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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)

**INSIDE INFORMATION
RESULTS OF THE INDEPENDENT INVESTIGATION
IN RELATION TO INTERNET MICRO-CREDIT BUSINESS**

This announcement is made by Forgame Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 4 November 2019, 11 December 2019, 20 December 2019 and 25 February 2020 (the “**Announcements**”). Capitalised terms used herein shall have the same meanings as those defined in the Announcements.

BACKGROUND

As stated in the Announcements, the Company operates its licensed internet micro-credit business under “Yunke” and has corporate loan receivable of approximately RMB135 million as at 11 December 2019, where the Borrowers of the Affected Loan in the aggregate outstanding amount of approximately RMB41 million remain unreachable.

Since April 2019, the internet micro-credit business under “Yunke” was led by Ms. Li Luyi (“**Ms. Li**”), a former executive director and the former chief executive officer of the Company, whom the Group was unable to contact from late-October to early-November 2019 prior her resignation on 7 November 2019. Ms. Li and her team (including a business general manager, a credit risk director and a credit risk manager) were primarily responsible for controlling the overall business risk, including but not limit to client solicitation and communication, collection and review of loan documents, credit risk assessment, loan approval, loan supervision, after-grant loan monitoring, establishment of credit risk management policies and systems. Ms. Li established a Credit Risk Control and Management Committee (the “**Credit Risk Control and Management Committee**”) in compliant with the internal control policies of the Company, which is responsible for the assessment of the authenticity of assets, business risk, capital security and rationality of

interest rate, etc. of corporate loan. The credit risk director and the credit risk manager reported to the business general manager who in turn reported to Ms. Li. Since 31 October 2019, the business general manager and the credit risk manager were all unreachable.

On 20 December 2019, the Company established the Independent Investigation Committee, comprising Mr. Zhang Qiang, a non-executive Director, and Mr. How Sze Ming, Mr. Zhao Cong Richard and Mr. Wan Joseph Jason (the “**Former INEDs**”), all independent non-executive Directors, for the purpose of, among other things, investigating and reporting on various matters and events leading to and/or otherwise relating to the Affected Loan, and recommending actions to be taken by the Board, with the assistance of the Independent Investigator. On 27 April 2020, Mr. Wang Dong and Mr. Wong Chi Kin were appointed as independent non-executive Directors and members of the Independent Investigation Committee. On 29 April 2020, the Former INEDs resigned as independent non-executive Directors and ceased to be members of the Independent Investigation Committee.

As at the date of this announcement, the corporate loan receivable recorded under “Yunke” has reduced to RMB123 million (the “**Total Loan**”), whilst the aggregate amount of the Affected Loan remains to be RMB41 million, with the relevant Borrowers remaining unreachable.

THE INVESTIGATION REPORT

The Board wishes to update shareholders and potential investors of the Company that the Independent Investigator has completed the Independent Investigation and issued an investigation report (the “**Investigation Report**”) setting out the background of and events leading to and/or otherwise relating to the Total Loan (including the Affected Loan). The scope of the Independent Investigation is limited to the work performed by the Independent Investigator with available information as of 18 March 2020. The Independent Investigator disclaims all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of the Investigation Report.

The Investigation Report has been reviewed by the Independent Investigation Committee. Details of the principal findings as set forth in the Investigation Report are as follow:

Status of the Affected Loan

1. Six unreachable borrowers established in Changchun, Jilin province, the PRC, (the “Changchun Borrowers”) in respect of RMB26 million of the Affected Loan

Principal findings

- (i) The Independent Investigator reported that information contained in the loan documents in relation to the Changchun Borrowers is incorrect, inaccurate and incomplete on the following basis:
 - no financial information was available on the system data of the State Administration For Industry and Commerce (the “**SAIC**”) obtained via independent third-party inquiry channel;

- there was a paid-up capital disclosed in the financial statements of the Changchun Borrowers while the system data of the SAIC obtained via independent third-party inquiry channel shows zero;
 - the information obtained via independent third-party inquiry channel revealed that no tax filings have been submitted to the relevant tax department of the PRC by the Changchun Borrowers in 2017/2018 indicating that the Changchun Borrowers might not have been in operation; and
 - the content of the financial statements provided by the Changchun Borrowers were substantially in the same format as each other and certain fundamental errors as to the financial figures were found in some of those financial statements;
- (ii) The Independent Investigator reported that the Changchun Borrowers may be shell companies on the following basis:
- the system data of the SAIC obtained via independent third-party inquiry channel revealed that there had been frequent changes in the company name, legal representative and shareholder of the Changchun Borrowers prior to the grant of the Affected Loan;
 - save for one of the shareholders and an ex-legal representative of the Changchun Borrowers, all other legal representatives and contact persons of the Changchun Borrowers were unreachable by the Independent Investigator; and
 - the Changchun Borrowers might have been connected with each other or otherwise related as some of them shared common shareholders and some of them have different shareholders but with the same contact telephone number etc.;
- (iii) The Independent Investigator reported that the Changchun Borrowers might be connected to Beijing Haitouhui or otherwise related on the following basis:
- five of the Changchun Borrowers had historically borrowed loans from Beijing Haitouhui;
 - the other companies owned by the legal representative of the Changchun Borrowers had historically borrowed loans from Beijing Haitouhui; and
 - two of the shareholders and legal representatives of Changchun Borrowers might be connected with the franchisees of Beijing Xigua.

2. One unreachable borrower established in Ningbo, Zhejiang Province, the PRC, (the “Ningbo Borrower”) in respect of RMB15 million of the Affected Loan

Principal findings

- (i) The Independent Investigator reported that information contained in the loan application is inaccurate and insufficient on the following basis:
- the loan documents provided by the Ningbo Borrower cannot fully support the assessment of its repayment ability by the credit risk control department;
 - certain loan documents lacked the agreement date, loan reference number and guarantee amount; and
 - the ownership certificate of the pledged properties was not ascertained and registered with the relevant authority;
- (ii) The Independent Investigator reported that the Ningbo Borrower, its legal representative and certain guarantors were unreachable on the following basis:
- the contact telephone numbers of the legal representative and the ex-legal representative of the Ningbo Borrower were identical and unreachable; and
 - the Independent Investigator conducted site visits to the registered address provided by the Ningbo Borrower and was unable to locate the Ningbo Borrower;
- (iii) The Independent Investigator reported that the Ningbo Borrower might be connected to KongZhong Group and/or Beijing Haitouhui or otherwise related on the following basis:
- one of the guarantors of the Ningbo Borrower was a subsidiary of KongZhong Group;
 - the shareholders and senior management of KongZhong Group and Beijing Haitouhui have invested in the holding company of the Ningbo Borrower directly or indirectly;
 - one of the guarantors and pledgers of the Ningbo Borrower was the brother of Ms. Li (“**Mr. Li**”); and
 - one of the guarantors and pledgers of Ningbo Borrower had historically borrowed loans from Beijing Haitouhui.

3. Borrowers of the remaining Total Loan (excluding the Affected Loan)

Principal findings

The Independent Investigator reported that:

- (i) the legal representatives and contact persons of the other borrowers of the remaining Total Loan (excluding the Affected Loan) (the “**Other Borrowers**”) are reachable and they had confirmed the existence of the corporate loans made between them and “Yunke”;
- (ii) it had conducted site visit on the business address of the Other Borrowers and was able to locate the Other Borrowers;
- (iii) there was no significant incomplete loan application information identified in most of the Other Borrowers;
- (iv) some of the Other Borrowers and/or their guarantors might be connected to KongZhong Group and/or Beijing Haitouhui;
- (v) the validity of certain guarantees and pledges provided to the Group might be in doubt; and
- (vi) the valuation of the pledges provided to the Group may be higher than the market value and no additional evidence and/or independent valuation had been provided by such pledger to support such difference.

INTERNAL CONTROL DEFICIENCIES AND RECOMMENDATIONS

The Independent Investigation Committee reported to the Board that there were certain deficiencies identified in the internal control systems and procedures of the Company relating to its internet micro-credit business and the corresponding recommendations of the Independent Investigator.

In essence the internal control deficiencies were on the following basis:

- (a) the Credit Risk Control and Management Committee consists of one member only, has not been properly established in accordance with the existing policy and is lack of senior credit risk control consultant and legal adviser, and thus the opinion of the Credit Risk Control and Management Committee was formulated only by the chairman of the Credit Risk Control and Management Committee, who represents the Credit Risk Control and Management Committee in the loan approval process;
- (b) the business department and the credit risk control department have not fulfilled their respective obligations in accordance with the existing policies. In particular, the credit risk control department failed to obtain sufficient documents, and/or to review and assess information provided diligently, before the grant of the corporate loans. Moreover, the credit risk control department reported to the business general manager which led to lack of independence between the credit risk control department and business department;

- (c) the business department and the credit risk control department did not establish a written working procedures about the due diligence works on the loan approval and after-grant loan monitoring process; and
- (d) the internal review to be conducted by the internal audit department of the Group in the third quarter of 2019 was delayed as there were other emergent internal reviews in progress.

The corresponding recommendations were:

- (a) enhance the composition of the Credit Risk Control and Management Committee with chief credit risk control officer, chief business officer, senior credit risk control consultant and legal advisers and keep written record of discussion and opinions;
- (b) ensure the business department and the credit risk control department to fulfill their respective obligations in accordance with the existing policies and the independence between the credit risk control department and the business department;
- (c) establish standard workflow performed by the business department and credit risk control department, including but not limited to a list of credit risk assessment for its borrowers based on the results of the due diligence conducted and the mechanism on the monitoring of the granted corporate loan; and
- (d) enhance the internal review of the existing policies conducted by the internal audit department.

In addition, the Independent Investigation Committee, after considering the contents and the recommendations contained in the Investigation Report, recommends that the Company should consider to:

- (i) engage legal adviser as to the PRC laws to advise the Company as to the civil liability of the grant of the Total Loan and to commence civil actions against the unreachable borrowers in respect of the Affected Loan;
- (ii) take further appropriate legal actions against the Borrowers;
- (iii) closely monitor the loan status of the Other Borrowers; and
- (iv) conduct a complete review and rectification of internal control system of internet micro-credit business.

IMPACT TO THE FINANCIAL RESULTS OF THE COMPANY

As stated in the Company's unaudited annual results for the year ended 31 December 2019 published on 31 March 2020, the Company made an impairment of financial assets measured at amortised cost in the amount of approximately RMB89.4 million for the year ended 31 December 2019 attributable to the outstanding loan receivables of the Group's internet micro-credit business for the year ended 31 December 2019.

FURTHER ACTIONS TO BE TAKEN

The Board (including the independent non-executive Directors), after considering, among other matters, the results of the Investigation Report, noted and accepted the recommendations made by the Independent Investigator and the Independent Investigation Committee as set forth above in this announcement.

The Company would like to emphasise that it takes the issues as identified by the Independent Investigation seriously and will carry out all appropriate actions to collect the overdue loans and to minimize its loss, including:

- (i) instructing its legal advisers to formally complete the filing of arbitration against the Borrowers in respect of the Affected Loan in the PRC as disclosed in the Announcements and to apply for freezing order against the bank accounts of the Borrowers and properties pledged to the Group in favour of the Ningbo Borrower. As at the date of this announcement, there is almost no remaining balance in the bank accounts of the Changchun Borrowers and Ningbo Borrower and the corporate-guarantor of Ningbo Borrower. Moreover, the 36 properties pledged to the Group in favour of the Ningbo Borrower have been seized by the courts in the PRC;
- (ii) taking further appropriate legal actions against the Borrowers;
- (iii) delegating the chief executive officer of the Company to organize the new business department of “Yunke” to maintain contact with Other Borrowers, closely monitor the loan status of the Other Borrowers and take further actions if and when necessary; and
- (iv) considering to engage an internal control consultant to conduct a complete review and provide a rectification plan, on certain scopes of the internal control system in respect of its internet micro-credit business, which in order to carry out internal control system rectification by the Company.

The Company will make further announcement(s) in relation to the progress of the implementation of such recommendations and the engagement of the internal control consultant as and when appropriate. Meanwhile, the Company is conducting an internal review on the operation of Beijing Xigua, which was in-charge by Ms. Li. The Company will also make further announcement(s) in relation to such internal review as and when appropriate.

Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.

By order of the Board
Forgame Holdings Limited
Zhang Qiang
Chairman

Hong Kong, 7 May 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. Wang Dong and Mr. Wong Chi Kin.