Forgame Holdings Limited
雲遊控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00484)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2016

Reference is made to the annual report for the year ended 31 December 2016 (the "**Annual Report**") of Forgame Holdings Limited (the "**Company**") published on 19 April 2017 and the profit warning announcements of the Company dated 11 November 2016 and 24 May 2016 (the "**Profit Warning Announcements**"). Capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report unless stated otherwise.

Further to the information disclosed in the Annual Report, the Company wishes to provide the shareholders of the Company and the potential investors with the following supplementary information.

IMPAIREMENTS

Impairment on investment in associates and impairment on available-for-sale financial assets

The Group invested in various mobile game studios and incubators in the PRC and the investments were accounted for as investments in associates and available-for-sale financial assets. These investments were mostly angel investments made into start-up gaming studios and publishers. The relevant impairments were based on the assessment results on these investments/investees performed by the management of the Group, after having identified impairment indicators in relation to these investments/investees. The details of the management's decision-making process and the key market research findings on the gaming industry by the independent consultants have been set out in the Profit Warning Announcements. The relevant impairments fell within the estimated range as set out in the Profit Warning Announcements.

- Overall assessment on whether there were impairment indicators

In determining the impairment on investment in associates and impairment on available-for-sale financial assets, the Group conducted overall business reviews on its major investments in its investment portfolio to identify any existence of internal or external factors which might affect the prospects of the investments. For the purpose of business reviews, the Group engaged iiMedia Research Group (艾媒諮詢集團), a global leading mobile internet research consultancy focusing on third party data mining, to prepare research reports in November 2015, May 2016 and October 2016, respectively (the "**Research Reports**").

According to the findings in the Research Reports, (1) it would continue to be difficult for small gaming studios and/or angel investments to independently raise funds under the current market conditions in the PRC in the foreseeable future; and (2) upon analysing and comparing the key products of the investments with other market comparables and taking into consideration of the challenging and competitive market conditions as well as the rapid changes in the PRC game player preferences, their key products had received negative comments in respect of cash generation.

- Detailed assessments

With reference to the market research findings and advice furnished by independent consultants, the Group performed detailed assessments on the relevant investments according to IFRSs.

The Group initially recorded the available-for-sale financial assets ("**AFS**") at cost at inception and re-measured to fair value at each reporting date. If there is any evidence of significant or prolonged decline in the fair value of the investment below its cost, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, shall be reclassified from equity and recognised in profit or loss. As to the investments in associates, when the investments in associates' carrying value was less than the recoverable amount, which was the higher of the investments' fair value less costs of disposal and value in use, impairment loss was recognised by the Group.

The Group adopted discounted cash flow ("**DCF**") under the income approach to determine the investments' fair value, where applicable, in the measurement of AFS and assessment of the recoverable amount of investments in associates. For the valuation method, the Company discussed with its auditor, and concluded that DCF would be an appropriate approach. Furthermore, considering most of these investments were start-up companies in which the financial data may have minimal meaning in deriving the financial ratios, DCF can reflect the future prospects of these companies.

In assessing the impairments, the Group also engaged an independent valuer, Aihua Di Business Consulting (Shanghai) Co., Ltd (艾華迪商務諮詢(上海)有限公司) ("**AVISTA**"), to perform fair value assessment on those significant investments with uncertainty in their business performance. Such potential uncertainty in the game's performance is largely dependent on the product life cycle and market responses, effectiveness of the investees' strategies against the target market segment, as well as other factors which may be out of the Group's knowledge, which shall call for an assessment to be performed by an independent valuer. As to the other remaining equity investments with impairment indicators, such as having business performance far below the budget/plan, the Group obtained detailed financial information from these investments/investees, and by applying its own knowledge, industry insight and experience, the Group performed assessments.

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

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

(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; and

(c) there will be no substantial fluctuation in the economic outlook and the specific industry outlook affecting the continuity of the businesses of the investees.

Key assumptions used in the DCF included long-term revenue growth rates (ranging from 0% to 3%), long-term pre-tax operating margin (ranging from 3.2% to 8%), discount rates (ranging from 32.2% to 35.4%) and the projected net cash flows for year ending 31 December 2017 (ranging from RMB-7.1 million to RMB6.8 million).

Based on the Group's assessments, an impairment of RMB108.2 million was made against the AFS with carrying value in the amount of RMB131.2 million, and an impairment of RMB22.2 million was made to the investment in associates with carrying value in the amount of RMB45.8 million in the year of 2016.

The above methodology, valuation inputs and key assumptions adopted for determining the impairment on investment in associates and impairment on available-for-sale financial assets for the year ended 31 December 2016 were consistent with the methodology, valuation inputs and key assumptions adopted by the Company for the year ended 31 December 2015.

Impairment on intangible assets

The relevant repositioning plan and the write-down of the PRC hard-core game intellectual property licence fee was disclosed and elaborated on in the Profit Warning Announcements.

The Group purchased intellectual property rights in connection with the development of the PRC hard-core games of the Group which were accounted for as intangible assets. However, the operations and development of the PRC hard-core games did not meet the expectation of the Company. It was expected by the Company that the hard-core gaming companies that the Group had invested in could produce popular mobile hard-core games which would ultimately generate revenue and positive net income on a consistent basis. These companies failed when they (1) could not produce a popular game or a game that can generate enough sustainable income, or (2) the change in players' preferences prompted these gaming companies to require additional time and resources to produce popular games. These factors led to the need of additional rounds of funding in order to continue their operations. Due to the difficultly to raise funds in 2016, the funds of these hard-core gaming companies were drying up, and as a result, the Group made the prudent choice to impair its investments and shifted its focus to the development of casual games. As such, the fees for the acquisition of certain intellectual properties and licences for the PRC hard-core games were written down.

Based on the Group's assessment, it is expected that these intangible assets would not be able to generate net cash inflows or bring any economic benefits to the Group in the future. Therefore, the Group made full impairment against these intangible assets.

Impairment on prepayments and other receivables

The write-down of certain prepayments and the background to it was disclosed in the Profit Warning Announcements.

The Group entered into contracts with third parties principally in connection with adaptation rights, and made prepayment for the counterparties' profit sharing portion pursuant to the profit sharing arrangement under these contracts. Some of the games subsequently developed were not able to produce satisfactory results at development or operation stage. Where there were express contractual terms allowing the Company to claim the balance of the prepayment, the Company made demands for refund and negotiated with the counterparties. However, some of the counterparties had difficulty in repaying the Company. As such, the relevant prepaid portion was considered unrecoverable.

Prepayments were also made to purchase advertisement package, and since the gaming business of the Group in the PRC was subject to repositioning plan, the Group did not fully utilise the quota of the advertisement package. The Group tried to recover the balance of the prepayment paid, without success.

Impairment on trade receivables

The principal part of the impairment recorded under this category relates to the closure of the Group's Taiwan office. The plan for closure together with the strategic repositioning plan was disclosed in the Profit Warning Announcements. The impairment amount was covered under the "Expected One-off Losses" as anticipated then and was disclosed in the Profit Warning Announcements.

The impaired trade receivables relate to business partners which were in financial difficulties. The Group had made verbal demands, issued letters of demand, instructed lawyers to issue demand letters and/or carried out legal proceedings to obtain court orders for payment, nevertheless, the Group was unable to collect the trade receivables and they were expected to be unrecoverable.

Due to the triggering events mentioned above, the Group made full impairment losses in 2016 equal to the then carrying amount of the relevant trade receivables.

SIGNIFICANT INVESTMENTS

The significant investments held by the Group as at 31 December 2016 primarily comprised the subscription of the convertible bonds issued by Yinker Inc. (the "**Investment**") which was completed on 27 September 2016.

As at 31 December 2016, the Investment performed according to the plan as envisaged by the Company at the time of the announcement of the Company in relation to the convertible bonds dated 3 August 2016. The performance of the Investment had given confidence to the Company to expand and increase its exposure into the fintech industry both financially and operationally.

The Investment was restructured such that the Company would acquire a 55% interest in Jlc Inc. (a subsidiary of Yinker Inc. then) (the "**Restructured Investment**") and the Restructured Investment was completed on 16 August 2017. Please refer to the announcement of the Company dated 25 June 2017 for details and the future prospect of the Restructured Investment.

The above additional information does not affect other information contained in the Annual Report and save as disclosed in this announcement, the contents of the Annual Report remain unchanged.

By order of the Board
Forgame Holdings Limited
WANG Dongfeng
Chairman

Hong Kong, 16 November 2017

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, Ms. POON Philana Wai Yin and Mr. ZHAO Cong Richard.