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Forgame Holdings Limited

雲遊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00484)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2019 ANNUAL REPORT

References are made to the announcements of the Company dated 24 April 2019 in relation to the Xigua Acquisition, 26 April 2019 in relation to the JLC Disposal, 10 March 2020 in relation to the non-fulfilment of the Profit Guarantee relating to the Xigua Acquisition and the non-payment of the Second Instalment relating to the JLC Disposal, 7 May 2020 in relation to the Investigation Results on the internet micro-credit business of the Group, 8 May 2020 in relation to the Investigation Results on the VR game business of the Group, and the supplemental announcement of the Company dated 8 June 2020 in relation to the audit issues raised by the Former Auditors (collectively, the “**Announcements**”), and the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”). Unless as defined in this announcement or the context otherwise requires, the capitalised terms used herein shall have the same meanings as those defined in the 2019 Annual Report and the Announcements.

This announcement serves to provide Shareholders and investors with supplemental information in relation to the audit qualifications from the auditors of the Company in the 2019 Annual Report.

A. AUDIT QUALIFICATIONS ON THE COMPANY’S RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

As disclosed in the 2019 Annual Report, ZHONGHUI ANDA CPA Limited (the “**New Auditors**”), the existing auditors of the Company, issued a qualified opinion on the Company’s results for the year ended 31 December 2019 in relation to (i) the income, expenses, assets and liabilities of Jianlicai Group which was disposed of in 2019, and the full impairment on the consideration receivable of RMB33,203,000 (the “**Proceeds Receivable**”) from the JLC Disposal (the “**JLC Qualification**”); (ii) the income, expenses, assets and liabilities of Beijing Xigua which was acquired in June 2019, and the commitments, contingent liabilities and related party transactions in relation to Beijing Xigua and its operations (the “**Xigua Qualification**”); and (iii) the full impairment of certain corporate loan receivables of RMB99.7 million (the “**Loan**”).

Receivables Qualification”, together with the JLC Qualification and the Xigua Qualification, the “**Audit Qualifications**”). The Board would like to provide further information in relation to the Audit Qualifications.

1. JLC Qualification

a. Evidence requested by the New Auditors

The New Auditors requested to perform full audit of Jianlicai Group for the period from 1 January 2019 to 31 July 2019 and as at 31 December 2018. The information requested by the New Auditors included but was not limited to the vouchers, invoices, bank statements and bank confirmations etc. in relation to Jianlicai Group. Since Jianlicai Group is no longer under the control of the Company after the JLC Disposal, the obtaining of such information would require the cooperation from the current management of Jianlicai Group.

The Company had requested the current management of Jianlicai Group for the relevant information via various means of communications. Nevertheless, the current management of Jianlicai Group had rejected or otherwise ignored the Company’s requests. Accordingly, the Company was and is unable to provide the requested information of Jianlicai Group to the New Auditors.

Furthermore, the Company has communicated with the present owners of Jianlicai Group (i.e. Blue Whale and Best Hero) (the “**JLC Purchasers**”) to recover the outstanding Proceeds Receivable. The JLC Purchasers rejected or otherwise ignored the Company’s numerous requests inculcating the prevailing market conditions and the latest regulatory environment on P2P businesses in the PRC being unfavourable to the operation of JLC. The JLC Purchasers further asserted that the commercial value of JLC has diminished significantly, and hence they were unwilling to continue to fulfil their payment obligations for the whole or part of the Proceeds Receivable. The Company is consulting its legal advisers and considering initiating legal actions against the JLC Purchasers. The PRC legal advisers of the Company are of the view that the arbitration process may be relatively long, the arbitration cost is relatively high, and the status of the respondent’s assets remains unclear, and there is a risk that the assets may not be enforceable.

The New Auditors also tried to request the JLC Purchasers directly to provide relevant financial information and establish direct discussion with the JLC Purchasers to assess the recoverability of the Proceeds Receivable. However, the JLC Purchasers rejected the requests of the New Auditors. As a result, the New Auditors were unable to obtain sufficient evidence to assess the recoverability and the impairment loss of the Proceeds Receivable.

b. Management's view

To the best knowledge and belief of the current Board and management of the Company (the “**Management**”), the Company no longer has control over Jianlicai Group and certain portion of documents of Jianlicai Group had been transferred to the JLC Purchasers, hence leading to the material limitation on the audit of the Jianlicai Group by the New Auditors. As disclosed above, the Management understood the limitation and had used their best endeavours to obtain the supporting documents but to no avail. As such, the Management understood and agreed with the basis of the JLC Qualification put forward by the New Auditors.

c. Audit and Compliance Committee's view

The audit and compliance committee of the Company (the “**Audit and Compliance Committee**”) had critically reviewed the JLC Qualification and the Management's position concerning the JLC Qualification and had also discussed with the New Auditors at the planning stages and closing stages via teleconferences, by which it understood that the main cause of the JLC Qualification was the non-cooperation of the JLC Purchasers. In light of the above, the Audit and Compliance Committee concurred with the views of the Management and the New Auditors in respect of the JLC Qualification.

2. Xigua Qualification

a. Evidence requested by the New Auditors

The New Auditors requested to perform full audit of Xigua Group for the period from 26 June 2019 to 31 December 2019. The requested information included but was not limited to the vouchers, invoices, bank statements and bank confirmations etc. in relation to Xigua Group. The Company had provided all available information to the New Auditors.

However, Ms. Li Luyi (i.e. the former executive director and chief executive officer of the Company) (“**Ms. Li**”) and her team, being the then management team of Beijing Xigua at the material times, resigned from the Group in November 2019 without proper handover. The Company tried with many attempts but failed to contact the former management of Beijing Xigua. Furthermore, a large number of stores of Beijing Xigua had been closed down and certain assets of Beijing Xigua had been disposed of, neither the Group nor the New Auditors were able to perform any physical inspections in respect thereof. In view of the above, the Company was unable to provide sufficient evidence to the New Auditors for the audit of Beijing Xigua and, accordingly, the New Auditors considered that they were unable to obtain sufficient evidence and explanations to satisfy themselves for the matters subject to the Independent Investigation and unusual transactions and arrangements of Beijing Xigua raised in the Independent Investigation as well as for the completeness of the financial information of Beijing Xigua.

b. Management's view

To the Management's best knowledge and belief, the Management understood that the limitation of scope was due to the significant changes in management and executive staff of Beijing Xigua without proper handover, stores that had been closed down and the disposed assets of Beijing Xigua. As disclosed above, the Management had used their best endeavours but was unable to obtain the requested information for the New Auditors. As such, the Management understood and agreed with the basis of the Xigua Qualification.

c. Audit and Compliance Committee's view

The Audit and Compliance Committee had critically reviewed the Xigua Qualification and the Management's position concerning the Xigua Qualification and had also discussed with the New Auditors at the planning stages and closing stages via teleconferences, by which it was fully aware of the abovementioned background and reasons for the Xigua Qualification. The Audit and Compliance Committee therefore concurred with the views of the Management and the New Auditors.

3. Loan Receivables Qualification

a. Evidence requested by the New Auditors

The New Auditors requested for explanations and relevant supporting documents relating to the commercial substance and nature of the corporate loan receivables and the relevant impairment loss of certain corporate loan receivables of RMB99.7 million during the year ended 31 December 2019. These loan receivables were handled and approved by Ms. Li and her team. However, as disclosed above, Ms. Li and her team resigned from the Group without proper handover in November 2019. The Company tried repeatedly but failed to contact Ms. Li and her team subsequently. In addition, the Company, the Independent Investigator and the PRC legal advisers of the Company also tried but were unable to contact some of the relevant borrowers. Accordingly, the Company was unable to provide sufficient evidence to the New Auditors in respect of the commercial substance and nature of the corporate loan receivables.

b. Management's view

The Management understood that the limitation of scope was due to the resignation of Ms. Li and her team without proper handover and the loss of contact with certain borrowers. As disclosed above, the Management tried their best but failed to contact Ms. Li and her team and the borrowers. Therefore, the Management understood and agreed with the basis of the Loan Receivables Qualification.

c. Audit and Compliance Committee's view

The Audit and Compliance Committee had critically reviewed the Management's position concerning the Loan Receivables Qualification and had also discussed with the New Auditors at the planning stages and closing stages via teleconferences. In particular, the Audit and Compliance Committee understood the difficulties in collecting the loan receivables from the unreachable borrowers, and hence it concurred with the views of the Management and the New Auditors.

4. Proposed plans to address the Audit Qualifications

The Company has proposed the following action plans and is taking actions to address the Audit Qualifications with the aim of removing all the Audit Qualifications as soon as possible.

a. JLC Qualification

As discussed with the New Auditors, the Company is of the view that, as the JLC Disposal had been completed in 2019, the financial information of Jianlicai Group would not further affect the Group's annual results for the year ending 31 December 2020. However, as the loss from discontinued operation, the carrying amount of the Proceeds Receivable balance and the impairment for the Proceeds Receivable of JLC will be shown as corresponding figures in the Company's consolidated financial statements for the year ending 31 December 2020, similar qualification is expected to recur in the Company's auditor's report for the year ending 31 December 2020. Therefore, the Company expects that the JLC Qualification would be removed in its consolidated financial statements for the year ending 31 December 2021.

Furthermore, the Company is currently contemplating to initiate litigation proceedings against the owners of JLC by the end of the year 2020. As the legal actions relating to the JLC Disposal taken or to be taken by the Company escalate, there may be further available information for the Company to assess the recoverability of the Proceeds Receivable. The Company will make further announcements of the latest development of the Proceeds Receivable when and as appropriate under the Listing Rules.

b. Xigua Qualification

As discussed with the New Auditors, it is expected that there will be an audit qualification in relation to Xigua Group on the Company's consolidated financial statements for the year ending 31 December 2020. The Management is currently exploring various options for Xigua Group, including but not limited to (i) commencing litigation actions against the Vendor and KongZhong Group with the view to compensating the Group in the amount of RMB 150,152,857 in cash; and (ii) unwinding the Xigua Acquisition.

As disclosed in the announcements of the Company dated 10 March 2020, as the actual net profit of Xigua Group fell short of the relevant Threshold of the Profit Guarantee under the Investment Agreement, the Company had elected to seek cash compensation of RMB 150,152,857 from the Vendor and KongZhong Group pursuant to the Investment Agreement. However, the Management was given to understand that the Vendor and KongZhong Group were unable and unwilling to pay the full amount of compensation due to their current financial conditions as well as the impact on them brought by the Epidemic. As the relevant parties would like to resolve amicably, the Company is exploring the viability of unwinding the Xigua Acquisition with the Vendor and KongZhong Group (the “**Xigua Unwinding Plan**”). If the Xigua Unwinding Plan proceeds and is completed on or prior to 31 December 2020, the Xigua Qualification is expected to be removed in the Company’s financial statements for the year ending 31 December 2022, as the financial information of Xigua Group would also affect the corresponding figures in its consolidated financial statements for the year ending 31 December 2021 but would not further affect its consolidated financial statements for the year ending 31 December 2022. Should there be any update as to the Company’s treatment of the Investment Agreement and Xigua Group, the Company will issue an announcement when and as appropriate under the Listing Rules.

c. *Loan Receivables Qualification*

As discussed with the New Auditors, as the Loan Receivables Impairment Loss will be shown as corresponding figures in the Company’s consolidated financial statements for the year ending 31 December 2020, similar audit qualification is expected to recur in its auditors’ report for the year ending 31 December 2020. Therefore, the Company expects that the Loan Receivables Qualification would be removed in the consolidated financial statements for the year ending 31 December 2021.

5. The legal actions taken/would be taken for the corporate loan receivables

The Group has taken the following legal actions against the seven unreachable borrowers (i.e. the Changchun Borrowers and the Ningbo Borrower as defined in the Company’s announcement dated 7 May 2020, the “**Unreachable Borrowers**”) in respect of the relevant corporate loan receivables:

- (a) on 26 December 2019, Jiujiang Yunke Internet Microfinance Co., Ltd. (九江市雲客網絡小額貸款有限公司, “**Yunke**”), one of the Group’s PRC operational entities, instructed its PRC legal advisers, Guantao Law Firm (“**Guantao**”), to instigate legal proceedings for the recovery of the loan receivables against the Unreachable Borrowers; and
- (b) as at 17 September 2020, arbitration proceedings have been instigated and/or completed against each of the Unreachable Borrowers in the PRC. For arbitrations which have been concluded, the Management is pleased to announce that the relevant judgments handed down were all in favour of the Group.

B. AUDIT ISSUES RAISED BY FORMER AUDITORS AND INVESTIGATION RESULTS

Reference is made to the Announcements, in relation to the VR game business and the micro-credit business of the Company, the Frozen Shares of the PRC operational entities under the Group's contractual arrangements, and the alleged Lawsuit in the US against Mutant Box and GZ Feidong (each an "Issue"). The Company wishes to provide the following additional information to the Shareholders and the potential investors:

1. With respect to the VR game business of the Company

a. New Auditors' view relating to the accounting implications

With respect to the VR game business of the Company, several issues were raised by the Former Auditors and/or the Independent Investigator. For further details, please refer to the Announcements.

Having requested all the information, the New Auditors are of the view that they were not provided with sufficient accounting books and records on whether the financial information of VR game business has been accurately recorded and properly accounted for in the consolidated financial statements of the Group for the year ended 31 December 2019. Consequently, the New Auditors provided the Xigua Qualification in the 2019 Annual Report.

b. Management's view

The Management has no different view on this Issue with that of its Former Auditors, the New Auditors and/or the Independent Investigator, respectively. Please refer to "Xigua Qualification — Management's view" as set out above for further information.

c. Audit and Compliance Committee's view

The Audit and Compliance Committee had been actively involved in reviewing and participating in key discussions relating to the relevant matters and events concerning the Issue with the Management, the Former Auditors and the New Auditors during the entire auditing process via meetings, teleconferences, and/or other means of communication, and by reason of which has come to agreement with the Management's position concerning the Issue.

2. With respect to the micro-credit business of the Company

a. New Auditors' view on accounting implications

With respect to the micro-credit business of the Company, concerns were raised by the Former Auditors and/or the Independent Investigator. For further details, please refer to the Announcements.

The New Auditors are of the view that they were not provided with sufficient audit evidence and reasonable explanations to substantiate the commercial substance and nature of the certain corporate loan receivables recorded and disclosed in the consolidated financial statements of the Group for the year ended 31 December 2019. Consequently, the New Auditors provided the Loan Receivables Qualification in the 2019 Annual Report.

b. Management's view

The Management has no different view on this Issue with that of the Former Auditors, the New Auditors and the Independent Investigator, respectively. Please refer to “*Loan Receivables Qualification — Management's view*” as set out above for further information.

c. Audit and Compliance Committee's view

The Audit and Compliance Committee had been actively involved in reviewing and participating in key discussions relating to the relevant matters and events concerning the Issue with the Management, the Former Auditors and the New Auditors during the entire auditing process via meetings, teleconferences, and/or other means of communication, by reason of which it has come to agreement with the Management's position concerning the Issue.

3. With respect to the Frozen Shares

a. New Auditors' view on accounting implications

The Company was advised by the New Auditors that the issue concerning the Frozen Shares relates to whether the Contractual Arrangements were still effective, which further has implications on whether the Company has entitlements to the variable returns from its involvement with the PRC Operational Entities and has the ability to affect those returns through its powers over the PRC Operational Entities, and therefore the subject matter is about whether the Company is considered to have control over the PRC Operational Entities. These uncertainties eventually led to the New Auditors' question as to whether to consolidate the financial information of the PRC Operational Entities in the consolidated financial statements of the Group for the year ended 31 December 2019.

With respect to the above issues, the New Auditors had performed the following procedures in order to satisfy themselves that there is no question on the true and fair view of the Company's financial performance for the year ended and financial position as at 31 December 2019:

- (i) discussed and enquired with the Company's PRC legal advisers and reviewed the relevant legal opinion issued for the Company by its PRC legal advisers. According to the Company's PRC legal advisers' opinion, the Contractual Arrangements are not changed as a result of the Frozen Shares and remain effective and the voting rights attached to the Frozen Shares also remain valid. Given that more than two-third of the total

voting rights attached to the respective shares in the PRC Operational Entities are still under effective control of the Company without any disputes, the PRC Operational Entities remain under control by the Company. Accordingly, the Company has sufficient voting rights to maintain the Contractual Arrangements;

- (ii) requested Feiyin to amend its articles of association to the effect that all resolutions made at a shareholders' meeting shall be approved by its shareholders representing two-third or more of its total voting rights. Currently, Feiyin has already made the necessary registration in respect of the amendment of its articles of association with the relevant authority in the PRC and the registration is pending approval from the relevant authority in the PRC. The Group has also consulted the relevant authority in the PRC and was advised that the Frozen Shares would not impede the amendment of Feiyin's articles of association; and
- (iii) separately engaged a PRC lawyer to provide second opinion on the issues. The results were basically consistent with the opinion of the Company's PRC legal advisers.

Having completed all of the above procedures, the New Auditors are satisfied that the questions to the issues raised by the Former Auditors were properly explained and addressed and the Company has effective control over the PRC Operational Entities as supported by legal opinions and the amended articles of association of Feiyin, accordingly the financial information of the PRC Operational Entities should be consolidated in the consolidated financial statements of the Group for the year ended 31 December 2019.

b. Management's view

The Management has no different view on this Issue with that of the Former Auditors, the New Auditors and the Independent Investigator, respectively. The Management considered that the Former Auditors were mainly concerned about the incomplete audit procedures and lack of supporting documents, including but not limited to the finalised legal opinion, as at the date of removal of the Former Auditors. As at the date of this announcement, the Management has provided sufficient supporting documents to the New Auditors, who then have already completed the necessary audit procedures for the Frozen Shares, hence the Former Auditors' concern has been duly addressed.

c. Audit and Compliance Committee's view

The Audit and Compliance Committee had been actively involved in reviewing and participating in key discussions relating to the relevant matters and events concerning the Issue with the Management, the Former Auditors and the New Auditors during the entire auditing process via meetings, teleconferences, and/or other means of communication, by reason of which it has come to agreement with the Management's position concerning the Issue.

4. With respect to the alleged Lawsuit in the US

a. *New Auditors' view on accounting implications*

The New Auditors advised that the accounting implication of the alleged Lawsuit in the US depends on whether the Group had contingent liabilities according to International Accounting Standard (“IAS”) 37 Provisions, Contingent Liabilities and Contingent Assets. According to paragraph 10 of the IAS 37, a contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

With respect to the above issue, the New Auditors had performed the following procedures in order to satisfy themselves that there is no question on the true and fair view of the Company’s financial performance for the year ended and financial position as at 31 December 2019:

- (a) discussed and enquired with the Company’s PRC legal advisers and reviewed the relevant legal opinion issued for the Company by the PRC legal advisers. The Company’s PRC legal advisers had engaged an US lawyer to advise on the Lawsuit (collectively the “**Legal Advice for US Lawsuit**”). According to the Legal Advice for US Lawsuit:
 - (i) the Lawsuit has yet to be commenced as the formal statement of charges has not been duly delivered and served to the Company or its existing subsidiaries. Instead, the Company only obtained through its US legal counsel a copy of the relevant statement of charges retrieved through internet searches;
 - (ii) there are many uncertainties at this stage, including the possibility to execute the ruling of an US court (if any) in the Cayman Islands, Hong Kong and/or the PRC;

- (iii) the Company has various possible grounds to defend itself against the allegations raised in the Lawsuit. At this stage, there have been no apparent reasonable evidence to support those allegations; and
- (iv) at this stage, the amount of potential penalty or compensation cannot be ascertained reliably as the Lawsuit has yet to be commenced legally.

Accordingly, based on paragraph 10 of the IAS 37, no contingent liability was recognised for the Lawsuit.

b. Management's view

The Management has no different view on this Issue with that of its Former Auditors, the New Auditors and the Independent Investigator, respectively. Please refer to “*With respect to the Frozen Shares — Management's view*” as set out above for further information.

c. Audit and Compliance Committee's view

The Audit and Compliance Committee had been actively involved in reviewing and participating in key discussions relating to the relevant matters and events concerning the Issue with the Management, the Former Auditors and the New Auditors during the entire auditing process via meetings, teleconferences, and/or other means of communication, by reason of which it has come to agreement with the Management's position concerning the Issue.

d. Latest status of the US Lawsuit

For the latest status of the US Lawsuit against the Group, the Company will issue further announcement(s) when and as appropriate under the Listing Rules.

C. INTERNAL CONTROL

As disclosed in the Company's corporate governance report as included in the 2019 Annual Report, the Company was considering to engage an internal control consultant to conduct a complete review on certain scope of the internal control system in respect of its micro-credit business and VR game business. The Company wishes to provide further information in this regard as follows:

Details of the internal control review

Subsequent to the publication of the 2019 Annual Report, the Company has engaged an external internal control consultant (the "**Internal Control Consultant**") to perform an internal control review for the Company. The scope of review is divided into two phases as follows:

Phase	Scope of review	Target timeline
Phase one	<p>: To conduct a specific scope of internal control review covering:</p> <ul style="list-style-type: none">— the issues relating to the Audit Qualifications;— the issues relating to the Investigation Results;— the credit assessment and approval procedures relating to the micro-credit business;— the revenue recognition and basic accounting management of VR game business;— transaction books recording and keeping; and— internal control procedures and measures relating to compliance with the connected transaction requirements under the Listing Rules.	By mid-October 2020
Phase two	<p>: To conduct a full scope of internal control review covering every operational cycle of the Company, from obtaining basic understanding and reviewing the Company's existing policies and system, effectiveness of its implementation and monitoring thereof, to addressing findings, making recommendations, and subsequent follow-ups on the effectiveness of implementation of measures taken based on the recommendations.</p>	By end of November 2020

The Company will issue an announcement in relation to the internal control review when and as appropriate under the Listing Rules.

D. NON-FULFILMENT OF PROFIT GUARANTEE AND CONSIDERATION SHARES RELATING TO THE XIGUA ACQUISITION

Reference is made to the Company's announcement dated 10 March 2020. The Company would like to update the Shareholders and its potential investors on the Profit Guarantee and Consideration Shares in relation to the Xigua Acquisition as follows:

1. Actions taken to recover the compensation

In order to recover the compensation, the Company has taken the following actions:

- (a) as stated in the announcement of the Company dated 10 March 2020, the Company through its PRC legal advisers issued a demand letter on 10 March 2020 to each of KongZhong Group, Beijing Xigua and the vendor stating the Company's decision to opt for a compensation by way of cash in full in the amount of RMB150,152,857 within 30 days upon the date of receipt of the demand letter;
- (b) the Company has also engaged its PRC legal advisers to issue a legal opinion on the legal implications regarding the issues arisen out of the Xigua Acquisition; and
- (c) the Management has continued to closely follow up with KongZhong Group and had various rounds of negotiation with KongZhong Group since the issue of the demand letter. In particular, the Company is currently exploring the viability of the Xigua Unwinding Plan. For further details, please refer to *"AUDIT QUALIFICATIONS ON THE COMPANY'S RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019 — Proposed plans to address the Audit Qualifications — Xigua Qualification"*.

2. Current status of the Consideration Shares and the actions taken or to be taken by the Company in relation thereto

Since completion of the Xigua Acquisition on 26 June 2019, the Consideration Shares have been held under an escrow account managed by Valuable Capital Limited as an escrow agent (the "**Escrow Agent**"). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Escrow Agent is a third party independent of KongZhong Group and its associates.

Subsequently, in view of the non-fulfilment of the Profit Guarantee, in order to protect the interest of the Company in respect of the Consideration Shares issued, the Company had various discussions with KongZhong Group and after arm's length negotiation, KongZhong Group has entrusted the voting rights of the Consideration Shares to the chairman of the corporate governance committee of the Company (i.e. Mr. CUI Yuzhi, an Independent Non-executive Director) in June 2020.

3. Voting by the escrow agent at the general meetings

The Escrow Agent exercised the voting rights attached to the Consideration Shares at the extraordinary general meetings of the Company in July 2017 and July 2020, according to the instructions of KongZhong Group and Mr. CUI Yuzhi, respectively. To the best knowledge and belief of the Board, such casting of voting rights by the Escrow Agent has not constituted any breach of the Investment Agreement dated 24 April 2019 relating to the Xigua Acquisition.

E. MATERIAL IMPAIRMENTS

1. Board's assessment in relation to Ms. Li

Amongst the material impairments as recorded in the Group's consolidated financial statements for the year ended 31 December 2019, the Xigua Impairment Loss of RMB142.5 million was related to the VR game business of the Group operated by Beijing Xigua and the Loan Receivables Impairment Loss of RMB105.7 million was related to the internet micro-credit business of the Group operated by Yunke.

In relation to the Group's VR game business, Ms. Li, the former executive Director and chief executive officer of the Company, was responsible for the management and operation of Beijing Xigua subsequent to the resignation of Mr. Wang Dongfeng on 30 September 2019 and up to her loss of contact in late October and her resignation on 7 November 2019. According to the Investigation Results, in the course of Ms. Li's management, various operational issues were identified in relation to the VR game business of Beijing Xigua, and certain franchisees of Beijing Xigua and relevant parties who entered into decoration and equipment supply services contracts with Beijing Xigua seem to be related or otherwise connected to Ms. Li. For details, please refer to the announcement of the Company dated 8 May 2020.

In respect of the Group's internet micro-credit business, Yunke was set up in December 2016 to engage in internet micro-credit business in the PRC but it had not commenced any corporate loan business until 2019. Ms. Li had been the board member who was responsible for the development and overall management and control of the business operations of Yunke since her joining the Company in April 2019 until her loss of contact in late October 2019. Pursuant to the Investigation Results, various operational issues were identified and certain parties to some of the loans granted by Yunke were reported to be related to or otherwise connected with Ms. Li. For further details, please refer to the Company's announcement dated 7 May 2020.

As such, based on the information available to the current Board and with particular reference to the issues revealed in the Investigation Results, it appears that information relating to Ms. Li's involvement or relationship with certain business partners of Beijing Xigua or loan borrowers of Yunke has not been disclosed to or brought to the attention of the board of the Company at the material time of entering into the relevant contracts or granting the relevant loans to avoid actual or potential conflicts of interests and duties, which further leads to the

question on Ms. Li's honesty and integrity and whether she acted in the interests of the Company as a whole. The Investigation Results also suggested that certain internal control and risk procedures of the Group were not fully complied with when granting loans, thereby leading to the question of whether Ms. Li has exercised such degree of skill, care, diligence as may reasonably be expected of a director of her knowledge and experience as required under Rules 3.08 and 3.09 of the Listing Rules. Accordingly, the current Board has reasons to believe that it is most likely that Ms. Li might not have fulfilled her duties as a director of the Company under Rules 3.08 and 3.09 of the Listing Rules.

2. Actions taken/to be taken by the Company in respect of/against Ms. Li

In light of the foregoing, the Company has proactively taken actions with the aim to mitigate or alleviate impact of the abovementioned matters on the Company. Such actions included but not limited to the arrangement for the Independent Investigation on the relevant VR game business and the internet micro-credit business of the Group, the arrangement for Ms. Li to cease having any management positions within the Group, as well as arranging internal control consultants to review and assist the Company to improve its internal control systems and policies. For further details, please refer to the relevant announcements and disclosures made by the Company.

The Company is currently consulting its legal advisers on the possible legal actions that could be taken against Ms. Li based on the information available to the Company as well as the cost-benefit analysis on any such pursuit. The Company will issue further announcement(s) as and when appropriate. The Company hereby expressly reserves its rights, interests and benefits in relation thereto.

DEFINITIONS

Unless defined above or below or the context otherwise requires, the capitalised terms used in this announcement shall have the same meanings as defined in the 2019 Annual Report:

“Best Hero”	Best Hero Investments Limited, a company incorporated with limited liability pursuant to the laws of Hong Kong, one of the purchasers under the supplemental agreement to the share transfer agreement dated 9 July 2019 entered into by and among the Company, AP China Unicorn Fund SPC, Blue Whale, Best Hero, in relation to the JLC Disposal
“Blue Whale”	The Blue Whale Tech Ltd., a company incorporated in the British Virgin Islands with limited liability, one of the purchasers under the supplemental agreement to the share transfer agreement dated 9 July 2019 entered into by and among the Company, AP China Unicorn Fund SPC, Blue Whale, Best Hero, in relation to the JLC Disposal

“Consideration Shares”	the 22,268,908 shares of the Company to be issued as consideration to KongZhong Corporation pursuant to the Investment Agreement dated 24 April 2019 relating to the Xigua Acquisition, which are now held under an escrow account designated by KongZhong
“Former Auditors”	PricewaterhouseCoopers, the Company’s former auditors
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Impairment Loss(es)”	the Xigua Impairment Loss, the Loan Receivables Impairment Loss and the JLC Impairment Loss
“Independent Investigation(s)”	the independent investigations on the internet micro-credit business and VR game business of the Group, respectively, conducted by the Independent Investigator appointed by the Company’s Independent Investigation Committee
“Independent Investigator”	Ernst & Young, the independent investigator appointed by the Company’s Independent Investigation Committee
“Investigation Results”	the results of the Independent Investigations
“JLC Impairment Loss”	the impairment loss as recognised in the 2019 Annual Report from the consideration receivables of RMB33.2 million relating to the JLC Disposal by the Company
“Loan Receivables Impairment Loss”	the impairment loss as recognised in the 2019 Annual Report from the loan receivables of RMB105.7 million relating to the internet micro-credit business of the Company
“PRC”	the People’s Republic of China, which for the purpose of this announcement does not include Hong Kong, the Macao Special Administrative Region of the People’s Republic of China, and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary shares of US\$0.0001 each in the share capital of the Company
“subsidiary(ies)”	shall have the meaning ascribed to it under the Listing Rules

“Xigua Impairment Loss” the impairment loss as recognised in the 2019 Annual Report from the goodwill, property and equipment and other assets in the amount of RMB142.5 million relating to the VR game business of the Company

“%” per cent.

By the order of the Board
Forgame Holdings Limited
ZHANG Qiang
Chairman

Hong Kong, 22 October 2020

As at the date of this announcement, the executive Directors are Mr. HAN Jun, Mr. Diao Guoxin and Mr. Zhu Liang; the non-executive Director is Mr. ZHANG Qiang; and the independent non-executive Directors are Mr. WANG Dong, Mr. WONG Chi Kin, Mr. CUI Yuzhi and Mr. Lu Xiaoma.