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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of Forgame Holdings Limited (the "**Company**" or "**Forgame**") announces the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**" or "**we**" or "**us**" or "**our**") for the year ended 31 December 2018. The annual results have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") and have been audited by PricewaterhouseCoopers, the auditor of the Company, in accordance with International Standards on Auditing.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Year Ended 31 December		
	2018	2017	Change
	(RMB'000)	*(RMB'000)*	%
Revenue	**324,243**	346,466	-6.4%
Gross profit	**238,330**	222,281	7.2%
(Loss)/Profit for the year	**(320,022)**	68,648	-566.2%
Non-IFRSs Measures			
– EBITDA(1) for the year	**(337,646)**	105,319	-420.6%
– Adjusted EBITDA(2) for the year	**55,488**	58,561	-5.2%

Notes:

(1) EBITDA means earnings before interests, taxes, depreciation and amortisation.

(2) The Group defines adjusted EBITDA as EBITDA excluding share-based compensation, impairment of intangible assets arising from business combination, impairment of other receivables on disposal of investment in an associate, changes in the value of financial assets at fair value through profit or loss, gain on disposal of investment in an associate, gain on disposal of available-for-sale financial assets and impairment of available-for-sale financial assets. For details of EBITDA and adjusted EBITDA, please refer to the section headed "Management Discussion and Analysis – Non-IFRSs Measures – EBITDA and Adjusted EBITDA" in this announcement.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

OVERVIEW AND OUTLOOK

Overview

In 2018, the Group's overall operating conditions remained steady. The Group's adjusted EBITDA, which mainly excluded the one-off impairment of intangible assets arising from business combination amounting to RMB349.1 million, was approximately RMB55.5 million in 2018. For further details, please refer to the section headed "Management Discussion and Analysis – Non-IFRSs Measures – EBITDA and Adjusted EBITDA" in this announcement.

As described in the Group's 2018 Interim Report, 2018 was a difficult year for the Group's fintech business as well as the entire domestic fintech industry. Regulators issued a number of guidelines during the year for the domestic fintech industry which increased regulatory requirements for fintech companies. Faced with an increasingly difficult market environment, the Group's management and employees acted in unison, rapidly made adjustments to the business and eventually navigated through this critical time.

Turning to our game business, almost three years have passed since the Group's flagship game "Liberators" was launched in overseas markets in March 2016. As at the end of 2018, the game continues to generate steady monthly gross billings of more than RMB3.0 million without any large-scale promotional campaign since the first quarter of 2017. Since we started the promotional campaign, "Liberators" has generated a net income of over RMB41.0 million after deducting content cost, distribution cost and promotional expenses. This success reflects our deep understanding of overseas gamers and our ability to launch overseas advertising campaigns.

In conclusion, despite the various difficulties that we have encountered, our team has kept our morale high. Our management is confident about the future and will quickly respond if we identify any opportunities in the market.

Outlook

The year of 2018 brought with it a series of tremendous and rapid changes. The Group maintained its stability and enhanced its business in order to navigate these difficult times and pave the way for future growth.

Forgame mission has always been to "bring joy to our users". With this mission in mind, Forgame launched a number of popular games since its establishment in 2009. With the help of China's internet development and the socialization in the game industry, the industry is evolving and entering an approaching of gaming and sports, or e-sports. E-sports, which is sporting competition using electronic equipment, has developed rapidly since it was acknowledged as No.78 formal sports program by the General Administration of Sport of China in 2008. According to an independent third-party research report, the size of the e-sports market reached RMB77 billion in 2017 and is expected to exceed RMB88 billion in 2018. The annual growth rate for e-sports users has been more than 20% for the past three years and the total number of e-sports users is expected to reach 430 million in 2018. Looking forward, e-sports will be a new growth momentum for the sports industry with the new generation turning into the main consumer group. A new style of entertainment is forming in the society. The new form of entertainment characterised by e-sports and virtual reality ("**VR**") is becoming more dominant commercially.

In order to prepare for the challenges ahead, the Group acquired approximately 19.99% equity interest in Tianjin LMDJ Internet Technology Co., Ltd. ("**LMDJ**"), one of China's most well-known e-sports venue brands, at the beginning of 2019. The acquisition signifies the commencement of the Group's strategy to upgrade its game business. In the future, the Group will continue to closely monitor new technologies for game and fintech including VR and blockchain. In order to stay one step ahead of the industry, the Group will invest in the future at the right time to actively upgrade its business to adapt to the increasingly fierce competition in the internet market.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the year of 2018, the Group recorded an adjusted EBITDA of approximately RMB55.5 million. The Group managed to strive and overcome the challenges in the China economy and achieved a stable operation through the year of 2018.

The Group has made progress in the fintech business during 2018. Our internet micro-credit business is primarily dedicated to providing individuals in the PRC with practical and flexible short-term financing solutions. We served 1,644,205 cumulative borrowers as at 31 December 2018, and originated RMB2.3 billion of loans during the year 2018.

As mentioned in our 2018 Interim Report, the year of 2018 is considered to be a dark hour for the fintech industry in China. Regulators promulgated a series of regulatory requirements in the fintech industry and placed higher standards for fintech companies in China. With such a challenging and complicated market environment, the management had made adjustments to the Group's business promptly in order to comply with regulatory requirements and led the Group through the storm and eventually maintained a stable operation.

The Group's game business continues to focus on the execution of the overseas market strategy. In the year of 2018, "Liberators" has generated a total revenue of over RMB42.1 million with an average monthly gross billing of over RMB3.0 million. "Liberators" has recognised a remarkable cumulated net income of RMB41.0 million netting off the content cost, distribution cost and promotion expenses since launch.

On 10 January 2019, the Group issued a profit warning announcement expecting a net loss ranging from RMB276.7 million to RMB296.7 million (excluding the Receivables as described below) for the year ended 31 December 2018. After the Group performed a detailed assessment, the recoverability of the receivables on the disposal of investment in an associate of approximately RMB43.8 million (the "**Receivables**") was highly uncertain and the sum of approximately RMB39.4 million was impaired (the "**Receivables Impairment**"). If the Receivables Impairment is not taken into account, the Group's net loss for the year ended 31 December 2018 reached RMB280.6 million which was within the expected range. For details of the Receivables Impairment, please see section headed "Management Discussion and Analysis – Material Impairment" in this announcement. The total net loss for the year ended 31 December 2018 was RMB320.0 million.

Game Business

The following table sets forth certain operating statistics relating to the game business of the Group in the periods indicated:

	Year Ended 31 December	
	2018	2017
Game		
Average MPUs (in thousand)(1) (2)	**27**	75
Monthly ARPPU (RMB)	**281**	203

Notes:

(1) The MPUs numbers eliminate the duplication in paying users of self-developed games published on the Group's own platforms.

(2) The numbers do not include the MPUs of negligible console mobile games.

— **MPUs.** The average monthly paying users ("**MPUs**") for the game business decreased to approximately 27 thousand in 2018 from approximately 75 thousand in 2017. This decrease was primarily due to the fact that several key games, such as "Liberators" and "Boonie Bears (熊出沒)" series, have entered into the mature stages of their lifecycles resulting in fewer paying users in these games.

— **ARPPU.** Monthly average revenue per paying user ("**ARPPU**") level of game business increased to approximately RMB281 for the year 2018 as compared with RMB203 for the year 2017. This increase was primarily attributable to the mix effect of the Group's game product portfolio, (i) "Liberators", which enjoyed a higher ARPPU level, had increased its weight in terms of revenue and MPUs in the Group's game product portfolio as a whole, while (ii) "Boonie Bears (熊出沒)" series, which enjoyed a lower ARPPU level, had decreased its weight in terms of revenue and MPUs in the Group's game product portfolio.

Fintech Business

The fintech business of the Group consists of internet micro-credit business and financial information service 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	
	2018	2017
Average balance of outstanding performing loans (RMB in million)[(1)]	**276**	256
Average size of our loans (RMB)[(2)]	**3,601**	1,641

	As at 31 December	
	2018	2017
Cumulative number of borrowers[(3)]	**1,644,205**	1,428,941

Notes:

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

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

(3) Number of cumulative borrowers of our internet micro-credit business since inception.

The Group provides two types of loans through the internet micro-credit service, namely, guaranteed loans and collateralised loans, to its customers in the PRC. The Group considers a number of factors in determining the applicable interest rate of a loan, including (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 use and term of the loan.

The following tables set forth the key operating matrix for the periods indicated or as at the date indicated relating to the Group's financial information service business:

	Year Ended 31 December	
	2018	2017
Average investing users acquisition cost (RMB)[(1)]	**245**	164
Average size of investments (RMB)[(2)]	**12,330**	12,705

	As at 31 December	
	2018	2017
Cumulative amount of investments (RMB in million)[(3)]	**112,960**	80,419
Registered users	**8,883,726**	8,049,755

Notes:

(1) Calculated as the average acquisition cost per investing user of financial information service business for the period.

(2) Calculated as the total investment amount from investing users of financial information service business divided by the total number of investments for the period.

(3) Cumulative amount of investments from investing users of "Jianlicai" brand in financial information service business since its inception in May 2015.

The Group provides financial information service through the operations of website and mobile phone application. By providing online financial assets information to the investing users, the Group charges service fees from its business partners.

Investing user profile of our financial information service – The individuals investing through our financial information service are mainly adults aged from 26 to 35, and the numbers of male investing users and female investing users are generally even. A majority of our investing users are from tier one or tier two cities in the PRC.

The following table sets forth the Group's income statement for the year ended 31 December 2018 as compared to the year ended 31 December 2017:

	Year Ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	%
Revenue	**324,243**	346,466	-6.4%
Cost of revenue	**(85,913)**	(124,185)	-30.8%
Gross profit	**238,330**	222,281	7.2%
Selling and marketing expenses	**(80,658)**	(77,274)	4.4%
Administrative expenses	**(92,077)**	(94,712)	-2.8%
Research and development expenses	**(66,578)**	(49,425)	34.7%
Other income	**16,119**	7,701	109.3%
Other gains/(losses)-net	**319**	(9,394)	NM
Finance income-net	**1,292**	5,384	-76.0%
Gain on dilution of investments accounted for using the equity method	**11,089**	–	NM
Gain on disposal of investment in an associate	**–**	62,576	NM
Gain on disposal of available-for-sale financial assets	**–**	11,500	NM
Share of income of investments accounted for using the equity method	**13,857**	10,850	27.7%
Impairment of financial assets measured at amortised cost	**(40,224)**	(4,727)	750.9%
Impairment of available-for-sale financial assets	**–**	(6,540)	NM
Impairment of intangible assets	**(349,126)**	(5,077)	6,776.6%
(Loss)/profit before income tax	**(347,657)**	73,143	-575.3%
Income tax benefit/(expense)	**27,635**	(4,495)	NM
(Loss)/profit for the year	**(320,022)**	68,648	-566.2%

Note: NM-Not meaningful.

Revenue. Revenue decreased by approximately 6.4% to RMB324.2 million for the year ended 31 December 2018 from RMB346.5 million for the year ended 31 December 2017. The following table sets forth the revenue of the Group by segment for the years ended 31 December 2018 and 2017:

	Year Ended 31 December			
	2018		2017	
	(RMB'000)	***(% of Total Revenue)***	*(RMB'000)*	*(% of Total Revenue)*
Revenue by Segment				
– Game business	**90,886**	**28.0**	183,447	53.0
– Fintech business	**233,357**	**72.0**	163,019	47.0
Total Revenue	**324,243**	**100.0**	346,466	100.0

– Revenue generated from the Group's game business decreased by approximately 50.5% to RMB90.9 million for the year ended 31 December 2018 from RMB183.4 million for the year ended 31 December 2017. This decrease was primarily due to the fact that some of the Group's key games, including "Liberators" and "Boonie Bears (熊出沒)" series, have entered into the mature stage of their lifecycles and generated less revenue than the previous year.

– Revenue generated from the Group's fintech business increased by approximately 43.1% to RMB233.4 million for the year ended 31 December 2018 from RMB163.0 million for the year ended 31 December 2017. This increase was primarily due to the revenue contribution from financial information service business which was acquired by the Group in August 2017.

Adjusted EBITDA. Adjusted EBITDA decreased to RMB55.5 million for the year ended 31 December 2018 from adjusted EBITDA of RMB58.6 million for the year ended 31 December 2017. The following table sets forth the adjusted EBITDA of the Group by segment for the years ended 31 December 2018 and 2017:

	Year Ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	%
Adjusted EBITDA by Segment			
Game business	**(12,062)**	15,840	-176.1%
Fintech business	**42,604**	31,871	33.7%

Note: The difference between the sum of adjusted EBITDA of the game and fintech businesses above and the total adjusted EBITDA of the Group is from the gain on dilution of investments accounted for using the equity method and share of income of investments accounted for using the equity method.

- Adjusted EBITDA in respect of the Group's game business decreased to negative RMB12.1 million for the year ended 31 December 2018 from adjusted EBITDA of RMB15.8 million for the year ended 31 December 2017. This decrease was mainly due to the decrease in game revenue and gross profit since the Group's key games have entered into the mature stage of their lifecycles.

- Adjusted EBITDA in respect of the Group's fintech business increased to RMB42.6 million for the year ended 31 December 2018 from adjusted EBITDA of RMB31.9 million for the year ended 31 December 2017. This increase was mainly due to the revenue and operating profit contributed by the Group's financial information service business which was acquired in August 2017.

Cost of revenue. Cost of revenue decreased by approximately 30.8% to RMB85.9 million for the year ended 31 December 2018 from RMB124.2 million for the year ended 31 December 2017. This decrease was mainly attributable to lower revenue sharing costs of the Group's self-developed games in line with the revenue decrease of such games. For the year ended 31 December 2018, the percentage of cost of revenue to total revenue decreased to 26.5% (2017: 35.8%).

Selling and marketing expenses. Selling and marketing expenses increased by approximately 4.4% to RMB80.7 million for the year ended 31 December 2018 from RMB77.3 million for the year ended 31 December 2017. This increase was mainly attributable to the incremental selling and marketing expenses of the marketing department of Jianlicai business.

Administrative expenses. Administrative expenses decreased by approximately 2.8% to RMB92.1 million for the year ended 31 December 2018 from RMB94.7 million for year ended 31 December 2017. The decrease in administrative expenses was mainly attributable to lower professional service fees and share-based compensation expenses in connection with the restricted share units granted to our employees, partially offset by the incremental administrative expenses of the administration department of Jianlicai business.

Research and development ("R&D") expenses. R&D expenses increased by approximately 34.7% to RMB66.6 million for the year ended 31 December 2018 from RMB49.4 million for the year ended 31 December 2017. This increase was primarily due to the incremental employee benefit expenses for the R&D department of Jianlicai business.

Other income. Other income increased to RMB16.1 million for the year ended 31 December 2018 from RMB7.7 million for the year ended 31 December 2017. Such increase mainly resulted from higher interest income of cash and cash equivalents which was in line with the increase in average balance of cash and cash equivalents.

Other gains/(losses)-net. Other gains-net was RMB0.3 million for the year ended 31 December 2018, as compared to other losses-net of RMB9.4 million for the year ended 31 December 2017. The other losses-net for the year ended 31 December 2017 were primarily due to the fair value loss of one of the investees and higher foreign exchange losses.

Finance income-net. Finance income-net for the year ended 31 December 2018 was RMB1.3 million, as compared to finance income-net of RMB5.4 million for the year ended 31 December 2017. The finance income-net represents the interest income from short-term deposits and restricted cash. The finance income-net amount varies with the changes in short-term deposits balance during the reporting period.

Gain on dilution of investments accounted for using the equity method. Gain on dilution of investments accounted for using the equity method for the year ended 31 December 2018 was RMB11.1 million (2017: Nil). The gain was attributable to the increase in valuation of investments as a result of the fund raising activities carried out by one of the Group's investees.

Share of income of investments accounted for using the equity method. The Group recognised share of income of investments accounted for using the equity method of RMB13.9 million for the year ended 31 December 2018 (2017: RMB10.9 million). This income is related to the share of profits of our invested associated companies in the reporting period.

Impairment of financial assets measured at amortised cost. Impairment of financial assets measured at amortised cost for the year ended 31 December 2018 was RMB40.2 million (2017: RMB4.7 million). The increase in impairment of financial assets measured at amortised cost was mainly attributable to the impairment of other receivables on disposal of investment in an associate. For details, please refer to the section headed "Management Discussion and Analysis-Material Impairment" in this announcement.

Impairment of intangible assets. Impairment of intangible assets for the year ended 31 December 2018 was RMB349.1 million (2017: RMB5.1 million). The impairment loss in 2018 was attributable to the impairment of intangible assets arising from business combination. For details, please refer to the section headed "Management Discussion and Analysis-Material Impairment" in this announcement.

Income tax benefit/(expense). The Group recognised income tax benefit of RMB27.6 million for the year ended 31 December 2018 while the income tax expense was RMB4.5 million for the year ended 31 December 2017. The income tax benefit for the year ended 31 December 2018 was mainly attributable to subsequent changes in the deferred tax liabilities with the amortisation and impairment of identifiable intangible assets from the acquisition of the 55% equity interest in the Jianlicai Group, which was partially offset by the income tax expense generated from the Group's fintech business.

(Loss)/profit for the year. The loss for the year ended 31 December 2018 was RMB320.0 million, as compared to a profit of RMB68.6 million for the year end 31 December 2017. The loss for the year ended 31 December 2018 was mainly due to the impairment of intangible assets arising from business combination.

NON-IFRSs MEASURES-EBITDA AND ADJUSTED EBITDA

To supplement the 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 2018 and 2017, to the nearest measures prepared in accordance with IFRSs:

	Year Ended 31 December	
	2018	2017
	(RMB'000)	*(RMB'000)*
(Loss)/Profit for the year	**(320,022)**	68,648
Add:		
Depreciation and amortisation	**23,505**	40,473
Net interest income	**(13,494)**	(8,297)
Income tax (benefit)/expense	**(27,635)**	4,495
EBITDA (unaudited)	**(337,646)**	105,319
Add:		
Share-based compensation	**4,633**	14,889
Impairment of intangible assets arising from business combination	**349,126**	–
Impairment of other receivables on disposal of investment in an associate	**39,375**	–
Changes in the value of financial assets at fair value through profit or loss	**–**	5,889
Gain on disposal of investment in an associate	**–**	(62,576)
Gain on disposal of available-for-sale financial assets	**–**	(11,500)
Impairment of available-for-sale financial assets	**–**	6,540
Adjusted EBITDA (unaudited)	**55,488**	58,561

FINANCIAL POSITION

As at 31 December 2018, the total equity of the Group amounted to RMB847.7 million, compared to RMB1,181.4 million as at 31 December 2017. This decrease was mainly due to the impairment of goodwill and identifiable intangible assets arising from the Group's acquisition of the Jianlicai Group as discussed in the section headed "Management Discussion and Analysis – Material Impairment" in this announcement.

The Group's net current assets amounted to RMB745.3 million as at 31 December 2018, compared to RMB796.9 million as at 31 December 2017. This net current assets is proximately at the same level as that as at 31 December 2017.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash at bank and on hand	**751,356**	588,299
Cash at other financial institutions	**5,662**	66,616
Short-term deposits	**41,534**	34,650
Total	**798,552**	689,565

The Group's total cash, cash equivalent and short-term deposits amounted to RMB798.6 million as at 31 December 2018, as compared to RMB689.6 million as at 31 December 2017. The increase was primarily due to the Group's strategic adjustment of internet micro-credit business, which as a result lowered the balance of loan receivables and increased the cash balance.

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the costs of fundings, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in Renminbi ("**RMB**"), followed by United States dollars ("**USD**").

As at 31 December 2018, the Group's gearing ratio (calculated as bank borrowing divided by total assets) was 0% (as at 31 December 2017: 0%), which means that the Group did not have any bank borrowing balance as at 31 December 2018. The borrowing requirements of the Group are not subject to seasonality.

MATERIAL ACQUISITION AND DISPOSAL

During the year ended 31 December 2018, the Group did not perform any material acquisition or disposal of subsidiaries and associated companies.

MATERIAL IMPAIRMENT

(1) Impairment on intangible assets

The Group recognised impairment of goodwill and identifiable intangible assets arising from the Group's acquisition of the Jianlicai Group amounting to RMB349.1 million for the year ended 31 December 2018.

Reasons for the impairment

Since June 2018, many online lending platforms have encountered liquidity issues. The Group paid close attention to market developments, such as the recent performance of the leading online lending platforms, and closely monitored the recently promulgated regulatory requirements.

We observed that majority of online lending platforms' failures since June 2018 were due to liquidity issues. According to a research report issued by a third party analyst, this is likely driven by: (i) macro credit tightening which triggered rising defaults, especially for corporate or property related loans, (ii) voluntary exit of some online lending platforms in light of rising compliance costs, and (iii) retail investors' panic and a rush of withdrawals, causing a liquidity crunch for platforms with significant duration mismatches and weak capital bases.

On 19 July 2018, the Beijing Internet Finance Industry Association (北京市互聯網金融行業協會) (the "**Association**") issued a document (the "**19 July Document**") to clarify that peer-to-peer online lending platforms are prohibited from offering investors non-compliant "Wealth Management Plan" products because there may be mismatch of durations and sizes with such products as well as other non-compliances. According to the 19 July Document, after preliminary inspection, the Association found that some platforms were still offering those non-compliant products. Under the 19 July Document, the Association requested all member platforms to stop providing "Wealth Management Plan" products. "Jianlicai", as a financial information service agency, decided to adjust its business model to embrace the spirit of regulations (for details, please refer to the Company's announcement dated 29 July 2018). Specifically, the adjustments included (i) it stopped offering "Wealth Management Plan" products and gradually reduced the balance of those kind of products (i.e., non-standard assets), (ii) it developed and launched standard asset products to replace existing "Wealth Management Plan" products and other products that may be deemed as non-compliant by the regulators, (iii) it set a certain limit on the amount of withdrawal to relieve the pressure of liquidity and ensure users orderly transfer of funds, (iv) it signed the "Beijing Online Lending Industry Self-discipline Commitment" as one of the first batch of enterprises to do so, along with other leading fintech enterprises, promising to comply with the regulations, achieve self-discipline, embrace regulations and be responsible, and (v) it continued to communicate with the regulators to adjust its business according to the newest regulations, guidelines and advice to be issued from time to time.

"Wealth Management Plan" was a business model that the Jianlicai Group previously developed to offer users products which were mainly non-standard assets, and its continuous operation was the very basis for evaluating the value of goodwill and identifiable intangible assets arising from the acquisition of the 55% equity interest of the Jianlicai Group. "Wealth Management Plan" will not be re-launched in the foreseeable future.

Detailed assessment of the impairment

With respect to the above significant change in the regulatory environment of the PRC fintech industry in July 2018, the Group performed detailed assessment on the relevant goodwill and identifiable intangible assets of the Jianlicai Group in accordance with the IFRSs. According to "International Accounting Standard 36 – Impairment of Assets" ("**IAS 36**"), while identifying the abovementioned impairment indicators, the Group is required to perform impairment test for the goodwill and identifiable intangible assets arising from the acquisition of the Jianlicai Group. The test for goodwill and identifiable intangible assets impairment involves comparing the recoverable amount of the assets with their respective carrying amounts. If the recoverable amount exceeds the carrying amount, the asset under assessment shall be regarded as not impaired. If the recoverable amount of the asset is less than its carrying amount, an impairment loss shall be recognised. Recoverable amount of an asset is defined as the higher of (i) its fair value less costs of disposal, and (ii) its value in use. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Value in use is the present value of the future cash flows expected to be derived from an asset.

In accordance with the relevant requirements under IAS 36, and based on the principle of investor protection, while identifying abovementioned impairment indicators, the Group performed impairment test for the goodwill and identifiable intangible assets arising from the acquisition of the Jianlicai Group. The Group adopted a discounted cash flow ("**DCF**") method to determine the recoverable amount of the goodwill and identifiable intangible assets arising from the acquisition of the Jianlicai Group.

As mentioned in the interim results announcement for the six months ended 30 June 2018 and 2018 Interim Report, in light of the actual operating performance after the above mentioned business adjustments and continuous communications with regulators, the Group adjusted the financial projection of the existing "Wealth Management Plan" business model. Besides, the new asset products are in the early stages of their life cycles, and cannot provide sufficient information to support their future operating performance in such a short period. Therefore, the Group didn't include the financial projection of the new asset products in the DCF.

After conducting careful deliberations with its external consultants, the Group recorded an impairment on the goodwill and identifiable intangible assets arising from the equity acquisition of the Jianlicai Group amounting to RMB349.1 million (after tax amounting to RMB320.5 million).

The actual operating performance of Jianlicai Group in the second half of 2018 showed that (i) the revenue generated from the existing "Wealth Management Plan" business model decreased significantly, and (ii) the Group did not record any income from the new asset products as they were in the early stages. Such operating performance result was consistent with the Group's expectation when making the impairment allowance to the abovementioned goodwill and identifiable intangible assets as at 30 June 2018.

Key assumptions

The key assumptions adopted in the assessments by the Group included, but not limited to, the following:

(a) the financial projections of the Jianlicai Group, such as long term revenue growth rate and long-term pre-tax operating margin, have been prepared based on business adjustments, reflecting estimates which have been scrutinised and modified, after due and careful consideration by management of the Group; and

(b) the adopted discounted rate is with reference to the public and statistical information (e.g. weighted average capital cost in the market) obtained from sources which are deemed to be reputable, accurate and reliable.

For details, please also refer to the Company's announcements dated 29 July 2018 and 17 August 2018 and 2018 Interim Report published on 20 September 2018.

(2) Material Receivables Impairment

On 24 May 2017, the equity interests in an associate held by the Group was disposed to a PRC listed company (the "**Counterparty**") in the consideration of RMB87.5 million, of which approximately RMB43.8 million was negotiated to be paid no later than 5 January 2019. As at 5 January 2019, the Group had not received such payment from the Counterparty after rounds of communications. Instead, the Counterparty has committed itself to a payment plan to pay off approximately RMB43.8 million within one year by four instalments. On 15 March 2019, the Counterparty group made the first installment payment amounting to approximately RMB4.4 million.

The Group has made a detailed assessment of the recoverability of the uncollected portion of the Receivables and considered that recoverability risk of the uncollected portion is high, because (i) the Counterparty announced on 27 February 2019 that its fund raising bank account had been frozen since its controlling shareholder(s) illegally made guarantee to external parties without complying with the Counterparty's internal approval process and procedures, and the Counterparty was involved in a number of lawsuits of total amount which was larger than the period ended current assets disclosed in the 2018 third quarter report of the Counterparty, and (ii) the Counterparty announced on 27 February 2019 that its operating result for the year ended 31 December 2018 was below expectations such as the profit before tax of the year decreased significantly.

Based on the above detailed assessment of the Receivables, the Group recorded an impairment on the uncollected portion of the Receivables amounting to approximately RMB39.4 million. For details, please also refer to the Company's announcement dated 10 January 2019.

The Group will regularly assess the payment ability of the Counterparty subsequently and take certain measures including but not limited to through legal proceedings to recover such amount as and when appropriate.

FOREIGN EXCHANGE RISK

As at 31 December 2018, RMB39.1 million of the financial resources of the Group (as at 31 December 2017: RMB59.4 million) were held as deposits denominated in non-RMB currencies. The decrease in the deposits denominated in non-RMB currencies was due to the utilisation of the Group's bank deposits denominated in USD to make on-market purchase of shares for the Group's restricted share unit scheme. The Group will continue to monitor its foreign exchange risk exposure to best preserve the Group's cash value.

CAPITAL EXPENDITURES

	Year Ended 31 December	
	2018	2017
	(RMB'000)	*(RMB'000)*
Capital expenditures		
– Purchase of property and equipment	**4,309**	5,807
– Purchase of intangible asset	**–**	189
Total	**4,309**	5,996

Capital expenditures (excluding business combination) comprise the purchase of property and equipment, such as computers and leasehold improvement, and the purchase of intangible assets, such as intellectual property ("**IP**") adaptation rights and IP rights of games developed by third-party developers.

PLEDGE OF ASSET

As at 31 December 2018, the Group had a pledge of assets of RMB0.9 million (as at 31 December 2017: RMB0.8 million) as restricted cash for corporate credit card deposits.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant unrecorded contingent liabilities.

HUMAN RESOURCES

As at 31 December 2018, the Group had 419 full-time employees (as at 31 December 2017: 422), the vast majority of whom are based in Guangzhou and Beijing. The following table sets forth the number of the Group's employees by function as at 31 December 2018:

	Number of Employees	% of Total
Research and Development	168	40%
Operation	32	8%
Sales and Marketing	99	24%
General and Administration	120	28%
Total	419	100%

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 2018.

POST BALANCE SHEET EVENT

On 16 January 2019, the Group entered into an investment agreement and a shareholders' agreement, pursuant to which the Group agreed to acquire approximately 19.99% of the equity interest in LMDJ which is principally engaged in hosting and organising e-sports competitions. The consideration has been settled through (i) subscription in cash of RMB13,000,000 by the Group, and (ii) the Company allotting and issuing 1,851,568 new ordinary shares to a shareholder of the investee company.

At the Company's annual general meeting held on 25 May 2018, the Shareholders approved a share buy-back mandate to grant to the Directors a general mandate to buy back shares of the Company. From 1 January 2019 to the approval date of the consolidated financial statements by the Board of Directors, the Company had bought back an aggregate of 1,790,300 shares of the Company at a weighted average price of HK$3.22 for an aggregate consideration of approximately HK$5,769,000 (equivalent to approximately RMB4,986,000) under this share buy-back mandate.

RISKS AND HURDLES

Although the Group has successfully established its fintech 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 China. The major hurdles include (i) new policies or any amendment to current policies in relation to fintech regulation, (ii) the liquidity imbalance between the fintech investing users funding and the financial assets, (iii) main strategic business partners not able to provide sustainable services, (iv) collapse of real estate market or other markets causing our collaterals not to be able to cover our loan exposures, (v) new fintech products not recognised by market, (vi) departure of key employees, and (vii) the financial risks which may be caused by the wrong judgement of key decision makers of the Group's business segment.

Meanwhile, in our established game business, the major hurdles include (i) delays of game launches, (ii) games developed being unable to meet market expectations at their launch, (iii) departure of key employees, and (iv) technical issues that hamper the Group's ability to collect fees and data, and update games, all of which will negatively affect the Group's performance.

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, and other unexpected one-off restructuring costs, all of which will negatively impact the Group's performance.

Since 2014, the Group has made investments in the internet, media and technology industry in China with a remaining value of approximately RMB83.9 million post investment impairment and losses as at 31 December 2018, out of which approximately RMB47.6 million was classified as "investments in associates".

In the year of 2018, some of the Group's investments achieved higher profits compared to last year. Along with the better performance of the 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

The strengthening regulation in fintech business in the PRC is expected to eliminate illegal or insufficiently-funded fintech companies, which will create greater opportunity for the Group's licensed and technology-supported fintech business. The Group will continue to adjust its current business models to maintain itself fully compliant with the time to time updated regulatory requirements and develop core technologies in preparation for the new regulated fintech industry.

On the other hand, the Group will continue to explore an overseas expansion for the game business. The business model of the game "Liberators" has proven successful, and the Group has developed a sustainable overseas game publishing capability based on the considerable player data accumulated. Such capability is expected to be replicable in future games.

The Group plans to evaluate investment opportunities across various sectors of the internet, media, and technology industry with the aim of upgrading the Group's current business models. Along with technology development and social network development, the game and fintech businesses have presented their new forms in industry. For example, the emergence of e-sports has brought social and sport elements to game. Although new forms/technologies are far from maturity, investing in the future is necessary in order to adapt to the needs of tomorrow. The Group will pay close attention to new game/fintech technologies including but not limited to VR and blockchain to ensure the group's leading position in future internet industry.

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

	Note	Year Ended 31 December 2018 *RMB'000*	2017 *RMB'000*
Revenue	4	**324,243**	346,466
Cost of revenue	5	**(85,913)**	(124,185)
Gross profit		**238,330**	222,281
Selling and marketing expenses	5	**(80,658)**	(77,274)
Administrative expenses	5	**(92,077)**	(94,712)
Research and development expenses	5	**(66,578)**	(49,425)
Other income		**16,119**	7,701
Other gains/(losses)-net		**319**	(9,394)
Finance income-net		**1,292**	5,384
Gain on dilution of investments accounted for using the equity method		**11,089**	–
Gain on disposal of investment in an associate		**–**	62,576
Gain on disposal of available-for-sale financial assets		**–**	11,500
Share of income of investments accounted for using the equity method		**13,857**	10,850
Impairment of financial assets measured at amortised cost		**(40,224)**	(4,727)
Impairment of available-for-sale financial assets		**–**	(6,540)
Impairment of intangible assets		**(349,126)**	(5,077)
(Loss)/profit before income tax		**(347,657)**	73,143
Income tax benefit/(expense)	6	**27,635**	(4,495)
(Loss)/profit for the year		**(320,022)**	68,648
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to profit or loss:			
– Change in value of available-for-sale financial assets		**–**	(298)
Items that will not be subsequently reclassified to profit or loss:			
– Change in fair value of financial assets at fair value through other comprehensive income		**16,392**	–
– Currency translation differences		**1,791**	(19,632)
Total other comprehensive income/(loss), before tax		**18,183**	(19,930)
Income tax relating to components of other comprehensive income/(loss)		**(440)**	45

	Note	Year Ended 31 December 2018 RMB'000	2017 RMB'000
Other comprehensive income/(loss) for the year, net of tax		**17,743**	(19,885)
Total comprehensive (loss)/income for the year		**(302,279)**	48,763
(Loss)/profit attributable to:			
– Owners of the Company		**(284,877)**	74,035
– Non-controlling interests		**(35,145)**	(5,387)
		(320,022)	68,648
Total comprehensive (loss)/income attributable to:			
– Owners of the Company		**(267,134)**	54,150
– Non-controlling interests		**(35,145)**	(5,387)
		(302,279)	48,763
(Loss)/earning per share (expressed in RMB per share)			
– Basic	7	**(2.09)**	0.54
– Diluted	7	**(2.09)**	0.53

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**8,155**	8,565
Intangible assets		**8,124**	376,596
Investments accounted for using the equity method		**47,567**	12,057
Financial assets at fair value through profit or loss		**5,512**	–
Available-for-sale financial assets		**–**	15,312
Financial assets at fair value through other comprehensive income		**30,804**	–
Prepayments and other receivables		**2,767**	3,876
Deferred income tax assets		**–**	524
		102,929	416,930
Current assets			
Trade receivables	9	**23,100**	40,249
Loan receivables	10	**46,512**	231,742
Prepayments and other receivables		**17,618**	144,145
Restricted cash		**929**	751
Short-term deposits		**41,534**	34,650
Cash and cash equivalents		**757,018**	654,915
		886,711	1,106,452
Total assets		**989,640**	1,523,382
EQUITY			
Equity attributable to owners of the Company			
Share capital		**86**	87
Shares held for Restricted Share Units Scheme		**(28,900)**	(9,584)
Share premium		**2,066,360**	2,074,087
Reserves		**(55,028)**	(74,402)
Accumulated losses		**(1,173,277)**	(881,487)
		809,241	1,108,701
Non-controlling interests		**38,446**	72,716
Total equity		**847,687**	1,181,417

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**459**	32,177
Deferred revenue		**122**	270
		581	32,447
Current liabilities			
Trade payables	11	**29,153**	34,169
Other payables and accruals		**97,550**	252,854
Income tax liabilities		**8,247**	15,469
Deferred revenue		**6,422**	7,026
		141,372	309,518
Total liabilities		**141,953**	341,965
Total equity and liabilities		**989,640**	1,523,382

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 (the "**Game Business**") and providing internet micro-credit service and financial information service (the "**Fintech 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**").

In December 2016, the Group obtained a license to carry out internet micro-credit business from the government and thereafter commenced the operation of the Group's Fintech Business in the PRC. The license was expired in August 2018 and has been subsequently renewed in February 2019, with a period of validity until June 2019.

On 16 August 2017, the Group completed the acquisition of 55% equity interest in Jlc Inc., which is principally engaged in providing financial information service to online investors.

2 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable 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 judgment 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 2018:

– Financial Instruments – IFRS 9,

– Revenue from Contracts with Customers – IFRS 15,

– Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2,

– Foreign Currency Transactions and Advance Consideration – Interpretation 22, and

– Investments in Associates and Joint Ventures – Amendments to IAS 28.

The impact of the adoption of IFRS 9 and IFRS 15 since 1 January 2018 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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

– Leases – IFRS 16

IFRS 16 Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees.

The Group is a lessee of various properties which are currently classified as operating leases. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside the balance sheet. Instead, almost all leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. As for the financial performance impact in the income statement, the operating lease expenses will decrease, while depreciation and amortisation and the interest expense will increase. The new standard is not expected to apply until the financial year of 2019. The Group's future aggregate minimum lease payments under non-cancellable operating leases as at December 31, 2018 are approximately RMB14,935,000, with the minimum lease payments due less than one year amounting to approximately RMB9,522,000, and those due more than one year and less than five years amounting to approximately RMB5,413,000.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3 Changes in Accounting Policies

(a) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

(i) Classification and measurement

On 1 January 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

(1) The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB15,312,000 were reclassified from available-for-sale financial assets ("**AFS**") to FVOCI and cumulative fair value gains of RMB107,000 were reclassified from the AFS reserves to the FVOCI reserves on 1 January 2018.

(2) Loan receivables previously measured at amortised cost continue to be measured on the same basis under IFRS 9.

(3) There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group does not have any such liabilities.

The main impact on the Group's financial statements as at 1 January 2018 is as follows:

Financial statement items	**31 December 2017**	**Impact of adopting IFRS 9**	**1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Asset			
Include:			
FVOCI	–	15,312	15,312
AFS	15,312	(15,312)	–
Equity			
Include:			
FVOCI reserves	–	107	107
AFS reserves	107	(107)	–

(ii) Impairment of financial assets

The new impairment model requires the recognition of impairment allowance based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity was not material.

(1) Loan receivables

All of the Group's loan receivables at amortised cost will mature within one year and are guaranteed by other enterprises, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Based on management's assessment, applying the expected credit risk model has no significant impact on loss allowance of loan receivables as at 1 January 2018.

(2) Trade receivables

The Group applies the IFRS 9 simplified approach to measure the expected credit losses which uses lifetime expected loss allowance for trade receivables.

In addition to certain trade receivables which are considered there was objective evidence of impairment and are assessed individually for impairment, trade receivables have been grouped based on shared credit risk characteristics and the days past due to measure the expected credit losses collectively. The impact of applying the expected credit risk model on the loss allowance of trade receivables as at 1 January 2018 was immaterial.

(3) Other receivables

Other receivables are mainly assessed individually to determine whether there was objective evidence of impairment. For these receivables, the estimated impairment losses were recognised in a separate allowance for impairment. The impact of applying the expected credit risk model on the loss allowance of other receivables as at 1 January 2018 was immaterial.

(4) Other financial assets

Other financial assets including short-term deposits, restricted cash, and cash and cash equivalents are also subject to the impairment requirements of IFRS 9, and no impairment loss was identified.

(b) IFRS 15 Revenue from contracts with customers

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The standard is effective for financial years commencing on 1 January 2018. The Group has completed the assessment of the impact of IFRS 15 and concluded that the adoption of IFRS 15 has no material impact on the Group for the year ended 31 December 2018.

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

– Fintech Business

The CODM assesses the performance of the operating segments mainly based on segment revenue, and adjusted earnings/(losses) before interest expense, taxes, depreciation and amortisation ("**adjusted EBITDA**") excluding 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 FVTPL, gain on disposal of investment in an associate, gain on disposal of available-for-sale financial assets, non-recurring event such as impairment of intangible assets arising from business combination, impairment of other receivables on disposal of investment in an associate and impairment of available-for-sale financial assets. It also excludes the effects of equity-settled share-based payments. Net interest income is not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

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 2018 and 2017 is as follows:

	Year Ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue		
Game Business	**90,886**	183,447
Fintech Business	**233,357**	163,019
Total	**324,243**	346,466
Adjusted EBITDA		
Game Business	**(12,062)**	15,840
Fintech Business	**42,604**	31,871
Share of income of investments accounted for using the equity method	**13,857**	10,850
Gain on dilution of investments accounted for using the equity method	**11,089**	–
Total adjusted EBITDA	**55,488**	58,561

Adjusted EBITDA reconciles to (loss)/profit before income tax as follows:

Total adjusted EBITDA	**55,488**	58,561
Share-based compensation	**(4,633)**	(14,889)
Impairment of intangible assets arising from business combination	**(349,126)**	–
Impairment of other receivables on disposal of investment in an associate	**(39,375)**	–
Changes in the value of financial assets at fair value through profit or loss	**–**	(5,889)
Impairment of available-for-sale financial assets	**–**	(6,540)
Gain on disposal of investment in an associate	**–**	62,576
Gain on disposal of available-for-sale financial assets	**–**	11,500
Depreciation and amortisation	**(23,505)**	(40,473)
Net interest income	**13,494**	8,297
(Loss)/profit before income tax	**(347,657)**	73,143

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC. The segment revenue provided to the Group's CODM for the PRC (excluding Hong Kong) and other regions for the years ended 31 December 2018 and 2017 is as follows:

	Year Ended 31 December 2018		
	PRC (Excluding Hong Kong)	**Other Regions**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue	**278,090**	**46,153**	**324,243**

	Year Ended 31 December 2017		
	PRC (Excluding Hong Kong)	Other Regions	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	261,170	85,296	346,466

A breakdown of revenue derived from different forms for years ended 31 December 2018 and 2017 is as follows:

	Year Ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Game Business	**90,886**	183,447
Financial information service	**194,803**	109,526
Interest income	**38,554**	53,493
	324,243	346,466

Revenues of approximately RMB158,246,000 (2017: RMB97,066,000) are derived from a single external customer. These revenues are attributed to the Fintech Business segment.

As at 31 December 2018 and 2017, majority of the non-current assets of the Group were located in the PRC.

5 Expenses by Nature

	Year Ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Employee benefit expenses	**140,933**	120,697
Content cost, distribution cost and other outsourcing expenses	**43,937**	70,617
Promotion and advertising expenses	**29,929**	41,331
Payment handling fees	**27,152**	17,679
Amortisation of intangible assets	**19,346**	36,397
Operating lease rentals in respect of office buildings	**11,841**	7,747
Bandwidth and server custody fees	**10,481**	11,138
Professional fees	**9,336**	14,027
Travelling and entertainment expenses	**9,166**	7,447
Auditor's remuneration		
– Audit services	**5,000**	5,000
– Non-audit services	**177**	3,668
Depreciation of property and equipment	**4,159**	4,076
Others	**13,769**	5,772
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**325,226**	345,596

6 Income Tax Benefit/(Expense)

The income tax benefit/(expense) of the Group for the years ended 31 December 2018 and 2017 are analysed as follows:

	Year Ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax:		
– PRC and oversea enterprise income tax	**(3,999)**	(10,029)
Deferred income tax:		
– Decrease in deferred tax assets	**(524)**	(608)
– Decrease in deferred tax liabilities	**32,158**	6,142
Income tax benefit/(expense)	**27,635**	(4,495)

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to (losses)/profits of the consolidated entities as follows:

	Year Ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(347,657)**	73,143
Tax calculated at statutory income tax rates applicable to (losses)/ profits of the consolidated entities in their respective jurisdictions	**71,111**	(15,417)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	**(11,420)**	6,895
Utilisation of previously unrecognised tax losses	**4,130**	16,025
Tax losses and timing differences for which no deferred income tax asset was recognised	**(12,483)**	(7,326)
Recognition of deferred income tax on previously unrecognised tax losses	**–**	524
Super deduction of research and development expenses	**6,974**	1,656
Expenses not deducted for income tax purposes:		
– Share-based compensation	**(811)**	(2,315)
– Impairment of goodwill and others	**(29,866)**	(4,537)
Income tax benefit/(expense)	**27,635**	(4,495)

(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

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the year ended 31 December 2018 (2017: Nil).

(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 18% for the year ended 31 December 2018 (2017: 17%).

(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 2018 (2017: 25%), 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**") have renewed their qualification of "High and New Technology Enterprises" ("**HNTEs**") under the EIT Law in 2016, thus the applicable tax rate was 15% for the year ended 31 December 2018 (2017: 15%).

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 2018 (2017: 15%).

Beijing Jinweilai Financial Information Services Co., Ltd. (北京金未來金融信息服務有限公司, "**Jinweilai**") was also qualified as HNTE under EIT Law in 2017, thus the applicable tax was 15% for the year ended 31 December 2018 (2017: 15%).

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**").

The Group had made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the years ended 31 December 2018 and 2017.

(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 2018, 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 2018 (2017: nil).

7 (Loss)/Earning per Share

(a) Basic

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

	Year Ended 31 December	
	2018	2017
(Loss)/profit attributable to owners of the Company (RMB'000)	**(284,877)**	74,035
Weighted average number of ordinary shares in issue	**136,157,763**	137,507,309
Basic (loss)/earning per share (in RMB/share)	**(2.09)**	0.54

(b) Diluted

For the year ended 31 December 2018, the Company had three categories of dilutive potential ordinary shares, 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 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 2018 was the same basic loss per share for the year.

	Year Ended 31 December	
	2018	2017
(Loss)/profit attributable to owners of the Company (RMB'000)	**(284,877)**	74,035
Weighted average number of ordinary shares in issue	**136,157,763**	137,507,309
Adjustments for share options under pre-IPO share option scheme	**–**	757,512
Adjustments for awarded shares under restricted share units scheme	**–**	1,444,626
Weighted average number of ordinary shares for the calculation of diluted (loss)/earning per share	**136,157,763**	139,709,447
Diluted (loss)/earning per share (in RMB/share)	**(2.09)**	0.53

8 Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

9 Trade Receivables

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Third parties	**40,801**	54,979
Related parties	**1,658**	1,673
	42,459	56,652
Less: Allowance for impairment	**(19,359)**	(16,403)
	23,100	40,249

As at 31 December 2018 and 2017, 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	
	2018	2017
	RMB'000	*RMB'000*
0–30 days	**8,449**	21,722
31–60 days	**4,456**	3,920
61–90 days	**4,680**	6,841
91–180 days	**5,760**	2,943
181–365 days	**2,086**	3,338
Over 1 year	**17,028**	17,888
	42,459	56,652

(b) Credit sales are mainly derived from (i) 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; (ii) the Fintech Business in which the Group contracts with various assets providers to provide information service of their financial assets to online investors. The normal credit term of Game Business granted by the Group was from 30 to 180 days from respective transaction dates and the credit term of Fintech Business was up to 30 days from respective transaction dates.

10 Loan Receivables

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Personal loans		
– Guaranteed loans	**6,454**	219,915
– Collateralised loans	**40,058**	15,337
	46,512	235,252
Less: Allowance for impairment loss, collectively assessed	**–**	(3,510)
Net loan receivables	**46,512**	231,742

The loan periods granted to customers are within one year. Loan receivables are all dominated in RMB.

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Neither past due nor impaired	**41,646**	201,713
Overdue but not impaired	**4,866**	33,539
Individually impaired	**–**	–
	46,512	235,252
Less: Allowance for impairment losses	**–**	(3,510)
Net balance	**46,512**	231,742

(b) Movement of allowance for impairment losses

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**3,510**	–
(Reversal)/charge for the year		
– Collectively assessed	**(3,510)**	3,510
At end of the year	**–**	3,510

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

11 Trade Payables

Trade payables primarily related to (i) the purchase of services for server custody, content costs, agency fees and revenue to be shared and be payable to game developers in Game Business; (ii) cash incentives payable to online investors in Fintech Business.

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
0–30 days	**3,485**	9,393
31–60 days	**2,809**	5,588
61–90 days	**2,885**	3,659
91–180 days	**11,571**	5,746
181–365 days	**2,169**	5,210
Over 1 year	**6,234**	4,573
	29,153	34,169

Trade payables were denominated in RMB and the fair values of these balances approximate their carrying amounts at the reporting date.

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 2018, the Company bought back a total of 1,263,500 Shares at a consideration of HK$8,809,488 on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), all of which were cancelled as at 31 December 2018. The buy-backs were effected by the Directors for the enhancement of Shareholders' value. Details of the buy-backs are as follows:

Month of buy-backs	Total number of shares bought back (on the Stock Exchange)	Price per Share Highest *(HK$)*	Price per Share Lowest *(HK$)*	Aggregate consideration *(HK$)*
August 2018	756,900	7.35	6.82	5,310,180
September 2018	248,900	7.5	6.22	1,765,296
October 2018	257,700	7.0	6.22	1,734,012
	1,263,500			**8,809,488**

Save as disclosed above, during the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Tuesday, 28 May 2019. All transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 22 May 2019.

Use of Proceeds from Initial Public Offering

The Company's Shares were listed on the Stock Exchange in October 2013 and the Company raised net proceeds of approximately HK$982.8 million from the initial public offering of the Shares on the Stock Exchange (the "**IPO**"). It was disclosed in the Company's announcement dated 3 August 2016 (the "**August Announcement**") that the Board had resolved to change the use of approximately HK$289,840,000 out of the remaining unutilised IPO proceeds as at the date of the August Announcement for investments in the internet, media and technology industry, and such investments may include equity, bonds, hybrid products such as convertible bonds in the primary or secondary market. The balance of the IPO proceeds of approximately HK$115,200,000 as at the date of the August Announcement would be used for working capital and other general corporate purposes. For further details, please refer to the August Announcement.

As at 31 December 2018, the Group had utilised all of the net proceeds from the IPO, of which (i) approximately HK$386.3 million was used in the purchase of webgame and mobile game licences, the acquisition of IP rights authorisation and equity investments, (ii) approximately HK$92.5 million was used in funding the expansion of the Group's international operation, (iii) approximately HK$289.8 million was used in investments in the internet, media and technology industry, and (iv) approximately HK$214.2 million was used for working capital and other general corporate purposes. Such utilisation of the net proceeds was in accordance with the proposed allocations set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 19 September 2013 in relation to the IPO and as subsequently amended and disclosed in the August Announcement.

Use of Proceeds from Placing

Reference is made to the Company's announcements dated 23 May 2015 and 5 June 2015. The Group successfully raised over HK$314 million through the placing of 19,041,900 placing shares (the "**Placing Shares**") to not less than six professional, institutional and other investors at the placing price of HK$16.50 per Share on 5 June 2015 (the "**Placing**") in order to strengthen its capital base and working capital position. Upon the completion of the Placing, the Company received gross proceeds of HK$314,191,350 and net proceeds, after the deduction of the placing commission and other related expenses, of approximately HK$310,160,000, representing a net issue price of approximately HK$16.29 per Placing Share. As disclosed in the August Announcement, the Board had resolved to change the use of the remaining approximately HK$310,160,000 out of the unutilised net proceeds from the Placing as at the date of the August Announcement for investments in the internet, media, and technology industry, and such investments may include equity, bonds, hybrid products such as convertible bonds in the primary or secondary market. It was further disclosed in the Company's announcement dated 28 December 2016 (the "**December Announcement**") that the Board had resolved to expand the use of approximately HK$248,579,000, being the remaining unutilised net proceeds from the Placing as at the date of the December Announcement, for operations and investments in the internet, media and technology industry, and for working capital and other general corporate purposes. For further details in respect of the changes in the use of proceeds from the Placing, please refer to the August Announcement and the December Announcement.

As at 31 December 2018, the Group had utilised all of the net proceeds from the Placing in operations and investments in the internet, media and technology industry.

Audit and Compliance Committee

The audit and compliance committee of the Company has reviewed together with the Board and the external auditor the accounting standards and practices adopted by the Group and the audited consolidated financial statements of the Company for the year ended 31 December 2018.

Scope of Work of PricewaterhouseCoopers

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, PricewaterhouseCoopers ("**PwC**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on the preliminary announcement.

Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the code provisions as set out in the Corporate Governance Code and Corporate Governance Report as set in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange (the "**CG Code**").

Save as disclosed below, the Directors consider that the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2018.

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.

Mr. WANG Dongfeng serves as the chairman of the Board and the chief executive officer of the Company. In view of the ever-changing business environment in which the Group operates, the chairman and chief executive officer of the Company must be proficient in IT knowledge and be sensitive to fast and rapid market changes, including changes in users' preferences, in order to promote the different businesses of the Group. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. Further, the Board considers that a separation of the roles of the chairman and chief executive officer may create unnecessary costs for the daily operations of the Group. Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team.

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 2018.

Publication of the Audited Consolidated Annual Results and 2018 Annual Report

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.forgame.com), and the annual report of the Company for the year ended 31 December 2018 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 April 2019.

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.

By order of the Board
Forgame Holdings Limited
WANG Dongfeng
Chairman

Hong Kong, 27 March 2019

As at the date of this announcement, the executive Directors are Mr. WANG Dongfeng, Ms. LIANG Na and Mr. ZHANG Yang; 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.