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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: 484)

**SUPPLEMENTAL ANNOUNCEMENT
UPDATE ON THE ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

References are made to the announcement of the Company dated 19 March 2021 in relation to the consolidated annual results of the Group for the year ended 31 December 2020 (the “**Results Announcement**”), and the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”). Unless as defined in this announcement or the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Results Announcement and the 2020 Annual Report.

This announcement serves to provide the Shareholders and potential investors with supplemental information in relation to the Results Announcement and the 2020 Annual Report.

A. AUDIT QUALIFICATIONS ON THE COMPANY’S RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

As disclosed in the Results Announcement and the 2020 Annual Report, the independent auditors of the Company, ZHONGHUI ANDA CPA Limited (the “**Auditors**”) issued a qualified opinion on the Company’s results for the year ended 31 December 2020 in relation to each of: (i) the income, expenses, assets and liabilities of Beijing Xigua which was acquired in June 2019 and disposed of in December 2020, and the commitments, contingent liabilities, related party transactions and disclosures in relation to Beijing Xigua and its operations (the “**Xigua Qualification**”); (ii) the income and expenses of JLC which was disposed of in 2019 (the “**JLC Qualification**”); and (iii) the full impairment of certain corporate loan receivables of RMB99.7 million (the “**Loan Receivables Qualification**”, together with the Xigua Qualification and the JLC Qualification, the “**Audit Qualifications**”). The Company would like to provide further information in relation to the Audit Qualifications.

1. Audit and compliance committee's view on the Audit Qualifications

The audit and compliance committee of the Company (the “**AC Committee**”) has reviewed and agreed with the position of the Company's management (the “**Management**”) and the Board's view concerning the Audit Qualifications. The AC Committee had extensive discussions with the Auditors in all key audit areas, such as the impairment testing, fair value change of investments and the like. The AC Committee also requested for the underlying assessment and calculations from the Management and the Auditors for those key audit areas. The details of discussions regarding each of the Audit Qualifications are as follows:

a. *Xigua Qualification*

The AC Committee had detailed discussion with the Auditors regarding the Xigua Qualification at the planning stage, during the audit and in closing meeting, and has agreed with the judgment of the Auditors in respect of the Xigua Qualification. For further details, please refer to page 40 of the Results Announcement.

b. *JLC Qualification*

The AC Committee had detailed discussion with the Auditors regarding the JLC Qualification at the planning stage, during the audit and in closing meeting, and has agreed with the judgment of the Auditors in respect of the JLC Qualification. Given that the Company had completed the disposal of JLC and its subsidiaries in 2019, the AC Committee and the Auditors are of the view that the JLC Qualification was incurred during the year ended 31 December 2019 and the financial results of JLC and its subsidiaries for the year ended 31 December 2019 were shown in the Company's auditors' report for the year ended 31 December 2020 merely for reference as comparative figures. As such, the AC Committee and the Auditors agreed that the discussions about the JLC Qualification had been completed during the audit of consolidated financial statements of the Group for the year ended 31 December 2019 and the relevant details have been disclosed in the Company's supplemental announcement in relation to its annual report for the year ended 31 December 2019 published on 22 October 2020 (the “**2019 Annual Report Supplemental Announcement**”). For further details, please refer to the 2019 Annual Report Supplemental Announcement.

c. *Loan Receivables Qualification*

The AC Committee had detailed discussed with the Auditors regarding the Loan Receivables Qualification at the planning stage, during the audit and in closing meeting, and has agreed with the judgment of the Auditors in respect of the Loan Receivables Qualification. The AC Committee and the Auditors are of the view that the Loan Receivables Qualification was incurred during the year ended 31 December

2019 and the provision for impairment pertaining to the Loan Receivables Qualification for the year ended 31 December 2019 was shown in the Company's auditors' report for the year ended 31 December 2020 merely for reference as comparative figures. As such, the AC Committee and the Auditors agreed that the discussions about the Loan Receivables Qualification had been completed during the audit of consolidated financial statements of the Group for the year ended 31 December 2019 and the relevant details have been disclosed in the 2019 Annual Report Supplemental Announcement. For further details, please refer to the 2019 Annual Report Supplemental Announcement.

2. Updates on previous action plans to address the Audit Qualifications

Reference is made to the 2019 Annual Report Supplemental Announcement in relation to certain action plans taken/to be taken by the Company in respect of: (i) possible legal actions to be taken against Ms. Li Luyi (“**Ms. Li**”); (ii) arbitration proceedings filed for the corporate loan receivables against the Unreachable Borrowers (as defined below); and (iii) plan to initiate litigation proceedings against the owners of JLC. The Company would like to update the Shareholders and potential investors with the following information:

a. Possible legal actions to be taken against Ms. Li

As disclosed in the 2019 Annual Report Supplemental Announcement, the Company was consulting its legal advisers on the possible legal actions to be taken against Ms. Li based on the information available to the Company and the cost-benefit analysis on any such pursuit. The Company expressly reserved its rights, interests and benefits in relation thereto.

However, as the Company had been unable to contact Ms. Li and her team at the relevant time since around end of October 2019, and based on the given understanding of an alleged police investigation of an online “peer-to-peer” lending platform, Beijing Haitouhui (www.htouhui.com) and Ms. Li, the Company had decided to firstly focus on resolving the issues associated with the businesses that Ms. Li was directly responsible for before her resignation, i.e. the virtual reality (“**VR**”) game business and the internet micro-credit business of Yunke.

With regard to the VR game business, the Company completed the disposal of Beijing Xigua in December 2020. With regard to the internet micro-credit business of Yunke, in particular, as to the loans granted in 2019, the Company has taken all necessary steps, including but not limited to legal actions against certain corporate loan borrowers, in order to recover such corporate loans, further details of which are set out below.

b. Arbitration proceedings against the seven unreachable borrowers

As disclosed in the 2019 Annual Report Supplemental Announcement, during the year ended 31 December 2019, the Company made impairment loss in the amount of RMB105.7 million for the loan receivables of Yunke, which included, among others, corporate loans made to seven corporate borrowers who were unreachable (the “**Unreachable Borrowers**”) with impairment loss of RMB39.7 million.

The Unreachable Borrowers against whom the Company had filed arbitration proceedings included six borrowers located in Changchun (the “**Changchun Borrowers**”) and one borrower located in Ningbo (the “**Ningbo Borrower**”). The latest progress of the Company’s recovery of the overdue loan receivables from these Unreachable Borrowers is set out below:

- (a) on 17 July 2020 and 22 July 2020, respectively, the Beihai Arbitration Commission (北海仲裁委員會) issued arbitration rulings against the Changchun Borrowers. During the process of enforcing such arbitration rulings, the Company was given to understand that the bank accounts of the Changchun Borrowers have been frozen and the funds raised by them are denoted in Hong Kong dollars, therefore it is agreed that the relevant repayments would be made through KongZhong Corporation. KongZhong Corporation, Yunke and Netcloud (Hong Kong) Technology Limited (“**Netcloud HK**”, a wholly-owned subsidiary of the Company) entered into a tripartite agreement pursuant to which the principal and accumulated interest owed by the Changchun Borrowers shall be repaid via KongZhong Corporation to the bank account of Netcloud HK as designated by Yunke. As of the date hereof, the Company had received HK\$9.6 million on 9 March 2021 and HK\$10.4 million on 29 March 2021 being the loan repayments from the Changchun Borrowers; and
- (b) on 5 February 2021, the Beihai Arbitration Commission issued an arbitration ruling against the Ningbo Borrower. The Company therefore instructed its PRC legal advisers, Guantao Law Firm (“**Guantao**”), to initiate enforcement procedures against the Ningbo Borrower in respect of the loan receivable in the amount of RMB15.0 million, accumulated interest and arbitration and other fees. Accordingly, on 9 March 2021, Guantao on behalf of the Company applied to the Langfang Intermediate People’s Court (廊坊市中級人民法院) for enforcement of the arbitration award.

The Management is of the view that the Company’s first priority is to recover the overdue loan receivables as soon as possible and as much as possible in order to protect the interests of the Shareholders and will thus continue to closely monitor the recovery progress of the overdue loan receivables. Based on the Management’s discussion with the Company’s PRC legal advisers, it is suggested that the Company

should first consider recovering the loan receivables through all necessary and possible measures in order to reduce its loss. However, the Company also reserves its rights, interests and benefits to take legal actions against the Unreachable Borrowers and/or Ms. Li as appropriate and necessary.

c. Intended litigation proceedings against the owners of JLC

The Management attaches great importance to the recovery of the outstanding consideration receivables of approximately RMB33.2 million (the “**Consideration Receivables**”) being the second instalment payable by the owners of JLC (the “**JLC Owners**”) pertaining to the disposal of 54.54% of the entire issued share capital of JLC by the Group in 2019.

As disclosed in the 2019 Annual Report Supplemental Announcement, the Company was contemplating to initiate litigation proceedings against the owners of JLC by the end of 2020 to recover the consideration receivable of RMB33.2 million. Nevertheless, in determining the course of action to take, the Company was advised by its PRC legal advisers that instigating litigation in the PRC may also be a feasible option. Therefore, the Company is still assessing and discussing with its legal advisers as to the most desirable course of action to take, taking into account, among others, the costs and benefits of instigating arbitration or litigation proceedings in Hong Kong and the PRC respectively, in order to better protect the interests of the Company and the Shareholders as a whole. In the meantime, on 9 March 2021, the Company issued two letters of demand to each of the JLC Owners, respectively, requesting for payment of the Consideration Receivables. Such letters of demand were duly delivered and served on each of the JLC Owners, respectively, on 11 March 2021. The Management will consider further actions to take once comprehensive assessment is completed so as to recover the Consideration Receivables.

B. UPDATE ON THE GAME BUSINESS SEGMENT OF THE GROUP

As disclosed in the section headed “Management Discussion and Analysis” in the Results Announcement and the 2020 Annual Report, there were a decrease in the revenue and adjusted EBITDA generated from the game business of the Company, as well as a decrease in the research and development expenses for the year ended 31 December 2020. The Company would like to supplement the Shareholders and potential investors with the following information:

1. Games released and operated by the Company during 2020

During 2020, the Company operated 16 major games, all of which were web games and altogether constituted 97% of the revenue of the game business of the Company. No new game was released by the Company during 2020. For the year ended 31 December 2019, the average number of monthly paying users (“MPU”) was approximately 46,000 and the

average revenue per paying users (“ARPPU”) per month was RMB105. For the year ended 31 December 2020, the average number of MPU was approximately 21,000 and the ARPPU per month was approximately RMB116. The decline in the average number of MPU in 2020 as compared with that of 2019 was mainly due to the Company adopting the approach to focus on maintaining its existing user base and incentivising the active users of its major games such as “真王” (True King) to make more in-game payments and purchases. Nevertheless, such approach also led to a rise in the ARPPU per month for the year ended 31 December 2020.

2. Operations team of the game business

Currently, the operations team for the game business of the Company consists of approximately 20 staff, who are divided into three teams to be mainly responsible for the operations and maintenance of the Company’s web games.

3. Business development and future plan of the game business

The Company’s current business strategy towards its game business is mainly to maintain the scale of existing web games and mobile games and improve operational efficiency through outsourcing and cooperating with external professional teams.

Tracing back in time, the former management of the Company had recognised that the web game market in the PRC had been and would continue to be adversely affected by the increasingly prevalent use of smartphones. As such, the Company ventured into the development of offline VR game business in 2019 by acquiring Beijing Xigua. At around the same time, the Company had correspondingly reduced the input for research and development for web games. However, as a result of the unfortunate outbreak of the COVID-19 pandemic, coupled with the sluggish development of the VR game market in the PRC as well as the immature business model and underperformance of Beijing Xigua in general, the game business of the Company had been adversely affected. The Company officially ceased its VR game business upon its disposal of Beijing Xigua in December 2020.

In view of the expanding mobile gaming industry in the PRC, the shrinking market share of the Company in the overall gaming industry and the Company’s current portfolio of game business which mainly consists of web games as opposed to mobile games, the Management is of the view that it is not in the interest of the Company and the Shareholders as a whole to further develop the Company’s game business with extensive input of human and financial resources, since such level of input may not generate satisfactory returns under the current market trend of the gaming industry in the PRC. As such, the Company does not have any plan to develop new games at the moment. In addition, the Company will strive to restore and maintain the profitability of its game business by focusing on reducing the operating expenses while gradually improving the ARPPU of its existing games.

In the meantime, the Management is exploring to diversify its business portfolio and hedge against the gaming industry risks by venturing into the business of provision of supply chain finance and higher value-added financial services. During the year ended 31 December 2020, the Company successfully completed the acquisition of Shenzhen Xingyun and tapped into the business of electronic data storage products and services, and will be able to carry out supply chain financing services based on the business background of Shenzhen Xingyun. Further, the Management is of the view that after completion of the acquisition of Shenzhen Xingyun, the Company has possessed the basic conditions and foundation to enter the supply chain financial services field and should actively explore to utilise new technologies such as cloud computing and block chain to continue to extend its businesses rapidly to higher value-added financial services areas. The Management is of the view that the above proposed future plan contemplated is in the interest of the Company and the Shareholders as a whole.

C. DETAILS OF THE IMPAIRMENT LOSS FOR LOAN RECEIVABLES IN 2020

As discussed in note 10 to the financial statements in the Results Announcement, the Company recognised loss allowance for loan receivables in the net amount of RMB9.59 million during the year ended 31 December 2020. The Company would like to supplement the Shareholders and potential investors with the following information.

The provision of impairment for loan receivables in the net amount of RMB9.59 million was a result of the provisions made in respect of two loans of RMB1.84 million and RMB15.75 million, respectively, and a reversal of impairment provision of RMB8.0 million. The details of the loan receivables and provision of impairment of RMB9.59 million in relation thereto are set out as follows:

1. Provision of impairment for loan receivables of RMB1.84 million

The loan in the amount of RMB8 million was made to Mr. Li Zhongjie as borrower by Yunke as lender on 3 July 2019 for a term of ten months from 3 July 2019 to 2 May 2020. The Company had made impairment loss for this loan in the amount of RMB6.0 million during the year ended 31 December 2019.

The last repayment of the loan was made in July 2020 and the loan has become past due since then. After several rounds of negotiation with the borrower, the borrower explicitly expressed his inability to repay the loan. Therefore, the Company has made further impairment loss for the remaining amount of RMB1.84 million of the loan for 2020. The Company already commenced arbitration proceedings in the PRC against the borrower in March 2021.

The Board understands that the loan is currently uncollectible and noted the legal action in process. The Auditors agree with the Board's assessment about the loan recoverability and its accounting treatments.

2. Provision of impairment for loan receivables of RMB15.75 million

On 19 September 2019, Beijing Xigua and Tianjin Wanke as borrowers, Beijing Yidong and KongZhong Youyi as guarantors, and Yunke as lender entered into a loan agreement for the amount of RMB15.0 million for a term of twelve months from 20 September 2019 to 19 September 2020. The loan shall be applied and used by Beijing Xigua and Tianjin Wanke for extending the network of virtual reality experience stores and general working capital. Both Beijing Yidong and KongZhong Youyi are companies controlled through contractual arrangements by KongZhong Corporation, and KongZhong Corporation was then a substantial Shareholder. Therefore, Beijing Yidong and KongZhong Youyi were then connected persons of the Company. As such, the transactions contemplated thereunder were then connected transactions for the Company under Chapter 14A of the Listing Rules. For further details of this loan, please refer to the announcement of the Company dated 19 September 2019. As at 31 December 2020, the outstanding principal and accumulated interest which were owed by Beijing Xigua and Tianjin Wanke under the loan amounted to RMB15.75 million.

The last repayment of the loan was made in April 2020 and the outstanding sum of RMB15.75 million was subsequently past due. The Company has issued demand letters to the borrowers and the guarantors. After assessing the financial conditions and repayment capabilities of the borrowers and guarantors, the Company is of the view that the outstanding principal and accumulated interest have been fully impaired and made impairment loss accordingly. Furthermore, the Company is considering the possibility of commencing legal actions against the borrowers and guarantors.

The Board understands that the loan is currently uncollectible due to the poor financial position of the borrowers and recommends the Company to take further actions, including but not limited to commencing legal actions as necessary and appropriate. The Auditors agree with the Board's assessment on the loan recoverability and its accounting treatments.

3. Reversal of impairment provision of loan receivables of RMB8.0 million

Corporate loans in the total amount of RMB26 million were made to the Changchun Borrowers by Yunke as lender on 29 September 2019 for a term of one year from 29 September 2019 to 28 September 2020. The Company had made an impairment loss in the amount of RMB24.7 million (after deducting the loan deposit of RMB1.3 million) during the year ended 31 December 2019.

The Company received repayment in the amount of HK\$9.6 million (equivalent to approximately RMB8.0 million) as repayment of the abovementioned corporate loans on 9 March 2021. Such amount was recognised as a reversal of the impairment loss for the year ended 31 December 2020.

The Board noted the repayments of these corporate loans in the amount of HK\$9.6 million received on 9 March 2021 and in the amount of HK\$10.4 million received on 29 March 2021. The Board is of the view that relevant effects of these repayments should be recognised on cash basis since the Company does not have control over the amount and timing of the repayments. As such, the amount of HK\$9.6 million was recognised as an adjusting event after the reporting period for the year ended 31 December 2020, while the amount of HK\$10.4 million will be recognised as reversal of the impairment loss for the year ended 31 December 2021. The Board will continue to monitor the repayment of the remaining outstanding sum. The Auditors agree with the Board's assessment on the loan recoverability and its accounting treatments.

By order of the Board
Forgame Holdings Limited
ZHANG Qiang
Chairman

Hong Kong, 27 April 2021

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; the independent non-executive Directors are Mr. WANG Dong, Mr. WONG Chi Kin, Mr. CUI Yuzhi and Mr. LU Xiaoma.