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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)

**UNAUDITED ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained under the section “Review of Unaudited Annual Results” below, the auditing process for the annual results of Forgame Holdings Limited (the “**Company**” or “**Forgame**”) and its subsidiaries (collectively, the “**Group**” or “**we**” or “**us**” or “**our**”) has not been completed. In the meantime, the board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 as follows:

DIVIDEND

The Board has resolved not to declare a dividend for the year ended 31 December 2019 (2018: nil), on the assumption that the audited annual results of the company for the year ended 31 December 2019 to be published upon completion of the auditing process will be consistent in all material respects with the unaudited results set out herein.

OVERVIEW AND OUTLOOK

Overview

2019 was a challenging year to navigate. Trade disputes between China and the US and increased regulatory requirements for the domestic internet finance industry added a layer of market uncertainty and impacted the related business segments of the Company. Despite the difficult operating environment, the Group managed to generate revenue of approximately RMB124 million from continuing operating activities for the year, which was basically in line with 2018.

In 2019, the revenue from the game business⁽¹⁾ and internet micro-credit business accounted for approximately 67% and 33% of the Group's overall revenue respectively, which were basically in line with last year. Annual revenue from the game business amounted to approximately RMB84 million. On the other hand, the Group extended its internet micro-credit business to the corporate loan business, adding to the existing personal loan business line, and recorded a total interest income of approximately RMB40 million for 2019.

Outlook

2020 will also be a difficult year. In face of the impact of the novel coronavirus disease (COVID-19) (the “**Epidemic**”) in January 2020, a number of provinces and cities in the People's Republic of China (“**PRC**”) activated a level I response, which is the highest-level response that can be raised for major public health emergencies, and adopted various strict measures to curb the spread of the virus. After the Lunar New Year, all industries followed the guidelines from the Chinese government and postponed the date of resumption of work to combat the Epidemic.

Strict requirements for epidemic prevention and control caused out-of-home consumption of the residents to fall significantly. Industries which are principally engaged in offering venues for offline crowd gathering have been most affected. While the online entertainment industry has benefitted from the fact that users are spending more time at home, other industries have been negatively affected to various degrees. According to a research report⁽²⁾ published by an independent research institute, the Epidemic gave rise to an obvious decline in income for small and medium enterprises (“**SMEs**”), whereby 29.6% of SMEs experienced a decrease in operating income as high as 50% or above. About 85% of these SMEs were expected to run out of cash within 3 months. In order to divert the pressure of operating costs, many SMEs resorted to redundancy and pay cuts as the contingency plan for survival.

The Group has not been immune to the severe national public health crisis and faces significant challenges ahead. As the Group had shifted its business focus from online games to offline VR games in 2019, offline stores of 北京西瓜互娛科技有限責任公司 (translated as “Beijing Xigua Huyu Technology Co., Ltd”, “**Beijing Xigua**”) under the Group were also severely affected. Although the Group has formulated contingency measures⁽³⁾ to mitigate the impact of the Epidemic, the operating environment has been clouded by uncertainties at this stage.

In relation to the internet micro-credit business, “Yunke” had to address a number of overdue corporate loans (including “**Affected Loans**”⁽⁴⁾) it lent out during its rapid development in the past. As a result, we will operate the corporate loan business with even more prudent measures and strengthen our internal risk management. We expect that the overall economic environment will be affected to a certain extent as long as the Epidemic continues. In order to mitigate the impact of the economic downturn on the internet micro-credit business, the Group will also make certain operating adjustments.

As we look forward to 2020, despite the uncertain operating environment, we will highly focus on corporate development. Management will closely monitor all economic development and take necessary steps, as and when appropriate, to weather the crisis wholeheartedly.

Notes:

- (1) Include online legacy game business and the virtual reality (“VR”) game business.
- (2) The “Trend Report on Consumer Consumption Index under the Epidemic” (《疫情影響下的用戶消費指數趨勢報告》) published by iResearch.
- (3) For details, please refer to the Company’s announcement issued on 10 March 2020.
- (4) The Group is taking appropriate actions on the borrowers of the “Affected Loans” under the corporate loan business. For details, please refer to the Company’s announcement issued on 11 December 2019 and 26 February 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

UNAUDITED GROUP RESULTS

BUSINESS REVIEW

In 2019, the Group undertook strategic restructuring by implementing game business upgrade strategy and diversifying the product portfolio of its internet micro-credit business. Based on the unaudited financial information, the Group was able to maintain a similar level of total revenue from continuing operations for 2019 of approximately RMB124 million as compared to that for 2018.

The Group entered into the VR game business under the brand “Player No.1” since 26 June 2019 through the acquisition of 69.84% equity interest in Beijing Xigua and its subsidiaries (the “**Xigua Acquisition**”). As at 31 December 2019, the Group had operated 129 offline VR experience stores in the PRC to offer customers with self-developed and licensed interactive VR games. During the first six complete months since consolidation of such VR experience stores, the average number of monthly paying members of the VR game business had reached approximately 4,234 and the revenue from VR game business was approximately RMB26 million. As a result of the effort in containing the spread of the Epidemic around the country, physical outdoor consumption by the public has declined significantly. Our VR game business offers offline services, therefore the physical stores under the Group were severely affected. As announced in the Group’s announcement on 10 March 2020, we planned to retain not more than 10 best performing direct sales stores under the offline VR game business. Meanwhile, the legacy online game business continues to focus on the overseas market strategy. The Group will continue to monitor and optimize the return on investment of the legacy online game business.

As to our internet micro-credit business, the Group had diversified the product portfolio to include the lending of corporate loans. This strategic adjustment has enabled the Group to provide SMEs with practical and flexible mid-term financing solutions. Based on the unaudited financial information, the Group had served more than 1.8 million cumulative borrowers as at 31 December 2019 and resulted in an accumulated loan financing of approximately RMB1.4 billion during the year of 2019.

As for the recoverability problem associated with the affected loans, the Group will learn the lesson and be more prudent in managing its corporate loan business, and will strengthen its risk management.

Game Business

The Group started its VR game business under the brand “Player No.1” through the Xigua Acquisition since 26 June 2019. The following tables set forth certain operating statistics relating to the VR game business of the Group in the periods indicated:

| | As at 31 December | |
|--|------------------------|------|
| | 2019 | 2018 |
| VR Game | | |
| Number of stores ⁽¹⁾ | 129 | – |
| | Year ended 31 December | |
| | 2019 | 2018 |
| VR Game | | |
| Average monthly paying members ⁽²⁾ | 4,234 | – |
| Monthly average paying amount per paying member (RMB) ⁽²⁾ | 420 | – |

Notes:

(1) VR experience stores which were in operation as at 31 December 2019.

(2) Recorded since July 2019.

Internet Micro-credit Business

The following tables set forth certain operating statistics relating to the Group’s internet micro-credit business for the periods indicated or as at the dates indicated:

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2019 | 2018 |
| Average balance of outstanding performing loans (RMB in million) ⁽¹⁾ | 344 | 276 |
| Average size of the loans (RMB) ⁽²⁾ | 4,852 | 3,601 |
| Number of loans originated ⁽³⁾ | 282,540 | 640,704 |

Notes:

(1) Calculated as the average balance of the principal amount of the outstanding performing loans at the end of each month for the period indicated.

(2) Calculated as the total amount of loans divided by the total number of loans originated for the period indicated.

(3) Number of loans originated by the internet micro-credit business for the period indicated.

The Group provides two types of loans through the internet micro-credit business, namely, guaranteed loans and collateralised loans, to its customers in the PRC. The Group considers various factors in determining the applicable interest rate of a loan which include but not limited to (i) the relevant customer's background and credit history, (ii) whether the loan is secured or guaranteed, (iii) the value of the collaterals, if any; and (iv) the purpose and term of the loan.

The borrowers of the internet micro-credit business include both individual and corporate clients. The average balance of the outstanding performing loans for the year of 2019 had increased to approximately RMB344 million as compared to that of approximately RMB276 million for the year of 2018. This increase was primarily attributable to the corporate loan business.

As the loan size provided to corporate clients is generally larger than that to individual clients, the overall average loan sizes of the Group increased accordingly for the year of 2019.

The decline in the number of loans originated was mainly attributable to the general increase in average loan sizes and the decline in repeat borrowing frequency due to the longer loan term granted by the Group.

The following table sets forth the Group's income statement for the year ended 31 December 2019 as compared to that for the year ended 31 December 2018:

| | Year Ended 31 December | | Change % |
|---|---|---|-------------|
| | 2019 <i>RMB'000</i> (Unaudited) | 2018 <i>RMB'000</i> (Audited and restated) | |
| Continuing operations | | | |
| Revenue | 123,989 | 129,440 | -4.2% |
| Cost of revenue | (93,862) | (47,691) | 96.8% |
| Gross profit | 30,127 | 81,749 | -63.1% |
| Selling and marketing expenses | (15,828) | (9,662) | 63.8% |
| Administrative expenses | (60,929) | (50,998) | 19.5% |
| Research and development expenses | (29,443) | (24,134) | 22.0% |
| Other income | 25,811 | 12,979 | 98.9% |
| Other (losses)/gains — net | (16,955) | 88 | -19,367.0% |
| Finance income — net | 1 | 1,143 | -99.9% |
| (Loss)/gain on dilution of investments accounted for using the equity method | (17) | 11,089 | -100.2% |
| Gain on disposal of investment in a subsidiary | 3,259 | - | NM |
| Share of income of investments accounted for using the equity method | 16,918 | 13,857 | 22.1% |
| Impairment of property and equipment | (26,263) | - | NM |
| Impairment of intangible assets | (109,816) | - | NM |
| Impairment of right-of-use assets | (3,251) | - | NM |
| Impairment of financial assets measured at amortised cost | (121,636) | (39,144) | 210.7% |
| Loss before income tax | (308,022) | (3,033) | 10,055.7% |
| Income tax benefit/(expense) | 8,834 | (1,915) | NM |
| Loss from continuing operations | (299,188) | (4,948) | 5,946.6% |
| Discontinued operation | | | |
| Loss from discontinued operation | (19,074) | (315,074) | -93.9% |
| Loss for the year | (318,262) | (320,022) | -0.6% |

Note: NM-Not meaningful.

Continuing Operations

Revenue. Based on the unaudited financial information, revenue decreased by approximately 4.2% to RMB124.0 million for the year ended 31 December 2019 from RMB129.4 million for the year ended 31 December 2018. The following table sets forth the revenue of the Group by segment for the year ended 31 December 2019 and 31 December 2018 respectively:

| | Year Ended 31 December | | | |
|----------------------------------|--------------------------|-------------------------|--|-------------------------|
| | 2019 | | 2018 | |
| | (RMB'000) (Unaudited) | (% of Total Revenue) | (RMB'000) (Audited and restated) | (% of Total Revenue) |
| Revenue by Segment | | | | |
| — Game business | 83,578 | 67.4 | 90,886 | 70.2 |
| — Internet micro-credit business | 40,411 | 32.6 | 38,554 | 29.8 |
| Total Revenue | <u>123,989</u> | <u>100.0</u> | <u>129,440</u> | <u>100.0</u> |

- The game business comprises the online legacy game business and the VR game business. Based on the unaudited financial information, revenue generated from the Group's game business decreased by approximately 8.0% to RMB83.6 million for the year ended 31 December 2019 from RMB90.9 million for the year ended 31 December 2018. Such decrease was a mix effect of the decrease in revenue generated from the legacy online game business and the revenue generated from the new VR game business. Based on the unaudited financial information, the revenue generated from the VR game business was approximately RMB26.0 million for the year ended 31 December 2019. The VR game business generated revenue by offering VR games to the customers in the offline VR experience stores, providing promotional services to its business partners and collecting of franchising fee.
- Based on the unaudited financial information, revenue generated from the Group's internet micro-credit business increased by approximately 4.8% to RMB40.4 million for the year ended 31 December 2019 from RMB38.6 million for the year ended 31 December 2018. Such increase was mainly attributable to the interest income generated from corporate loans provided by the Group in 2019.

Adjusted EBITDA. Based on the unaudited financial information, adjusted EBITDA was negative RMB135.5 million for the year ended 31 December 2019 while adjusted EBITDA was RMB31.0 million for the year ended 31 December 2018. The following table sets forth the adjusted EBITDA of the Group by segment for the years ended 31 December 2019 and 2018:

| | Year ended 31 December | | Change % |
|-----------------------------------|------------------------|--------------------------------------|-------------|
| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> (Restated) | |
| Adjusted EBITDA by Segment | | | |
| Game business | (81,358) | (12,062) | 574.5% |
| Internet micro-credit business | (71,033) | 18,153 | NM |

Note: The difference between the sum of adjusted EBITDA of the game and internet micro-credit business above and the total adjusted EBITDA of the Group is from (loss)/gain on dilution of investments accounted for using the equity method and share of income of investments accounted for using the equity method.

NM-Not meaningful.

- Based on the unaudited financial information, adjusted EBITDA in respect of the Group's game business decreased to negative RMB81.4 million for the year ended 31 December 2019 from negative RMB12.1 million for the year ended 31 December 2018. The enlarged loss was primarily attributable to the VR game business. The VR game business was in the initial phase of development and required substantial investment to be in place including but not limited to store rental, and salaries for operational personnel. Besides, impairment of property and equipment and right-of-use assets were made due to the deteriorating operational performance of the VR game business.
- Based on the unaudited financial information, adjusted EBITDA in respect of the Group's internet micro-credit business decreased to negative RMB71.0 million for the year ended 31 December 2019 from adjusted EBITDA of RMB18.2 million for the year ended 31 December 2018. This decrease was attributable to the allowance for impairment for outstanding loan receivables of the Group's internet micro-credit business for the year ended 31 December 2019.

Cost of revenue. Based on the unaudited financial information, cost of revenue increased by approximately 96.8% to RMB93.9 million for the year ended 31 December 2019 from RMB47.7 million for the year ended 31 December 2018. Such increase was primarily attributable to the increase in the cost of revenue due to the expansion of the VR game business. The cost of revenue of the VR game business includes rental of the offline VR experience stores, salaries of the in-store operation team and depreciation of VR equipment and renovation of the offline VR experience stores. The increase in cost of revenue was partially offset by the decrease in revenue sharing costs of the Group's online legacy game business in line with the revenue decrease of our existing online games. For the year ended 31 December 2019, based on the unaudited financial information, the percentage of cost of revenue to total revenue increased to 75.7% (2018: 36.8%).

Selling and marketing expenses. Based on the unaudited financial information, selling and marketing expenses increased by approximately 63.8% to RMB15.8 million for the year ended 31 December 2019 from RMB9.7 million for the year ended 31 December 2018. Such increase was primarily attributable to the promotion and marketing expenses incurred by the VR game business in order to attract potential players online and offline.

Administrative expenses. Based on the unaudited financial information, administrative expenses increased by approximately 19.5% to RMB60.9 million for the year ended 31 December 2019 from RMB51.0 million for year ended 31 December 2018. Such increase was primarily attributable to the additional administrative expenses of the Group' new VR game business.

Research and development expenses. Based on the unaudited financial information, research and development expenses increased by approximately 22.0% to RMB29.4 million for the year ended 31 December 2019 from RMB24.1 million for the year ended 31 December 2018. Such increase was primarily attributable to the employee salaries and benefit for the research and development department of the VR game business as the Group started the VR game business since the end of June 2019.

Other income. Based on the unaudited financial information, other income increased to RMB25.8 million for the year ended 31 December 2019 from RMB13.0 million for the year ended 31 December 2018. Such increase was primarily attributable to the distribution of profit from one of the investee companies of the Group during the year of 2019.

Other (losses)/gains — net. Based on the unaudited financial information, other losses — net was RMB17.0 million for the year ended 31 December 2019 (2018: other gains — net of RMB0.1 million). The other losses — net in 2019 was mainly incurred as a result of the impairment of one of the Group's financial assets at fair value through profit and loss and the impairment of other receivables, such as store rental deposit of the VR game business due to the VR game business reduction plan.

Finance income — net. Based on the unaudited financial information, finance income — net for the year ended 31 December 2019 was RMB1 thousand (2018: RMB1.1 million). The finance income — net represents the interest income from short-term deposits and restricted cash net off by the interest expense as a result of the newly adopt International Financial Reporting Standard (“IFRS”) 16 Lease.

(Loss)/gain on dilution of investments accounted for using the equity method. Based on the unaudited financial information, loss on dilution of investments accounted for using the equity method was RMB0.02 million for the year ended 31 December 2019, while gain on dilution of investments accounted for using the equity method was RMB11.1 million for the year ended 31 December 2018. The gain in 2018 was attributable to the increase in valuation of our investments as a result of the fund raising activities carried out by one of the Group's investees.

Gain on disposal of investment in a subsidiary. Based on the unaudited financial information, gain on disposal of investment in a subsidiary was RMB3.3 million for the year ended 31 December 2019. This gain was attributable to the disposal of the equity interest in Jianlicai business (a fintech brand in the PRC previously owned by the Group, “Jianlicai”).

Share of income of investments accounted for using the equity method. Based on the unaudited financial information, the Group recognised share of income of investments accounted for using the equity method of RMB16.9 million for the year ended 31 December 2019 (2018: RMB13.9 million). This income is related to the share of profits of the Group's invested associated companies in respective years, during which the invested associated companies achieved positive financial performances.

Impairment of property and equipment. As the Group planned to retain not more than 10 best performing direct sales stores under the offline VR game business in view of the potential decline of outdoor consumption, based on the unaudited financial information, the Group recognised impairment of property and equipment of RMB26.3 million according to the deteriorating operational performance of the VR game business.

Impairment of intangible assets. Based on the unaudited financial information, the Group recognised impairment of intangible assets of RMB109.8 million in the year ended 31 December 2019. This impairment was mainly attributed to the full impairment of goodwill and identifiable intangible assets arising from the Xigua Acquisition completed on 26 June 2019.

Impairment of right-of-use assets. Based on the same reason as stated under paragraph "Impairment of property and equipment", the Group recognised impairment of right-of-use assets (as a result of the adoption of IFRS 16 Lease) of RMB3.3 million for the discontinued operating experience stores.

Impairment of financial assets measured at amortised cost. Based on the unaudited financial information, impairment of financial assets measured at amortised cost for the year ended 31 December 2019 was RMB121.6 million, as compared to RMB39.1 million for the year ended 31 December 2018. The impairment in 2019 was primarily attributable to the allowance for impairment for outstanding loan receivables of the internet micro-credit business and the receivables from the disposal of the equity interest in Jianlicai.

Income tax benefit/(expense). Based on the unaudited financial information, the Group recognised income tax benefit of RMB8.8 million for the year ended 31 December 2019 while the income tax expense was RMB1.9 million for the year ended 31 December 2018. The income tax benefit for the year ended 31 December 2019 was mainly attributable to subsequent changes in the deferred tax liabilities with the amortization and impairment of identifiable intangible assets from the Xigua Acquisition.

Loss from continuing operations. Based on the unaudited financial information, the Group recognised loss from continuing operations of RMB299.2 million for the year ended 31 December 2019 as compared to RMB4.9 million for the year ended 31 December 2018. The increase in the loss from continuing operations was primarily attributable to the impairment of goodwill and identifiable intangible assets arising from the Xigua Acquisition, the allowance for impairment for outstanding loan receivables of the internet micro-credit business and the receivables from the disposal of the equity interest in Jianlicai.

Discontinued Operation

Loss from discontinued operation. Based on the unaudited financial information, loss from discontinued operation is the operating results of Jianlicai. Loss from discontinued operation was RMB19.1 million for the year ended 31 December 2019 and RMB315.1 million for the year ended 31 December 2018. This loss was primarily attributable to the operational difficulties in Jianlicai. As stated in the section headed “Letter from the Board — Reasons and Benefits for the Disposal — Operational Difficulties Faced by Jianlicai” to the circular of the Company dated 12 July 2019, management of Jianlicai comprehensively adjusted its business model in July 2018 in order to embrace the spirit of regulations. As a result of such change, “wealth management plan”, the base of Jianlicai’s valuation on goodwill and identifiable intangible assets, had ceased and will not be re-launched in the foreseeable future. As stated in the announcement of the Company dated 17 August 2018, an after-tax impairment of RMB320.5 million has been made on Jianlicai’s goodwill and identifiable intangible assets.

NON-IFRSS MEASURES — EBITDA AND ADJUSTED EBITDA

To supplement the unaudited consolidated results of the Group which are prepared in accordance with IFRSs, certain non-IFRSs measures, including EBITDA and adjusted EBITDA, have been presented. These unaudited non-IFRSs financial measures should be considered in addition to, and not as a substitute for, the measures of the Group’s financial performance which have been prepared in accordance with IFRSs. The Group’s management believes that these non-IFRSs financial measures provide investors with useful supplementary information to assess the performance of its core operations by excluding certain non-cash and non-recurring items. The EBITDA and adjusted EBITDA are unaudited figures.

The following table sets forth the reconciliation of the Group's non-IFRSs financial measures for the years ended 31 December 2019 and 2018, to the nearest measures prepared in accordance with IFRSs:

| | Year ended 31 December | |
|---|---------------------------------|--|
| | 2019 <i>(RMB'000)</i> | 2018 <i>(RMB'000)</i> (Restated) |
| Loss from continuing operations | (299,188) | (4,948) |
| Add: | | |
| Depreciation and amortisation | 46,327 | 2,893 |
| Net interest income | (5,297) | (10,205) |
| Income tax (benefit)/expense | (8,834) | 1,915 |
| | <hr/> | <hr/> |
| EBITDA (unaudited) | (266,992) | (10,345) |
| Add: | | |
| Share-based compensation | 3,612 | 2,007 |
| Impairment of intangible assets arising from business combination | 108,749 | – |
| Impairment of other receivables on disposal of investment in an associate | – | 39,375 |
| Impairment of other receivables on disposal of investment in a subsidiary | 33,203 | – |
| Changes in the value of financial assets at fair value through profit or loss | 5,039 | – |
| Loss on transfer of investment in an associate to financial assets at fair value through other comprehensive income | 158 | – |
| Gain on disposal of investment in a subsidiary | (3,259) | – |
| Distribution of profit from financial assets at fair value through other comprehensive income | (16,000) | – |
| | <hr/> | <hr/> |
| Adjusted EBITDA (unaudited) | (135,490) | 31,037 |

FINANCIAL POSITION

Based on the unaudited financial information, as at 31 December 2019, the total equity of the Group amounted to RMB624.1 million as compared to that of RMB847.7 million as at 31 December 2018. Such decrease was primarily attributable to the full impairment of goodwill and identifiable intangible assets arising from the Xigua Acquisition, the allowance for impairment for outstanding loan receivables of the internet micro-credit business and the receivables from the disposal of the equity interest in Jianlicai.

Based on the unaudited financial information, the Group's net current assets amounted to RMB453.5 million as at 31 December 2019 as compared to that of RMB745.3 million as at 31 December 2018. This decrease was primarily attributable to the allowance for impairment for outstanding loan receivables of the internet micro-credit business, the deconsolidation of Jianlicai's net current assets as it was no longer under the control of the Group as at 31 December 2019 and the working capital utilization to support Beijing Xigua's operation.

LIQUIDITY AND FINANCIAL RESOURCES

| | As at 31 December | |
|--------------------------------------|-------------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Audited) |
| Cash at bank and on hand | 315,285 | 751,356 |
| Cash at other financial institutions | 2,674 | 5,662 |
| Short-term deposits | 68,862 | 41,534 |
| Total | 386,821 | 798,552 |

Based on the unaudited financial information, the Group's total cash, cash equivalent and short-term deposits amounted to RMB386.8 million as at 31 December 2019 as compared to that of RMB798.6 million as at 31 December 2018. The decrease was primarily attributable to: (i) the development of internet micro-credit business, which had lowered the cash balance and increased the balance of loan receivables, (ii) the deconsolidation of Jianlicai's cash balance, and (iii) the working capital utilization to support Beijing Xigua's operation.

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the cost of funding, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in RMB, followed by USD.

Based on the unaudited financial information, as at 31 December 2019, the Group's gearing ratio (calculated as bank borrowing divided by total assets) was nil (as at 31 December 2018: nil), which means that the Group did not have any bank borrowing balance as at 31 December 2019. The borrowing requirements of the Group are not subject to seasonality.

MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed below, during the year ended 31 December 2019, the Group did not perform any other material acquisition or disposal.

Acquisition of 69.84% equity interest in Beijing Xigua

On 24 April 2019, the Group announced the Xigua Acquisition where the target group is principally engaged in the research, development and operation of large space VR technologies and VR games. The completion of the Xigua Acquisition took place on 26 June 2019. The consideration has been settled through (i) the subscription in the registered capital of Beijing Xigua in cash of RMB20,000,000 by the Group, and (ii) the allotment and issue of 22,268,908 new ordinary shares of the Company to the entity(ies) designated by the vendor for the equity transfer. For details of the Xigua Acquisition, please refer to the announcements of the Company dated 9 April 2019, 24 April 2019, 24 May 2019 and 26 June 2019 respectively. For information regarding Beijing Xigua's subsequent development, please refer to "Non-fulfillment of Profit Guarantee" section.

Disposal of 54.54% equity interest in Jlc Inc.

On 26 April 2019, the Group announced the disposal of 54.54% of the entire issued share capital of Jlc Inc., which was the entire equity interest held by the Company (the "**Disposal of JLC**"). Jlc Inc. was principally engaged in financial information service in the PRC through the operations of websites and mobile phone applications under the brand Jianlicai. The completion of the Disposal of JLC had taken place on 6 September 2019. The consideration has been settled through collection in cash of RMB14,229,900, leaving a receivable of RMB33,203,100, the second instalment (the "**Second Instalment**"), supposed to be paid on or before 6 March 2020. As at the date of this announcement, the Second Instalment has not been collected. The Company has engaged legal advices to take further action in order to collect the Second Instalment. For details of the Disposal of JLC, please refer to the announcements of the Company dated 26 April 2019 and 9 July 2019, the circular of the Company dated 12 July 2019 and the poll results of the extraordinary general meeting of the Company held on 29 July 2019. For details of the payment of the Second Instalment, please refer to the announcement of the Company dated 11 December 2019 and 10 March 2020.

NON-FULFILLMENT OF PROFIT GUARANTEE

References are made to the announcements of the Company dated 24 April 2019, 21 November 2019, 10 March 2020 and 19 March 2020 respectively (the "**Announcements**"). Unless otherwise stated herein, capitalized terms used in this section shall have the same meanings as those defined in the Announcements.

As disclosed in the Announcements, the vendor, the KongZhong Group and Beijing Xigua jointly and severally guaranteed and undertook to the Investor that the Actual Net Profits for the Guarantee Periods would not be less than RMB43,000,000, RMB52,000,000 and RMB62,000,000.

Based on the management accounts of Beijing Xigua, Beijing Xigua recorded an unaudited cumulative loss for the period from 1 June 2019 to 31 December 2019, falling short of over RMB43 million as compared to the Threshold of RMB43 million. The non-fulfilment of the profit guarantee was mainly due to the deteriorating operational performance of Beijing Xigua. As a result of the non-fulfilment of the Profit Guarantee, the Company has elected to request from the vendor, KongZhong Group and Beijing Xigua for a compensation by way of cash in full of approximately RMB150,152,857 and accordingly, on 10 March 2020, the Company has instructed its PRC legal adviser to issue the Demand Letter to the vendor, KongZhong Group and Beijing Xigua, 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.

On 18 March 2020, the Company received the Reply Letter from the Counterparty in which the Counterparty objected to the appointment of the Beijing Xigua's Auditor for the purpose of conducting the audit work for Beijing Xigua for the period from 1 June 2020 to 31 December 2020, and indicated that it was unable to confirm the profit or loss figure of Beijing Xigua as provided by the Company as at the date of the Reply Letter. The Company has made communications with the Counterparty from 20 February 2020 to 29 February 2020 and proposed the appointment of the Beijing Xigua's Auditor. The Company has also required confirmation from the Counterparty on or before 28 February 2020. However, up till 28 February 2020, the Counterparty had not confirmed. Since no objections from the Counterparty was received before the deadline, the Company deemed it as an acceptance of the appointment of Beijing Xigua's Auditor by the Counterparty. The Company reserves all rights under relevant laws and regulations to claim compensation arising from the Investment Agreement.

Significant Investment

During 2019, the Group held a significant investment in an associate detailed as follow:

| Company name | Date of incorporation | Carrying amount as at 31 December 2019 RMB'000 | Investment Cost RMB'000 | Registered capital RMB'000 | Percentage of ownership interest attributable to the Group as at 31 December | |
|--------------------|-----------------------|--|-------------------------------|----------------------------------|--|--------|
| | | | | | 2018 | 2019 |
| 北京分享時代科技 股份有限公司 | 23 February 2011 | 49,244 | 4,000 | 24,240.864 | 10.38% | 10.38% |

北京分享時代科技股份有限公司 (translated as Beijing Share Times Technology Co., Limited, "Share Times") is a company that develops and operates intellectual properties ("IPs") of celebrities including design, promotion, and sales of IPs. In 2019, Share Times had contributed share of income of investments accounted for using the equity method of approximately RMB14 million. The Group will continue supporting the business development of Share Times, and seek synergy between Share Times and other investments of the Group to maximize their performances.

FOREIGN EXCHANGE RISK

Based on the unaudited financial information, as at 31 December 2019, RMB45.7 million of the financial resources of the Group (as at 31 December 2018: RMB39.1 million) were held as deposits denominated in non-RMB currencies. The increase in the deposits denominated in non-RMB currencies was due to an active exchange exposure management in view of the rising value of USD against RMB. The Group will continue to monitor its foreign exchange risk exposure to better preserve the Group's cash value.

CAPITAL EXPENDITURES

| | Year ended 31 December | |
|--------------------------------------|----------------------------------|--------------------------------|
| | 2019 (RMB'000) (Unaudited) | 2018 (RMB'000) (Audited) |
| Capital expenditures | | |
| — Purchase of property and equipment | 16,709 | 4,309 |
| — Purchase of intangible asset | 2,178 | — |
| Total | 18,887 | 4,309 |

Capital expenditures (excluding business combination) comprise the purchase of property and equipment, such as VR equipment and leasehold improvement, and the purchase of intangible assets, such as VR game licensing fee and IT systems upgrade.

PLEDGE OF ASSETS

Based on the unaudited financial information, as at 31 December 2019, the Group had a pledge of assets of RMB1.0 million (as at 31 December 2018: RMB0.9 million) as restricted cash for corporate credit card deposits.

CONTINGENT LIABILITIES

Based on the unaudited financial information, as at 31 December 2019, the Group did not have any significant unrecorded contingent liabilities (as at 31 December 2018: nil).

HUMAN RESOURCES

As at 31 December 2019, the Group had 615 full-time employees⁽¹⁾ (as at 31 December 2018: 419), the vast majority of whom are based in the PRC.

Details of the Group's remuneration policies and training schemes, share option schemes and restricted share unit scheme will be set out in the annual report of the Company for the year ended 31 December 2019.

Note:

(1) Include the operation team who signed labor dispatch contracts in the VR game experience stores.

POST BALANCE SHEET EVENT

After the outbreak of the Epidemic in early 2020, a series of precautionary and control measures have been and continued to be implemented nationwide, including but not limited to the restriction in travel, logistics at provincial or municipal level, as well as crowd gathering. As a result, Beijing Xigua's physical stores, being in the offline services industry, were severely affected.

As a result, directors of the Company considered that the recovery of the offline entertainment consumption remains uncertain as the Epidemic continues and remains unknown as to when the situation will be stabilized. The Group decided that more stores will be closed down in order to minimize the negative impact of the Epidemic and retain not more than 10 best performing direct sales stores.

The Group will pay close attention to the development of the Epidemic and its impact on the offline entertainment market, and will continue to perform relevant assessments and take proactive measures.

RISKS AND HURDLES

Although the Group has successfully established its internet micro-credit business, there are certain risks that could adversely affect the Group's operations and financial results due to the immaturity of the fintech market in the PRC. The major hurdles may include (i) the implementation of new policies or any amendment to current policies by the governments in the PRC in relation to internet micro-credit regulations, (ii) the credit risk of loans becoming uncollectable, (iii) the inability of the main strategic business partners to provide sustainable services, (iv) the collapse of real estate market or other markets causing the decrease in the value of the collaterals granted to the Group, (v) new internet micro-credit products not recognised by market, (vi) loss of key employees, and (vii) the financial risks resulting from inappropriate decision made by the management of the internet micro-credit business.

As to the established online legacy game business operated by the Group, the major hurdles may include (i) delay in game launches, (ii) mismatch between games developed and the market expectations, (iii) loss of key employees, (iv) technical issues that hamper the Group's ability to collect fees and data, and update games, and (v) tight control in game related regulations and policies in the PRC all of which will have an adverse effect on the Group's performance.

On 26 June 2019, the Group completed the Xigua Acquisition, which had strengthened the Group's game business by providing VR games in stores across the PRC. The major hurdles may include (i) the recognition of VR concept by the market being lower than expectation, (ii) delays of game launches, (iii) games developed being unable to meet market expectations at their launch, (iv) the speed of opening stores being slower than expectation, (v) technical issues affecting user experience and existing VR games operation, (vi) damages of fixed assets including VR equipment caused by accidents which were not covered by the existing insurances, (vii) being unable to recruit sufficient well-trained VR sales and managers in the stores, (viii) departure of key employees, (ix) the market share being seized by our competitors, (x) the capital shortfall between the current cash level and the budget of the expanding stores business plan before the financing solution being implemented, and (xi) the operating stores shut down due to contagion.

In addition, the Group is exposed to risks such as fluctuation of foreign exchange, impairment loss due to invested companies' underperformance or contract party becoming insolvent, other unexpected one-off restructuring costs, and failures of certain material litigations or arbitrations, all of which will have an adverse effect on the Group's performance.

Since 2014, the Group has made investments in the internet, media and technology industry in the PRC with a remaining value of approximately RMB137.0 million post investment impairment and losses as at 31 December 2019, out of which approximately RMB56.6 million was classified as "investments in associates".

In the year of 2019, some of the Group's investments achieved higher profits compared to the same period of last year. Along with the better performance of these investments, the Group can focus more on exploring potential opportunities in relevant industries to support the development of the Group's business, such as the emerging technologies on the internet. However, it is difficult to judge whether these investments could survive in the market with increasing competition or the technologies developed by these investments would be suitable to the application scenarios. Therefore, potential impairments or write-offs may occur.

FUTURE PLANS

Due to the Epidemic in the first quarter of 2020, the global economy had witnessed huge impacts in all businesses.

Because of the long hours staying at home, there were new opportunities in areas such as online entertainment, online education, online shopping, and online working. The Group plans to closely monitor the developments of these opportunities, and evaluate relevant businesses if their growths are sustainable after the Epidemic. And if the Group identifies any good investment chance with appropriate valuation, it will not hesitate to seize the opportunity.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

| | <i>Note</i> | Year Ended 31 December | |
|--|-------------|-------------------------------|-------------------------------|
| | | 2019 | 2018 |
| | | RMB'000 | RMB'000 |
| | | (Unaudited) | (Audited and restated) |
| Continuing operations | | | |
| Revenue | 4 | 123,989 | 129,440 |
| Cost of revenue | | (93,862) | (47,691) |
| | | <hr/> | <hr/> |
| Gross profit | | 30,127 | 81,749 |
| Selling and marketing expenses | | (15,828) | (9,662) |
| Administrative expenses | | (60,929) | (50,998) |
| Research and development expenses | | (29,443) | (24,134) |
| Other income | | 25,811 | 12,979 |
| Other (losses)/gains — net | | (16,955) | 88 |
| Finance income — net | | 1 | 1,143 |
| (Loss)/gain on dilution of investments accounted for using the equity method | | (17) | 11,089 |
| Gain on disposal of investment in a subsidiary | | 3,259 | — |
| Share of income of investments accounted for using the equity method | | 16,918 | 13,857 |
| Impairment of property and equipment | | (26,263) | — |
| Impairment of intangible assets | | (109,816) | — |
| Impairment of right-of-use assets | | (3,251) | — |
| Impairment of financial assets measured at amortised cost | | (121,636) | (39,144) |
| | | <hr/> | <hr/> |
| Loss before income tax | | (308,022) | (3,033) |
| Income tax benefit/(expense) | 5 | 8,834 | (1,915) |
| Loss from continuing operations | | (299,188) | (4,948) |
| | | <hr/> | <hr/> |
| Discontinued operation | | | |
| Loss from discontinued operation | | (19,074) | (315,074) |
| | | <hr/> | <hr/> |
| Loss for the year | | (318,262) | (320,022) |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Loss attributable to: | | | |
| — Owners of the Company | | (275,993) | (284,877) |
| — Non-controlling interests | | (42,269) | (35,145) |
| | | <hr/> | <hr/> |
| | | (318,262) | (320,022) |
| | | <hr/> <hr/> | <hr/> <hr/> |

| | Note | Year Ended 31 December | |
|---|------|--------------------------------|--|
| | | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Audited and restated) |
| Loss per share for loss from continuing operations attributable to the owners of the Company: (expressed in RMB per share) | | | |
| — Basic | 6 | <u>(1.78)</u> | <u>(0.04)</u> |
| — Diluted | | <u>(1.78)</u> | <u>(0.04)</u> |
| Loss per share for loss attributable to the owners of the Company: (expressed in RMB per share) | | | |
| — Basic | 6 | <u>(1.90)</u> | <u>(2.09)</u> |
| — Diluted | | <u>(1.90)</u> | <u>(2.09)</u> |
| Loss for the year | | (318,262) | (320,022) |
| Other comprehensive income: | | | |
| Item that will not be reclassified to profit or loss: | | | |
| — Change in fair value of financial assets at fair value through other comprehensive income | | 7,681 | 16,392 |
| — Currency translation differences | | 197 | 1,791 |
| Total other comprehensive income, before tax | | 7,878 | 18,183 |
| Income tax relating to components of other comprehensive income | | (2,256) | (440) |
| Other comprehensive income for the year, net of tax | | 5,622 | 17,743 |
| Total comprehensive loss for the year | | (312,640) | (302,279) |
| Total comprehensive loss attributable to: | | | |
| — Owners of the Company | | (270,379) | (267,134) |
| — Non-controlling interests | | (42,261) | (35,145) |
| | | (312,640) | (302,279) |
| Total comprehensive (loss)/income attributable to owners of the Company arises from: | | | |
| — Continuing operations | | (252,530) | 12,803 |
| — Discontinued operation | | (17,849) | (279,937) |
| | | (270,379) | (267,134) |

CONSOLIDATED BALANCE SHEET

| | | As at 31 December | |
|---|------|------------------------|-----------------------|
| | | 2019 | 2018 |
| | Note | RMB'000 (Unaudited) | RMB'000 (Audited) |
| ASSETS | | | |
| Non-current assets | | | |
| Property and equipment | | 2,347 | 8,155 |
| Intangible assets | | 5,123 | 8,124 |
| Right-of-use assets | | 50,031 | – |
| Investments accounted for using the equity method | | 56,571 | 47,567 |
| Financial assets at fair value through profit or loss | | 473 | 5,512 |
| Financial assets at fair value through other comprehensive income | | 79,963 | 30,804 |
| Prepayments and other receivables | | 2,271 | 2,767 |
| | | <u>196,779</u> | <u>102,929</u> |
| Current assets | | | |
| Trade receivables | 8 | 4,945 | 23,100 |
| Loan receivables | 9 | 171,388 | 46,512 |
| Prepayments and other receivables | | 12,634 | 17,618 |
| Restricted cash | | 953 | 929 |
| Short-term deposits | | 68,862 | 41,534 |
| Cash and cash equivalents | | 317,959 | 757,018 |
| | | <u>576,741</u> | <u>886,711</u> |
| Total assets | | <u><u>773,520</u></u> | <u><u>989,640</u></u> |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 102 | 86 |
| Shares held for Restricted Share Units Scheme | | (28,900) | (28,900) |
| Share premium | | 2,165,486 | 2,066,360 |
| Reserves | | (42,010) | (55,028) |
| Accumulated losses | | (1,449,270) | (1,173,277) |
| | | <u>645,408</u> | <u>809,241</u> |
| Non-controlling interests | | <u>(21,278)</u> | <u>38,446</u> |
| Total equity | | <u><u>624,130</u></u> | <u><u>847,687</u></u> |

| | | As at 31 December | |
|-------------------------------------|-------------|--------------------------|-----------------------|
| | | 2019 | 2018 |
| | <i>Note</i> | RMB'000 | RMB'000 |
| | | (Unaudited) | (Audited) |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | 2,715 | 459 |
| Deferred revenue | | – | 122 |
| Lease liabilities | | <u>23,396</u> | <u>–</u> |
| | | <u>26,111</u> | <u>581</u> |
| Current liabilities | | | |
| Trade payables | 10 | 7,576 | 29,153 |
| Other payables and accruals | | 72,312 | 97,550 |
| Income tax liabilities | | 5,573 | 8,247 |
| Deferred revenue | | 9,275 | 6,422 |
| Lease liabilities | | <u>28,543</u> | <u>–</u> |
| | | <u>123,279</u> | <u>141,372</u> |
| Total liabilities | | <u><u>149,390</u></u> | <u><u>141,953</u></u> |
| Total equity and liabilities | | <u><u>773,520</u></u> | <u><u>989,640</u></u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General Information

Forgame Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 26 July 2011 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company’s registered office is at the offices of Osiris International Cayman Limited, Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, P.O. Box 32311, Grand Cayman KY1-1209, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively the “**Group**”) are principally engaged in developing and publishing domestic and overseas webgames and mobile games as well as offering virtual reality game in physical stores (the “**Game Business**”) and providing internet micro-credit service (the “**Internet Micro-credit Business**”) in the People’s Republic of China (the “**PRC**”).

On 3 October 2013, the Company completed its initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited (the “**IPO**”).

On 29 July 2019, the shareholders approved the disposal transaction on the Group’s entire 54.54% equity interest in Jlc Inc. at a cash consideration of RMB47,433,000 in the extraordinary general meeting. As a result, the financial performance of Jlc Inc. was then classified as discontinued operation of the Group for the seven months ended 31 July 2019. The comparative figures of the financial performance for the year ended 31 December 2018 have been restated on such basis.

On 26 June 2019, the Group completed the acquisition of 69.84% equity interest in Beijing Xigua Huyu Technology Co., Ltd. (北京西瓜互娛科技有限責任公司, “**Beijing Xigua**”), which is principally engaged in offering self-developed games as well as licensed games in physical stores that are equipped with space positioning technology and virtual reality devices.

2 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income (“**FVOCI**”), and financial assets at fair value through profit or loss (“**FVTPL**”), which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) New and amended standards and interpretations adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2019:

- Leases — IFRS 16,
- Long-term Interests in Associates and Joint Ventures — Amendments to IAS 28,
- Prepayment Features with Negative Compensation — Amendments to IFRS 9,
- Uncertainty over Income Tax Treatments — Interpretation 23,
- Annual Improvements 2015-2017 cycle — Annual improvements 2017, and
- Plan Amendment, Curtailment or Settlement — Amendments to IAS 19.

The impact of the adoption of IFRS 16 since 1 January 2019 is disclosed in Note 3. The adoption of the other amendments and interpretations listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

Standards, amendments and interpretations that have been issued but not yet effective for the financial year beginning 1 January 2019 and not been early adopted by the Group as of the reporting period are as follows:

| Standards, amendments and interpretations | | Effective for annual periods beginning on or after |
|--|---|---|
| IFRS 17 | Insurance contracts | 1 January 2022 |
| Amendments to IAS 1 and IAS 8 | Definition of Material | 1 January 2020 |
| Amendments to IFRS 3 | Definition of a Business | 1 January 2020 |
| Conceptual Framework for Financial Reporting | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |
| IAS 39, IFRS 7 and IFRS 9 | Hedge accounting (Amendment) | 1 January 2020 |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets Between An Investor and Its Associate or Joint Venture | To be determined |

The Group has already commenced an assessment of the impact of the new or revised standards that have been issued but either not yet effective for the financial period beginning 1 January 2019 or not been early adopted by the Group which are relevant to the Group's operation. The Group believes that the application of amendments to IFRSs, amendments to International Accounting Standards ("IASs") and the new interpretations is unlikely to have a material impact on the Group's statement of financial position and performance as well as disclosure in the future.

3 Changes in Accounting Policies

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements. The Group has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

3.1 Adjustments Recognised on Adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75% with reference to the base Interest rate of loans stipulated by the People's Bank of China.

Impact upon the application of IFRS 16 as at 1 January 2019 are listed as follows:

| | 1 January 2019 <i>RMB'000</i> |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 14,935 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 12,776 |
| (Less): short-term leases recognised on a straight-line basis as expense | <u>(576)</u> |
| Lease liabilities recognised as at 1 January 2019 | <u><u>12,200</u></u> |
| Of which are: | |
| Current lease liabilities | 7,971 |
| Non-current lease liabilities | <u>4,229</u> |
| | <u><u>12,200</u></u> |

The recognised right-of-use assets relate to the following types of assets:

| | 31 December 2019 <i>RMB'000</i> | 1 January 2019 <i>RMB'000</i> |
|------------|---|-------------------------------------|
| Properties | <u><u>50,031</u></u> | <u><u>12,775</u></u> |

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Lease liabilities, increased by RMB12,200,000;
- Right-of-use assets, increased by RMB12,775,000.

The adoption of IFRS 16 had no material impact on the Group's accumulated losses as at 1 January 2019.

3.1.1 Impact on Earnings Per Share

The adoption of IFRS 16 has no material impact on the earnings per share of the Group for the year ended 31 December 2019.

3.1.2 Practical Expedients Applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 *Leases* and IFRS Interpretations Committee (“**IFRIC**”) 4 *Determining Whether an Arrangement Contains a Lease*.

4 Segment Information

The Group’s business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the Chief Operating Decision Maker (“**CODM**”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

The CODM assesses the performance of the Group organised into two operating segments as follows:

- Game Business
- Internet Micro-credit Business

One of the subsidiaries engaged in the financial information service was disposed in July 2019.

The CODM assesses the performance of the operating segments mainly based on segment revenue, and adjusted (losses)/earnings before interest expense, taxes, depreciation and amortisation (“**adjusted EBITDA**”) excluding (loss)/gain on dilution of investments accounted for using the equity method and share of income of investments accounted for using the equity method of each operating segment.

Specifically, the revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. In addition, adjusted EBITDA excludes the effects of significant items of income and expenditure which may have an impact on the assessment of operating segments’ results such as changes in the value of financial assets at fair value through profit or loss, non-recurring event such as impairment of intangible assets arising from business combination, impairment of other receivables on disposal of investment in an associate, impairment of other receivables on disposal of investment in a subsidiary, loss on transfer of investment in an associate to financial assets at fair value through other comprehensive income, gain on disposal of investment in a subsidiary and distribution of profit from financial assets at fair value through other comprehensive income. It also excludes the effects of equity-settled share-based payments.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

The segment information provided to the Group's CODM for the reportable segments for the years ended 31 December 2019 and 2018 is as follows:

| | Year Ended 31 December | |
|---|-------------------------------|------------------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited and restated) |
| Revenue from continuing operations | | |
| Game Business | 83,578 | 90,886 |
| Internet Micro-credit Business | 40,411 | 38,554 |
| | <u>123,989</u> | <u>129,440</u> |
| Adjusted EBITDA from continuing operations | | |
| Game Business | (81,358) | (12,062) |
| Internet Micro-credit Business | (71,033) | 18,153 |
| Share of income of investments accounted for using the equity method | 16,918 | 13,857 |
| (Loss)/gain on dilution of investments accounted for using the equity method | (17) | 11,089 |
| | <u>(135,490)</u> | <u>31,037</u> |
| Total adjusted EBITDA from continuing operations | <u>(135,490)</u> | <u>31,037</u> |
| Adjusted EBITDA reconciles to loss before income tax from continuing operations as follows: | | |
| Total adjusted EBITDA from continuing operations | <u>(135,490)</u> | <u>31,037</u> |
| Share-based compensation | (3,612) | (2,007) |
| Impairment of intangible assets arising from business combination | (108,749) | – |
| Impairment of other receivables on disposal of investment in an associate | – | (39,375) |
| Impairment of other receivables on disposal of investment in a subsidiary | (33,203) | – |
| Changes in the value of financial assets at fair value through profit or loss | (5,039) | – |
| Loss on transfer of investment in an associate to financial assets at fair value through other comprehensive income | (158) | – |
| Gain on disposal of investment in a subsidiary | 3,259 | – |
| Distribution of profit from financial assets at fair value through other comprehensive income | 16,000 | – |
| Depreciation and amortisation | (46,327) | (2,893) |
| Net interest income | 5,297 | 10,205 |
| | <u>5,297</u> | <u>10,205</u> |
| Loss before income tax from continuing operations | <u>(308,022)</u> | <u>(3,033)</u> |

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC. The segment revenue for continuing operations provided to the Group's CODM for the PRC (excluding Hong Kong) and other regions for the years ended 31 December 2019 and 2018 is as follows:

| | Unaudited | | |
|-----------------|------------------------------------|----------------|----------------|
| | Year Ended 31 December 2019 | | |
| | PRC | Other | Total |
| | (Excluding | Regions | |
| | Hong Kong) | | |
| | RMB'000 | RMB'000 | RMB'000 |
| Segment revenue | <u>97,424</u> | <u>26,565</u> | <u>123,989</u> |
| | Audited and restated | | |
| | Year Ended 31 December 2018 | | |
| | PRC | Other | Total |
| | (Excluding | Regions | |
| | Hong Kong) | | |
| | RMB'000 | RMB'000 | RMB'000 |
| Segment revenue | <u>83,287</u> | <u>46,153</u> | <u>129,440</u> |

As at 31 December 2019 and 2018, majority of the non-current assets of the Group were located in the PRC.

5 Income Tax Benefit/(Expense)

The income tax benefit/(expense) of the Group for the years ended 31 December 2019 and 2018 are analysed as follows:

| | Year Ended 31 December | |
|---|-------------------------------|-------------------------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited and restated) |
| Current income tax: | | |
| — PRC and oversea enterprise income tax | (53) | (1,391) |
| Deferred income tax: | | |
| — Decrease in deferred tax assets | — | (524) |
| — Decrease in deferred tax liabilities | <u>8,887</u> | <u>—</u> |
| Income tax benefit/(expense) | <u>8,834</u> | <u>(1,915)</u> |

(a) Cayman Islands Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) Hong Kong Profits Tax

Mutant Box Limited (“**MB**”) is incorporated in Hong Kong, the applicable tax rate is 8.25% on assessable profits up to HK\$2,000,000, and the applicable tax rate is 16.5% on any part of assessable profits over HK\$2,000,000.

(c) Taiwan business income tax

Forgame International Co., Ltd. (雲遊股份有限公司, “**Yunyou**”) is incorporated in Taiwan, and the business income tax rate is 19% for the year ended 31 December 2019 (2018: 18%).

(d) PRC Enterprise Income Tax (“EIT”)

The income tax provision of the Group in respect of operations in the PRC was calculated at the tax rate of 25% on the assessable profits for the year ended 31 December 2019 and 2018, based on the existing legislation, interpretations and practices in respect thereof.

Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司, “**Weidong**”) and Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司, “**Feiyin**”) had renewed their qualification of “High and New Technology Enterprises” (“**HNTes**”) under the EIT Law in 2016 and their qualification were expired in 2018. Weidong and Feiyin have not renewed their qualification of HNTes during the year ended 31 December 2019 yet.

Guangzhou Feidong Software Technology Co., Ltd. (廣州菲動軟件科技有限公司, “**Feidong**”) has renewed its qualification of HNTes under the EIT Law in 2017, thus the applicable tax rate was 15% for the year ended 31 December 2019 and 2018.

Beijing Xigua was qualified as HNTes under the EIT Law in 2018, thus the applicable tax rate was 15% for the year ended 31 December 2019.

According to the relevant EIT Laws jointly promulgated by the Ministry of Finance of the PRC, State Tax Bureau of the PRC, and Ministry of Science of the PRC that became effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”).

(e) PRC Withholding Tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

As at 31 December 2019, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at 31 December 2019 (2018: nil).

6 Loss per Share

(a) Basic

Basic loss per share is calculated by dividing the loss of the Group attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

Loss per share for loss from continuing operations attributable to the owners of the Company are as follows:

| | Year Ended 31 December | |
|--|-------------------------------|-------------------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Audited and restated) |
| Loss attributable to owners of the Company (RMB'000) | <u>(258,141)</u> | <u>(4,940)</u> |
| Weighted average number of ordinary shares in issue | <u>144,911,513</u> | <u>136,157,763</u> |
| Basic loss per share (in RMB/share) | <u><u>(1.78)</u></u> | <u><u>(0.04)</u></u> |

Loss per share for loss attributable to the owners of the Company are as follows:

| | Year Ended 31 December | |
|--|-------------------------------|----------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Audited) |
| Loss attributable to owners of the Company (RMB'000) | <u>(275,993)</u> | <u>(284,877)</u> |
| Weighted average number of ordinary shares in issue | <u>144,911,513</u> | <u>136,157,763</u> |
| Basic loss per share (in RMB/share) | <u><u>(1.90)</u></u> | <u><u>(2.09)</u></u> |

(b) Diluted

For the year ended 31 December 2019, the Company had two categories of dilutive potential ordinary shares: share options granted to employees under pre-IPO share option scheme and restricted share units granted to employees under restricted share units scheme (For the year ended 31 December 2018: three categories including share options granted to employees under pre-IPO share option scheme and post-IPO share option scheme, and restricted share units granted to employees under restricted share units scheme). As the Group incurred losses for the year ended 31 December 2019 and 2018, the potential ordinary shares were not included in the calculation of dilutive loss per share, which would be anti-dilutive. Accordingly, dilutive loss per share for the year ended 31 December 2019 and 2018 was the same as basic loss per share for the year.

7 Dividends

The Board has resolved not to declare a dividend for the year ended 31 December 2019 (2018: nil), on the assumption that the audited annual results of the company for the year ended 31 December 2019 to be published upon completion of the auditing process will be consistent in all material respects with the unaudited results set out herein.

8 Trade Receivables

| | As at 31 December | |
|--------------------------------|---------------------------------------|-------------------------------------|
| | 2019 <i>RMB'000</i> (Unaudited) | 2018 <i>RMB'000</i> (Audited) |
| Third parties | 19,280 | 40,801 |
| Related parties | – | 1,658 |
| | <u>19,280</u> | <u>42,459</u> |
| Less: Allowance for impairment | <u>(14,335)</u> | <u>(19,359)</u> |
| | <u><u>4,945</u></u> | <u><u>23,100</u></u> |

As at 31 December 2019 and 2018, the fair values of trade receivables were approximately similar to their carrying amounts.

- (a) Aging analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

| | As at 31 December | |
|--------------|---------------------------------------|-------------------------------------|
| | 2019 <i>RMB'000</i> (Unaudited) | 2018 <i>RMB'000</i> (Audited) |
| 0–30 days | 2,220 | 8,449 |
| 31–60 days | 1,166 | 4,456 |
| 61–90 days | 395 | 4,680 |
| 91–180 days | 680 | 5,760 |
| 181–365 days | 156 | 2,086 |
| Over 1 year | 14,663 | 17,028 |
| | <u>19,280</u> | <u>42,459</u> |

- (b) Credit sales are mainly derived from the Game Business in which the Group contracts with various third party platforms to publish games and it is entitled to the proceeds collected from sales of in-game virtual items on its behalf by these platforms. The normal credit term of Game Business granted by the Group was from 30 to 180 days from respective transaction dates.

9 Loan Receivables

| | As at 31 December | |
|---------------------------------------|--------------------------------|------------------------------|
| | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Audited) |
| Guaranteed loans | 235,196 | 6,454 |
| Collateralised loans | 25,592 | 40,058 |
| Gross loan receivables | 260,788 | 46,512 |
| Less: Allowance for impairment losses | (89,400) | – |
| Net loan receivables | 171,388 | 46,512 |

(a) Analysis of loan receivables by overdue and impaired states

| | As at 31 December | |
|---------------------------------------|--------------------------------|------------------------------|
| | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Audited) |
| Neither past due nor impaired | 119,298 | 41,646 |
| Overdue but not impaired | 26,901 | 4,866 |
| Individually impaired | 114,589 | – |
| | 260,788 | 46,512 |
| Less: Allowance for impairment losses | (89,400) | – |
| Net balance | 171,388 | 46,512 |

(b) Movement of allowance for impairment losses

| | Year ended 31 December | |
|---------------------------------|--------------------------------|------------------------------|
| | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Audited) |
| At beginning of year | – | 3,510 |
| Charge/(reversal) for the year: | | |
| — Individually assessed | 89,400 | – |
| — Collectively assessed | – | (3,510) |
| At end of year | 89,400 | – |

Loans that are overdue but not impaired are loans less than 90 days past due and guaranteed by other enterprises.

10 Trade Payables

Trade payables primarily related to the purchase of services for server custody, content costs, agency fees and revenue to be shared and to be payable to game developers in Game Business.

The aging analysis based on recognition date of trade payables is as follows:

| | As at 31 December | |
|--------------|---------------------------------------|-------------------------------------|
| | 2019 <i>RMB'000</i> (Unaudited) | 2018 <i>RMB'000</i> (Audited) |
| 0–30 days | 2,672 | 3,485 |
| 31–60 days | 231 | 2,809 |
| 61–90 days | 125 | 2,885 |
| 91–180 days | 364 | 11,571 |
| 181–365 days | 94 | 2,169 |
| Over 1 years | 4,090 | 6,234 |
| | <u>7,576</u> | <u>29,153</u> |

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

At the Company's annual general meeting held on 25 May 2018, the shareholders of the Company (the "Shareholders") granted a share buy-back mandate to the Board to buy back shares of the Company ("Shares") (which should not exceed 10% of the issued share capital of the Company as at 25 May 2018) from time to time as the Board thinks fit until the earliest of (i) the conclusion of the next annual general meeting of the Company, (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the memorandum and articles of association of the Company to be held, or (iii) the revocation or variation of the authority given under the resolution by an ordinary resolution of the Shareholders in general meeting. Pursuant to such mandate, during the year ended 31 December 2019, the Company bought back a total of 1,790,300 Shares at a consideration of HK\$5,768,785 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), all of which were cancelled on 30 January 2019. The buy-backs were effected by the Directors for the enhancement of Shareholders' value. Details of the buy-backs pursuant to such mandate as at 31 December 2019 are as follows:

| Month of buy-backs | Total number of Shares bought back (on the Stock Exchange) | Price per Share | | Aggregate consideration (HK\$) |
|--------------------|---|-----------------|------------------|--------------------------------------|
| | | High (HK\$) | Lowest (HK\$) | |
| January 2019 | 1,790,300 | 3.3 | 3.15 | 5,768,785 |
| | 1,790,300 | | | 5,768,785 |

At the Company's annual general meeting held on 28 May 2019, the Shareholders granted a share buy-back mandate to the Board to buy back Shares (which should not exceed 10% of the issued share capital of the Company as at 28 May 2019) from time to time as the Board thinks fit until the earliest of (i) the conclusion of the next annual general meeting of the Company, (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles to be held or, (iii) the revocation or variation of the authority given under the resolution by an ordinary resolution of the Shareholders in general meeting. During the year ended 31 December 2019, the Company had not bought back any Shares (whether on the Stock Exchange or otherwise) pursuant to such mandate.

Save as disclosed above, during the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance Code

The Company is committed to maintaining strict corporate governance standards. The principles of these standards are to uphold a high standard of ethics, transparency, accountability and integrity in all aspects of business and to ensure that affairs are conducted in accordance with applicable laws and regulations.

Save as disclosed below, in the opinion of the Board, the Company has applied the principles and complied with the code provisions prescribed in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 (the “**CG Code**”) to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange throughout the year 2019.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

During the year ended 31 December 2019, Mr. WANG Dongfeng had served as the chairman of the Board and the chief executive officer of the Company until 30 September 2019. Ms. LI Luyi had served as the chairman of the Board and the chief executive officer of the Company during the period from 30 September 2019 to 7 November 2019.

Mr. HAN Jun serves as the chairman of the Board and the chief executive officer of the Company since 11 November 2019. In view of the ever-changing business environment in which the Group operates, the chairman of the Board and the chief executive officer of the Company must be proficient in IT knowledge and be sensitive to the fast and rapid market changes in the internet industry (such as the changes in the preference of users) in order to promote the businesses of the Group. The Board believes that the appointment of Mr. HAN Jun as both the chairman of the Board and the chief executive officer of the Company is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently, given the extensive experience in the internet industry which Mr. HAN Jun possesses. The Board is of the view that the separation of the roles of the chairman and the chief executive may create unnecessary costs for the daily operations of the Group. Further, the Board considers that there is a strong independent element on the Board which can effectively exercise independent judgments in the course of decision-making. In addition, all major decisions in relation to the Company’s matters will be made in consultation with members of the Board and Board committees, as well as the senior management of the Company as appropriate.

The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company’s current structure and to make necessary changes at an appropriate time.

Model Code for Securities Transactions by Directors

The Company has adopted the code of conduct and procedures governing Directors’ securities transactions in stringent compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the code of conduct and procedures governing Directors’ securities transactions during the year ended 31 December 2019.

Review of Unaudited Annual Results

The annual results for the year ended 31 December 2019 were yet to be finalised due to the travel restrictions in force in parts of the PRC and the delay in resumption of work of business partners of the Group to combat the Epidemic which resulted in delay in the completion of including but not limited to the physical observation of fixed assets in more than one hundred VR experience stores of Beijing Xigua and the reconciliation and on-site communication with the business partners, together with the following major outstanding uncertainties, including:

- (i) the results of the independent investigation. The independent investigation covers the corporate loan receivables with an aggregated outstanding amount of approximately RMB131.5 million as at 31 December 2019 lent out by the Group under its licensed internet micro-credit business under “Yunke”, including the affected corporate loan as detailed in the announcements of the Company dated 11 December 2019, 20 December 2019 and 25 February 2020, which may have an impact on the Group’s loan receivables and impairment of financial assets measured at amortised cost. As at the date of this announcement, the independent investigation is still in progress and the scope may also be further extended subject to the findings and results of the independent investigation;
- (ii) the results of the recoverability of the compensation in relation to the non-fulfilment of the profit guarantee resulted from the deteriorating operational performance of Beijing Xigua, as detailed in the announcements of the Company dated 10 March 2020 and 19 March 2020, which may have an impact on the Group’s financial asset at fair value through profit or loss and other (losses)/gains — net; and
- (iii) the results of the recoverability of the remaining balance of the consideration to the disposal of JLC, as detailed in the announcements of the Company dated 11 December 2019 and 10 March 2020, which may have an impact on the Group’s prepayments and other receivables and impairment of financial assets measured at amortised cost.

Due to the recent outbreak, travel restrictions and delay in resumption of work that were put in place within the PRC, as well as the above mentioned outstanding uncertainties, the Company’s auditing process for the year ended 31 December 2019 had been disrupted and not yet completed. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with International Standards on Auditing.

The unaudited annual results contained herein have been reviewed by the audit and compliance committee of the Company.

Further Announcements

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company’s auditors and the material differences (if any) as compared with the unaudited annual results contained herein in accordance with Rule 13.49(3)(ii)(b) of the Listing Rules, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be

closed in order to ascertain Shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

Publication of the Annual Results and 2019 Annual Report

This unaudited annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.forgame.com). The annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

Appreciation

The Board would like to express its sincere gratitude to the Shareholders, management teams, employees, business partners and customers of the Group for their continued support and contribution to the Group.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
Forgame Holdings Limited
HAN Jun
Chairman

Hong Kong, 31 March 2020

As at the date of this announcement, the executive Directors are Mr. HAN Jun and Ms. LIANG Na; the non-executive Director is Mr. ZHANG Qiang; the independent non-executive Directors are Mr. HOW Sze Ming, Mr. ZHAO Cong Richard and Mr. WAN Joseph Jason.