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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)

SUPPLEMENTARY ANNOUNCEMENT IN RELATION TO PROPOSED CHANGE OF AUDITORS

This announcement is made by the board (the "**Board**") of directors (the "**Director(s)**") of Forgame Holdings Limited (the "**Company**", which together with its subsidiaries are collectively referred as the "**Group**") pursuant to Rule 13.51(4) of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Reference is made to the announcement of the Company dated 29 May 2020 (the "**Announcement**") in relation to the proposed change of auditors of the Company. Unless otherwise defined or the context otherwise requires, capitalised terms in this announcement shall have the same meanings as defined in the Announcement.

MATTERS TO BE BROUGHT TO THE ATTENTION OF THE SHAREHOLDERS IN RESPECT OF PROPOSED REMOVAL OF PWC AS AUDITORS OF THE COMPANY

The Board would like to update the shareholders of the Company (the "**Shareholders**") and potential investors that, the Company has received a letter from PwC on 4 June 2020 (the "**PwC Letter**") after the Board has, with the recommendation of the Audit and Compliance Committee, resolved to propose the Proposed Removal on 29 May 2020, subject to the Shareholders' approval at the EGM.

The PwC Letter was provided by PwC to the Board and the Audit and Compliance Committee in accordance with the Code of Ethics for Professional Accountants Section 300 "Change of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong" setting out, inter alia, matters that PwC considers necessary to be brought to the attention of the Shareholders and creditors of the Company. The PwC Letter also serves as PwC's written representations pursuant to Rule 13.88 of the Listing Rules. Full text of the PwC Letter has been included as Appendix I to this announcement.

The Board would like to emphasize that the reasons of the Proposed Removal has been set out in the Announcement, investors and shareholders of the Company are recommended to read this announcement in conjunction with the Announcement for a full understanding of the Proposed Removal.

As stated in the Announcement, a circular containing further information of the Proposed Removal and the Proposed Appointment, together with the notice of the EGM, is expected to be despatched to the Shareholders on or before 14 June 2020.

By order of the Board
Forgame Holdings Limited
LEE Ka Man
Company Secretary

Hong Kong, 8 June 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, Mr. Wong Chi Kin and Mr. Cui Yuzhi.

APPENDIX 1 — PWC OUTGOING LETTER

pwc

羅兵咸永道

The Board of Directors
The Audit Committee
Forgame Holdings Limited
Room 01–02, 60/F
International Metropolitan Plaza
68 Huacheng Avenue
Guangzhou
China

4 June 2020

Dear Sirs

Termination of audit appointment – Forgame Holdings Limited

We were notified by the Company on 29 May 2020 that the Company's Board of Directors has resolved to remove PricewaterhouseCoopers ("PwC") as the auditors of the Company. The Company also published an announcement on 29 May 2020 (the "Announcement") on its proposal to change auditors and to remove PwC as the auditors of the Company. We were not provided with a copy of the Company's draft announcement beforehand.

In accordance with the Code of Ethics for Professional Accountants Section 300 "Change of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong", we are required to write to the Audit Committee and to the Board of Directors of the Company to set out the matters leading to our termination as the auditors of the Company. These matters are set out below and also represent those that we consider should be brought to the attention of the Company's members and creditors. It also serves as our written representations pursuant to the Listing Rule 13.88 and we take this opportunity to correct certain inaccurate and misleading statements in the Announcement. The Company therefore, needs to issue a further announcement to reflect the full contents of this letter.

1. Matters Subject to the Independent Investigation

As described in the Company's announcement dated 11 November 2019, Ms. Li Luyi ("Ms. Li"), a former executive director, the former chairman and the former chief executive officer of the Company, was assisting a government department in relation to an investigation in the People's Republic of China (the "PRC"). As further described in the Company's announcement dated 20 December 2019, in response to management's discovery that seven corporate loan borrowers were unreachable, among other things, the Company has established an independent investigation committee and engaged an independent investigator (the "Independent Investigator") to conduct an independent investigation (the "Independent Investigation") on the outstanding corporate loans in relation to the internet micro-credit business and sales revenue of virtual reality gaming business. The Independent Investigation was completed in April 2020, and the Independent Investigator issued the final investigation reports on the Company and its subsidiaries (the "Group")'s corporate loans business and virtual reality game business (the "Investigation Reports") on 15 April 2020 and 4 May 2020 respectively. The Investigation Reports identified certain findings and a number of transactions (the "Alleged Transactions"), certain of which involved or allegedly involved Ms. Li or parties closely related to her, that may have significant impacts on the financial reporting and other implications, and are described below in more details.

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The Board of Directors
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There were a number of limitations encountered during the Independent Investigation as described in the Investigation Reports and these included, but were not limited to, the availability of certain key information and persons involved (including Ms. Li and her team, including a business general manager and a credit risk manager of the internet micro-credit business) for the purpose of drawing definitive conclusions and the lack of relevant supporting documents. In addition, as described below, management of the Company set limitations in its draft letter of representation to us, which was sent to us by the Chief Financial Officer of the Company on 13 May 2020 (the "Draft Letter of Representation"), with regards to the true and fair view of the Group's consolidated financial statements for the year ended 31 December 2019.

(i) Certain corporate loan receivables without sufficient evidence supporting business substance

Corporate loan receivables of RMB24,700,000 in aggregate, after netting off cash deposits received from borrowers, were granted in 2019 to six borrowers established in Changchun, Jilin Province, the PRC (the "Changchun Borrowers"), and a corporate loan receivable of RMB15,000,000 was granted in 2019 to one borrower established in Ningbo, Zhejiang Province, the PRC (the "Ningbo Borrower"). Full impairment loss allowances in respect of the outstanding loan receivables of RMB24,700,000 and RMB15,000,000 due from the Changchun Borrowers and the Ningbo Borrower respectively had been made as at 31 December 2019 in the Group's unaudited consolidated financial statements for the year ended 31 December 2019 ("the Group's 2019 Unaudited Consolidated Financial Statements") included in the Company's announcement dated 31 March 2020.

During the course of our audit and in connection with the Independent Investigation, we noted that:

- the Changchun Borrowers and the Ningbo Borrower are unreachable;
- the information contained in the loan application documents of Changchun Borrowers was incorrect, inaccurate and incomplete; the information contained in the loan application of Ningbo Borrower was inaccurate and insufficient;
- Changchun Borrowers may be shell companies;
- Changchun Borrowers and Ningbo Borrowers might be connected to an online "peer-to-peer" lending platform, Beijing Haitouhui (www.htouhui.com) ("Beijing Haitouhui"), which is controlled by Ms. Li, or otherwise related, and/or be connected to KongZhong Corporation (collectively together with its subsidiaries the "KongZhong Group"), a shareholder of the Company.

As at the date of this letter, management was not able to provide us with sufficient evidence and reasonable explanation to substantiate the nature of the relevant transactions and the relationship between the Group and the Changchun Borrowers and the Ningbo Borrower. Management was also unable to provide sufficient evidence to justify the basis of impairment loss allowance made against the corporate loan receivables from the Changchun Borrowers and the Ningbo Borrower.

According to the Draft Letter of Representation, management is unable to confirm in its representation to us: (i) the Changchun Borrowers and the Ningbo Borrower are not related parties of the Group, and (ii) the appropriateness of the impairment loss allowance made for the Group's corporate loan receivables from the Ningbo Borrower.

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(ii) Impairment loss allowance of corporate loan receivables from Other Borrowers unsupported

Outstanding corporate loans granted in 2019 to other corporate borrowers excluding the Changchun Borrowers and the Ningbo Borrower (the "Other Borrowers") amounted to RMB75,792,000, against which impairment loss allowance of RMB43,700,000 had been made as at 31 December 2019 in the Group's 2019 Unaudited Consolidated Financial Statements.

During the course of our audit and in connection with the Independent Investigation, we noted that:

- some of the Other Borrowers and/or their guarantors might be connected to the KongZhong Group and/or Beijing Haitouhui;
- the validity of certain guarantees and pledges provided to the Group might be in doubt;
- the purported valuation amounts of the assets pledged to the Group estimated at the time when the loans were granted might be higher than their then respective market values.

As at the date of this letter, management was unable to provide us with sufficient evidence and reasonable explanation to substantiate the relationship between some of the Other Borrowers and/or their guarantors and the Group. Management was also unable to provide us with sufficient supportive evidence to justify the basis of impairment loss allowances made in 2019 against these corporate loan receivables from Other Borrowers or enable us to evaluate the financial positions of the Other Borrowers and their guarantors, and the value of pledges.

According to the Draft Letter of Representation, management is also unable to confirm in its representation to us the appropriateness of the impairment loss allowance made for the Group's corporate loan receivables from Other Borrowers.

(iii) Unusual and unsupported transactions and arrangements of Beijing Xigua

According to the announcements dated 26 June 2019, the Group acquired 69.84% equity interest of Beijing Xigua Huyu Technology Co., Ltd. ("Beijing Xigua") on 26 June 2019. Ms. Li had been responsible for the management and operation of Beijing Xigua until late-October 2019 when she became unreachable.

During the course of our audit and in connection with the Independent Investigation, we noted that:

- VR stores operating revenue of RMB16,622,000 included in revenue in the Group's 2019 Unaudited Consolidated Financial Statements cannot be reconciled to Beijing Xigua's operation data;
- Certain unusual large-sum deposits of RMB1,120,000, which were included in other payables in the Group's 2019 Unaudited Consolidated Financial Statements, were provided by relatives or acquaintances of Ms. Li;
- Certain customer deposits of RMB3,000,000 were recorded under the names of Beijing Xigua's employees, out of which RMB2,720,000 were recognised as revenue in its 2019 financial statements;

- Seven franchisees were found to be connected to the employees of Beijing Xigua, Beijing Haitouhui or KongZhong Group, or to Ms. Li, including being relatives and/or acquaintances of Ms. Li or certain Changchun Borrowers. Out of these seven franchisees, five were unreachable, while two had funding sourced from related entities of Beijing Haitouhui and/or KongZhong Group under unclear business arrangements. Moreover, Beijing Xigua originally recognised franchise and management revenue from these seven franchisees of RMB15,205,000, of which RMB14,262,000 were subsequently reversed in 2019, and only the amounts fully settled by these franchisees of RMB943,000 were recognised in the Group's 2019 Unaudited Consolidated Financial Statements;
- In the Group's 2019 Unaudited Consolidated Financial Statements, leasehold improvement cost of RMB4,851,000 and game facilities cost of RMB43,000 were recognised for the purchases from a decoration service supplier and an equipment supplier. Certain employees of Beijing Xigua also worked for the decoration service supplier and the equipment supplier of Beijing Xigua, certain employees of Beijing Xigua and Ms. Li are the approvers of the financial approval processes of both the decoration service supplier and the equipment supplier, and the legal representative of the equipment supplier was also unreachable;
- The deferred promotional services revenue of RMB4,100,000 included in other payables were unsupported in term of whether services were rendered by Beijing Xigua or rendered under respective contract term, and price set with a promotional service customer was unreasonably high.

As at the date of this letter, management is unable to provide us with sufficient information and reasonable explanation as to the relationships between these franchisees and suppliers and the Group, if any, together with the commercial substance and rationale of the above mentioned transactions and arrangements. We were unable to confirm with the franchisees, decoration service and equipment suppliers, promotional service customers and counterparties of unusual large-sum deposits of the nature, terms and business substance of these arrangements, or obtain other collaborative evidence to substantiate the nature of the above-mentioned arrangements and transactions. We were also unable to confirm with the above franchisees, decoration service and equipment suppliers of their relationships with the Group.

Management is also unable to confirm in its Draft Letter of Representation: (i) franchisees of Beijing Xigua are not related parties of the Group, and (ii) whether the financial information of Beijing Xigua included in the Group's consolidated financial statements gives a true and fair view in accordance with International Financial Reporting Standards.

2. Frozen Shares of Certain PRC Operational Entities

The Group's web game and mobile game business and internet micro-credit business are carried out through Guangzhou Weidong Internet Technology Co., Ltd. ("Weidong"), Guangzhou Feiyin Information Technology Co., Ltd. ("Feiyin"), and Guangzhou Jieyou Software Co., Ltd. ("Jieyou") (together, "PRC Operational Entities") and their subsidiaries. Mr. Wang Dongfeng ("Mr. Wang") and other four individuals (collectively as the "Founders") are legal equity holders of these PRC Operational Entities. Neither the Company, nor any entities legally owned by the Company within the Group, have any equity interests in these PRC Operational Entities.

The Board of Directors
The Audit Committee
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The Company established a subsidiary, Guangzhou Feidong Software Technology Co., Ltd. ("Feidong"), which is a wholly foreign owned enterprise incorporated in the PRC. Feidong has entered into a series of contractual arrangements (the "Contractual Arrangements") with the PRC Operational Entities and their respective equity holders, which enable Feidong and the Company to have rights to variable returns derived from the involvements with these PRC Operational Entities and the Company has the ability to affect those returns through its power over the PRC Operational Entities and it is considered to control the PRC Operational Entities. Consequently, the Company regards the PRC Operational Entities as consolidated structured entities under the provisions of the International Financial Reporting Standards. The Group has accordingly included the financial position and results of the PRC Operational Entities in its consolidated financial statements.

We found through internet search on 4 May 2020 that a civil ruling paper (Document 2019 Yue 0106 Caibao 43) was issued by a court in the PRC (the "Court"), pursuant to which, legal shares of 23.75% (representing paid up capital of RMB2,375,000), 23.75% (representing paid up capital of RMB2,375,000) and 20.94% (representing paid up capital of RMB2,094,000) of Feiyin, Weidong and Jieyou, respectively, which are held by Mr. Wang (collectively defined as the "Frozen Shares") have been frozen by the Court due to lawsuits undertaken against Mr. Wang as a defendant.

The frozen period is from 26 February 2019 to 25 February 2021. During the frozen period, the Frozen Shares cannot be transferred to other parties without the agreement of the Court, and the Frozen Shares might also be demanded by the Court to be disposed of in order to settle any damages, as determined by the Court, arising from the lawsuits.

During the course of the audit, management did not inform us of the incidence of the Frozen Shares. We notified the Company of the above finding relating to the Frozen Shares on 4 May 2020. We also reminded management and the Board of Directors on 6 May 2020 to discuss with the legal counsel and assess whether this matter should be disclosed by way of an announcement of the Company. Management first approached a law firm for the legal opinion on the implication if the Frozen Shares are to be disposed of. A draft legal opinion from the first law firm was provided to us on 9 May 2020 and we provided our comments to the Company on 9 May 2020 and 12 May 2020. Since then, the Company approached another law firm for the legal opinion. Another draft legal opinion from the second law firm was provided to us on 21 May 2020 and we provided our comments to the Company during the period from 22 May 2020 to 29 May 2020.

According to the Articles of Association of Feiying, Weidong and Jieyou, all resolutions made on the shareholders' meeting of Feiying shall be approved by all shareholders unanimously; and for Weidong and Jieyou, a resolution made at a shareholders' meeting on amending the articles of association, increasing or reducing the registered capital, merger, split-up, dissolution or change of the company form shall be approved by the shareholders representing 2 / 3 or more of the voting rights.

Up to the date of this letter, management has not yet fully addressed our comments and questions on the two draft legal opinion. Those comments and questions are important to assess the accounting implication of the Frozen Shares. Furthermore, management has not yet provided us with any legal opinion on the probability of the Frozen Shares being disposed of by the demand of the court. As such, we have not been able to obtain necessary information to perform our assessment on the accounting implication should the Frozen Shares be disposed of.

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3. An Alleged Lawsuit relating to Right of Publicity

According to the Company's announcement dated 22 April 2020, there were certain media reports reporting that an American singer has filed a lawsuit (the "Alleged Lawsuit") against Mutant Box Limited ("Mutant Box") and Feidong, two wholly owned subsidiaries of the Company, alleging that Mutant Box and Feidong have portrayed her character, and profited off her likeness, for a mobile fashion game, "Clothes Forever" without her consent.

The Company provided us with a signed legal opinion issued by a PRC law firm on 21 May 2020 in relation to the Alleged Lawsuit. Management represented to us that pursuant to the legal opinion, the Group had not yet received any notice of the Alleged Lawsuit and therefore the Group was unable to reasonably estimate the potential loss arising from the Alleged Lawsuit without the relevant court documents, and the legal opinion was prepared on this basis.

Management did not recognise nor disclose any contingent liabilities in relation to the Alleged Lawsuit in the Group's 2019 Unaudited Consolidated Financial Statements.

We found through internet searches the relevant court documents relating to the Alleged Lawsuit and sent a copy of the court documents to management on 23 May 2020. We suggested management engage a US legal counsel for the purpose of assessing contingencies arising from the Alleged Lawsuit. We also reminded management and the Board of Directors of the Company to discuss with the legal counsel and assess whether the existence of the court documents should be disclosed in the form of an announcement by the Company.

Up to the date of this letter, management has not yet provided us with any legal opinion issued by the US legal counsel as to the Group's compliance with relevant laws on the right of publicity, estimation of the potential loss arising from the Alleged Lawsuit and the basis. As such, we have not obtained necessary information to perform our assessment on the accounting implication of the Alleged Lawsuit, including the nature and extent of the required disclosures, if any, in the Group's 2019 Unaudited Consolidated Financial Statements.

4. Other major outstanding audit procedures

Up to the date of this letter, although we have requested a number of times, we have not been able to obtain necessary information or have necessary communications as set out in sections 1 to 3 above and to perform the following audit procedures:

- We have not been provided with the meeting minutes of the Board of Directors meeting held on 27 April 2020, subsequent bank statements of certain selected bank accounts for the purpose of performing subsequent events review.
- We have not had any meetings with the audit committee of the Company comprising the three newly appointed independent non-executive directors, who were appointed on 27 April 2020 and 7 May 2020, after the resignation of all previous independent non-executive directors on 30 April 2020, although we have requested to the audit committee and management a number of times for conducting such meeting.

- As mentioned in the above section headed "Matters subject to Independent Investigation", management of the Company set limitations in the Draft Letter of Representation with regards to the true and fair view of the Group's consolidated financial statements for the year ended 31 December 2019. Such limitations refer to that management is unable to confirm (i) the Changchun Borrowers and the Ningbo Borrower are not related parties of the Group; (ii) the appropriateness of the impairment loss allowance made for the Group's corporate loan receivables from the Ningbo Borrower and Other Borrowers; (iii) franchisees of Beijing Xigua are not related parties of the Group; (iv) financial information of Beijing Xigua as included in the Group's consolidated financial statements for the year ended 31 December 2019 gives true and fair view. Management informed us that they might further amend the Draft Letter of Representation, but up to the date of this letter we have not been provided with an updated version of the draft letter of representation or a final signed letter of representation from management.

Given that certain of the alleged transactions disclosed in the Investigation Reports potentially involved Ms. Li who was former senior executive of the Group, these findings indicate significant potential governance and internal controls issues of the Group during the year ended 31 December 2019. These matters, together with the limitations identified in the Investigation Reports, affected our ability to carry out appropriate and sufficient audit procedures to identify whether there existed other potential transactions that might significantly affect the consolidated financial position and operating results of the Group. As a result, apart from the scope limitations and outstanding information described above, up to the date of this letter we were unable to satisfy ourselves as to whether there existed other transactions or arrangements relating to the Group which have not been disclosed above or identified in the Independent Investigation, that could have significant and pervasive impacts on the Group's consolidated financial statements but which have not been properly accounted for or otherwise disclosed in the Group's 2019 Unaudited Consolidated Financial Statements.

PwC had requested for information and materials stated above, in our emails and written letters to the Company's Board of Directors, audit committee and management on 5 May 2020, 6 May 2020, 13 May 2020, 14 May 2020, 18 May 2020, 23 May 2020 and 28 May 2020 and have clearly explained the reasons why we requested such information and materials and the impact of not obtaining such information or materials to our audit opinion. Nonetheless, we have been working to deal with the above-mentioned accounting and audit issues in a timely manner and intended to continue to carry out the necessary audit procedures to complete the audit and issue the auditor's report on the Group's consolidated financial statement according to the signed engagement letter. Therefore, the statement in the Company's Announcement referring to the fact that "PwC has been reluctant to issue an audited report for the FY19 Financials" and "PwC's never-ending request for information, which the Board considers unreasonable and which may further prolong the finalization of the audit of the FY2019 Financials" is wholly inaccurate and misleading.

Most of the information /materials were still not forthcoming from the Company as at 29 May 2020. Therefore, if there has been a material delay in the finalisation of the audit, it was not because of PwC but instead, due to the Company's failure to respond and provide the necessary information enabling PwC to complete the audit.

pwc

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The Board of Directors
The Audit Committee
Forgame Holdings Limited
4 June 2020

Pursuant to Chapter 13, 13.51(4) of the Listing Rules, the Company is required to publish an announcement regarding the change of auditors setting out the reason(s) for the change and any other matters that need to be brought to the attention of holders of securities of the Company. As we need to assess whether the matters that led to our termination as set out in this letter and which in our opinion need to be brought to the attention of the shareholders, are reflected in the announcement, please provide us with the draft announcement for our comments before it is published.

Further, please note that this letter (i) has been prepared for the purpose to comply with the requirements under the Code of Ethics for Professional Accountants Section 300 "Change of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong" and the relevant provisions of the Listing Rules and may be circulated to the Stock Exchange of Hong Kong; and (ii) serves as our written representation pursuant to Rule 13.88 of the Listing Rules which needs to be brought to the attention of the Company's shareholders. Please ensure that the full contents of this letter be included with the relevant circular prior to its dispatch. Other than as set out in (i) and (ii) above, this letter is not to be used for any other purpose or to be distributed to any other parties.

Yours faithfully

(8)