended 31 December 2014 and the eight months ended 31 August 2015:

	<b>For the year ended 31 December 2013 <i>RMB'000</i></b>	<b>For the year ended 31 December 2014 <i>RMB'000</i></b>	<b>For the eight months ended 31 August 2015 <i>RMB'000</i></b>
Net loss before tax			
from continuing operation	<u>(188)</u>	<u>(5,532)</u>	<u>(5,971)</u>
Net loss after tax			
from continuing operation	<u>(188)</u>	<u>(5,532)</u>	<u>(5,971)</u>

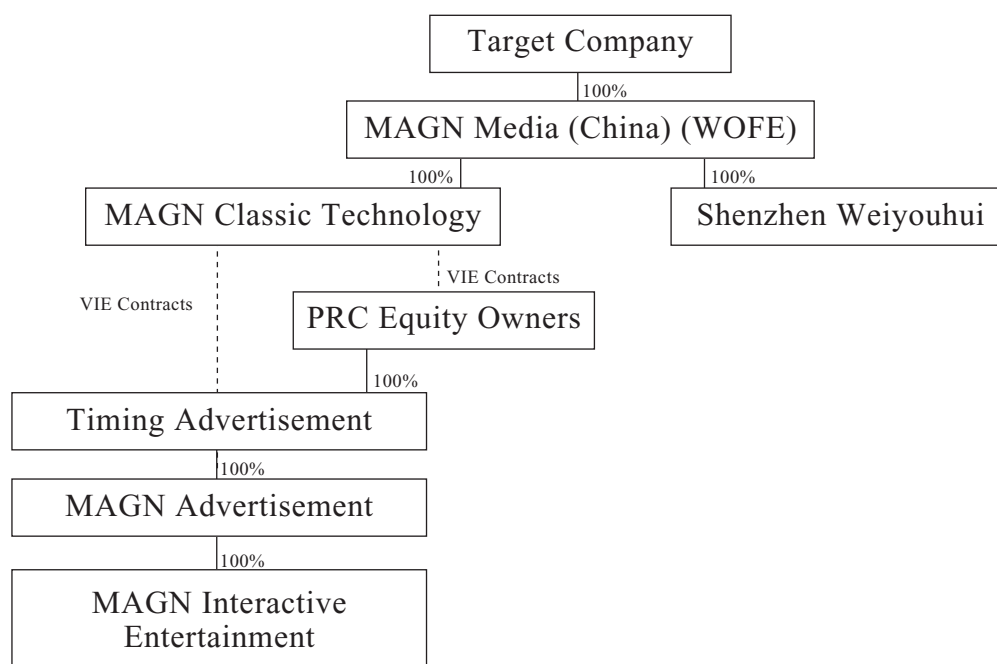
The unaudited consolidated net assets of the Target Company as at 31 August 2015 amount to approximately RMB795,000.

The Directors have discussed with the reporting accountants and confirmed that under the prevailing accounting principles, the Target Company has the right to consolidate the financial results of the VIE Group in its consolidated accounts as if they were subsidiaries of the Target Group.



## Shareholding Structure

Set out below is the existing shareholding structure of the Target Group:



Pursuant to the VIE Contracts, MAGN Classic Technology is able to control the finance and operation of the VIE Group so as to obtain the economic interest and benefits from their business activities despite the lack of registered equity ownership. The Directors have discussed with the reporting accountants of the Target Company and are of the view that the financial results and conditions of the VIE Group are capable of being consolidated into the financial statements of the Target Company. Details of the basis of consolidation will be included in the accountants' report of the Target Company in the circular to be despatched to the Shareholders.

### VIE Group and the PRC Equity Owners

The VIE Group is principally engaged in the operation of advertising business, the resource integration of media in public transport and the research, development and operation of gaming products.

The registered equity owners of Timing Advertisement and their respective shareholdings in Timing Advertisement are as follows:

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

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the above equity owners is a resident in the PRC and an Independent Third Party.

## **INFORMATION OF THE VIE CONTRACTS**

### **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, 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 MOFCOM and the NDRC. 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 (2015 Revision) (《外商投資產業指導目錄(2015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 is a foreign-owned company, it is not allowed to hold any equity interests of the VIE Group under the PRC laws.

The Company will seek its PRC legal adviser’s view on the legality and effect of the VIE Contract under the PRC contract law in due course.

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:	<p>the Exclusive Consulting Service Agreement shall take effect from the date of its execution until any of the following circumstances occur:</p> <ul style="list-style-type: none"><li>(i) the shareholder(s) of Timing Advertisement transferred all the equity interests or assets of Timing Advertisement to MAGN Classic Technology or its nominee;</li><li>(ii) MAGN Classic Technology requests for termination unilaterally (Timing Advertisement has no right to request for termination unilaterally); and</li><li>(iii) Termination is required under applicable PRC laws and regulations.</li></ul>
Services:	<p>the services includes but not limited to:</p> <ul style="list-style-type: none"><li>(i) allow Timing Advertisement to use its software;</li><li>(ii) provide corporate management and consultation services, and information technology consultation services;</li><li>(iii) provide training to the staff of Timing Advertisement;</li><li>(iv) assist Timing Advertisement in the collection and research of media information, and the development and application of media management software; and</li><li>(v) provide other technical and consultation services to Timing Advertisement upon its request from time to time (as permissible under the PRC laws).</li></ul>
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.

(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.

*(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.

### *Dispute Resolutions*

Each of the VIE Contracts contains a dispute resolution clause to the effect that, amongst others, in the event any dispute arises under the relevant VIE Contracts cannot be resolved among the parties within 30 days, such dispute shall provide for arbitration by the South China International Economic and Trade Arbitration Commission (華南國際經濟貿易仲裁委員會) (the “**Arbitration Commission**”) in accordance with the then arbitration rules. The place of arbitration shall be in Shenzhen and the language of arbitration shall be Chinese. The decision of the arbitration shall be final, conclusive and binding on the parties. Further, the arbitrators may award remedies over the shares or assets of Timing Advertisement or provide mandatory remedies to MAGN Classic Technology (such as mandatory transfer of asset). 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.

### *Succession*

The provisions set out in the VIE Contracts are also binding on the successors of the PRC Equity Owners, as if the successor was a signing party to the VIE Contracts. Although the VIE Contracts do not specify the identity of successors to such PRC Equity Owners, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Contracts.



## *Liquidation*

Pursuant to the Exclusive Call Option Agreement, in the event of liquidation or winding up of Timing Advertisement pursuant to the applicable PRC laws, the PRC Equity Owners shall sell all of its residual assets through a non-reciprocal transfer to the extent permitted by the PRC laws to MAGN Classic Technology or another qualifying entity designated by MAGN Classic Technology at the lowest transfer price permitted by applicable PRC laws. Any proceeds from such transaction shall be paid back to MAGN Classic Technology or the qualifying entity designated by MAGN Classic Technology within ten business days after the PRC Equity Owners receive such proceeds. Accordingly, in a liquidation or winding up of Timing Advertisement, a liquidator may seize the assets of Timing Advertisement through MAGN Classic Technology based on the VIE Contracts for the benefit of the Company's creditors/shareholders assuming the completion of the Acquisition.

## **INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP**

The VIE Contracts contained certain provisions in order to exercise effective control over and to safeguard the assets of Timing Advertisement.

In addition to the internal control measures as provided in the VIE Contracts, it is the intention of the Company, following completion of the Subscription Agreement, to implement, through MAGN Classic Technology, additional internal control measures against Timing Advertisement as appropriate, having regard to the internal control measures adopted by the Group from time to time, which may include but not limited to:

### **Management controls**

- i. The Group will appoint a board representative (the “**Representative**”) to the board of Timing Advertisement. The Representative is required to conduct weekly reviews on the operations of Timing Advertisement and shall submit the weekly reviews to the Board. The Representative is also required to check the authenticity of the monthly management accounts of Timing Advertisement;
- ii. The Representative shall establish a team to be funded by the Group who shall station at Timing Advertisement and shall be actively involved in various aspects of the daily managerial and operational activities of Timing Advertisement;
- iii. Upon receiving notification of any major events of Timing Advertisement by the Representative, the registered shareholders of Timing Advertisement must report to the company secretary of the Company (the “**Company Secretary**”), who must in turn report to the Board;

- iv. The Company Secretary shall conduct regular site visits to Timing Advertisement and conduct personnel interviews quarterly and submit reports to the Board; and
- v. All seals, chops, incorporation documents and all other legal documents of Timing Advertisement must be kept at the office of MAGN Classic Technology.

### **Financial controls**

- i. The financial controller of the Company (the “FC”) shall collect monthly management accounts, bank statements and cash balances and major operational data of Timing Advertisement for review. Upon discovery of any suspicious matters, the FC must report to the Company Secretary, who shall in turn report to the Board;
- ii. If the payment of the service fees from Timing Advertisement to MAGN Classic Technology is delayed, the FC must meet with Timing Advertisement Shareholders to investigate, and should report any suspicious matters to the Board. In extreme cases, the registered shareholder(s) of Timing Advertisement will be removed and replaced.
- iii. Timing Advertisement must submit copies of latest bank statements for every bank accounts of Timing Advertisement within 15 days after each month end; and
- iv. Timing Advertisement must assist and facilitate the Company to conduct quarterly on-site internal audit on Timing Advertisement.

### **Board’s view on the VIE Contracts**

Based on the above, the Board is of the view that the VIE Contracts are narrowly tailored to achieve the VIE Group’s business purpose and to minimize the potential conflict with and are enforceable under the relevant PRC laws and regulations. The VIE Contracts enable MAGN Classic Technology to gain control over the financing and business operations of the VIE Group, and is entitled to the economic interest and benefits of VIE Group. The VIE Contracts also provide that MAGN Classic Technology may unwind the VIE Contracts as soon as relevant PRC rules and regulations governing foreign investment in the operation of mobile games business are issued which allow MAGN Classic Technology to register itself as the shareholder of Timing Advertisement.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of the announcement, MAGN Classic Technology and the VIE Group have not encountered any interference or encumbrance from any governing bodies in operating its business through the contractual arrangements under the VIE Contracts.

## **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.

## **INFORMATION OF THE PARTIES TO THE ACQUISITION**

The Company is principally engaged in the provision of security guarding services.

The Vendor is a company incorporated in the Cayman Islands with limited liability and is an investment holding company.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owners are Independent Third Parties.

## **GEM LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios under Chapter 19 of the GEM Listing Rules exceed(s) 25% but less than 100%, the Acquisition constitutes a major transaction for the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

## **GENERAL**

A circular containing, among other things, details of the Equity Transfer Agreement, financial information of the Group and the Target Group, the unaudited pro forma financial information of the Group assuming completion and other information as required under the GEM Listing Rules will be despatched to the Shareholders.

On the bases that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition; and (ii) written approval of the transaction has been obtained from Optimistic King Limited, being the controlling Shareholder of the Company which is entitled to vote on the resolutions in relation to the Acquisition and holding 3,480,000,000 Shares (representing 54.375% of the issued share capital of the Company as at the date of this announcement), no physical general meeting will be convened to approve the Acquisition pursuant to Rule 19.44 of the GEM Listing Rules.

The circular is expected to be despatched to the Shareholders on or before 10 November 2015.

## DEFINITIONS

The following terms have the following meanings when used in this announcement, unless the context otherwise requires:

“Acquisition”	the acquisition by the Company of 80% equity interest in the Target Company from the Vendor, pursuant to the terms and conditions of the Equity Transfer Agreement
“Board”	the board of Directors
“Business Day”	a day (other than Saturday, Sunday and public holiday) when normal commercial banks in Hong Kong are opened for general banking business
“BVI”	British Virgin Islands
“Company”	King Force Security Holdings Limited, a company incorporated in the Cayman Islands and the issued shares of which are listed on the GEM
“Consideration”	the consideration of HK\$92,000,000 for the Acquisition which is subject to downward adjustment pursuant to the terms and condition of the Equity Transfer Agreement
“Consideration Share(s)”	the new Shares to be issued to the Sellers at an issue price of HK\$0.262 each as the Consideration for the Acquisition
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the conditional equity transfer agreement dated 19 October 2015 entered into between the Company and the Vendor in relation to the Acquisition
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of the Securities on the GEM
“General Mandate”	the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company to allot, issue and deal with up to 1,280,000,000 new Shares, being 20% of the shares then in issue of the capital of the Company as at the date of the annual general meeting on 1 September 2015 and adjusted by the share subdivision of the Company completed on 17 August 2015

“Golden Cross”	Golden Cross Trading Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	person(s) or company(ies) which is/are independent of and not connected with any member of the Company, the Directors, chief executive and substantial shareholders of the Company and its subsidiaries and their respective associates (as defined in the GEM Listing Rules)
“Issue Price”	issue price of HK\$0.262 per Consideration Share
“MAGN Advertisement”	深圳市新動廣告有限公司 (Shenzhen MAGN Advertisement Co., Limited*), a company established in the PRC in May 2006 with limited liability which is a wholly-owned subsidiary of Timing Advertisement
“MAGN Classic Technology”	深圳市新動經典科技有限公司 (Shenzhen MAGN Classic Technology Co., Limited*), a company established in the PRC in August 2015 with limited liability, a wholly-owned subsidiary of MAGN China (WOFE)
“MAGN Interactive Entertainment”	深圳市新動互娛文化傳播有限公司 (Shenzhen MAGN Interactive Entertainment Cultural Media Co., Limited*), a company established in the PRC in February 2015 with limited liability which is a wholly-owned subsidiary of MAGN Advertisement
“MAGN Media (China) (WOFE)”	新動傳媒(中國)有限公司 (MAGN Media (China) Co., Limited*), a wholly foreign owned enterprise established in the PRC in May 2008 with limited liability and a wholly-owned subsidiary of the Target Company
“MOFCOM”	Ministry of Commerce of the PRC
“NDRC”	National Development and Reform Commission of the PRC
“PRC”	the People’s Republic of China, and for the purpose of this announcement excluding Hong Kong, the Macau Special Administrative Region, and Taiwan



“PRC Equity Owners”	holders of the equity interests of Timing Advertisement, namely Chen Yunchuo (陳運焯), Chen Ming (陳銘), Ru Yi (汝毅), He Huren (何虎仁) and Guo Zhanghe (郭長河)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Weiyouhui”	深圳市微游滙信息科技有限公司 (Shenzhen Weiyouhui Information Technology Co., Limited*), a company established in the PRC in April 2014 with limited liability, which equity interest is indirectly held as to 80% by the Vendor via MAGN Media (China) (WFOE) and 20 % by Golden Cross, a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Magn Investment Limited, a company incorporated in Hong Kong
“Target Group”	the Target Company and its subsidiaries, namely MAGN Media (China) (WFOE), Shenzhen Weiyouhui, Magn Classic Technology and the VIE Group to be controlled through the VIE Contracts
“Timing Advertisement”	深圳市題名廣告有限公司 (Shenzhen Timing Advertisement Co., Limited*), a company established in the PRC in April 2004 with limited liability, which equity interest is held by the PRC Equity Owners
“Valuation”	the valuation of the market value of 100% equity interest in the Target Company as at 31 August 2015 prepared by an independent valuer
“Vendor”	Magn Group Limited, a company incorporated in the Cayman Islands with limited liability
“VIE(s)”	variable interest entities controlled by MAGN Classic Technology through the VIE Contracts
“VIE Contracts”	the Exclusive Consulting Service Agreement, Exclusive Call Option Agreement, Shareholders’ Voting Right Entrustment Agreement and Equity Pledge Agreement (as defined and set out under the section headed “Information of the VIE Contracts” in this announcement) entered into among MAGN Classic Technology, Timing Advertisement and the PRC Equity Owner on 4 August 2015

“VIE Group”

Timing Advertisement, MAGN Advertisement and MAGN Interactive Entertainment

“%”

per cent

By order of the Board  
**King Force Security Holdings Limited**  
**Fu Yik Lung**  
Chairman

Hong Kong, 19 October 2015

*As at the date of this announcement, the executive Directors are Mr. Fu Yik Lung, Ms. Liu Lai Ying, Ms. Chung Pui Yee Shirley, Mr. Zhang Chengzhou and Mr. Li Mingming; and the independent non-executive Directors are Ms. Au Man Yi, Professor Lam Sing Kwong, Simon and Mr. Ong Chi King.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) 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 Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) for 7 days from the date of its posting. This announcement will also be posted on the Company’s website at [www.kingforce.com.hk](http://www.kingforce.com.hk).*

\* For identification purpose only