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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 2017

The board (the "**Board**") of directors (the "**Directors**") of Forgame Holdings Limited (the "**Company**" or "**Forgame**" or "**We**") announces the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017. 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		
	2017	2016	Change
	(RMB'000)	*(RMB'000)*	*%*
Revenue	**346,466**	361,564	-4.2%
Gross profit	**222,281**	72,549	206.4%
Profit/(loss) for the year	**68,648**	(396,492)	-117.3%
Non-IFRSs Measures			
– EBITDA[(1)] for the year	**105,319**	(364,158)	-128.9%
– Adjusted EBITDA[(2)] for the year	**58,561**	(207,813)	-128.2%

Notes:

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

(2) The Group defines adjusted EBITDA as EBITDA excluding share-based compensation, changes in the value of financial assets at fair value through profit or loss, gains on disposal of investment in an associate, gain on disposal of available-for-sale financial assets, impairment of investment in associates, 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.

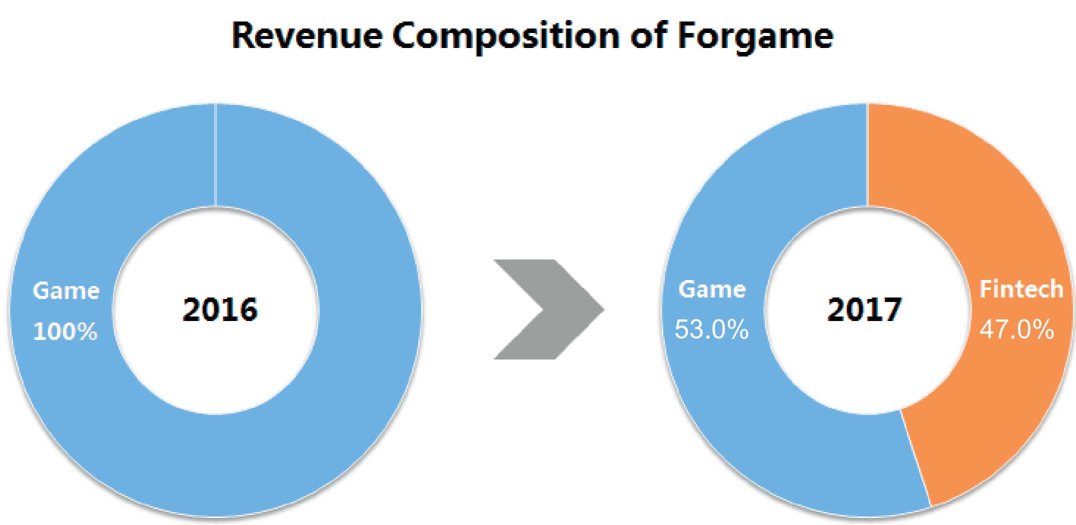
DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

OVERVIEW AND OUTLOOK

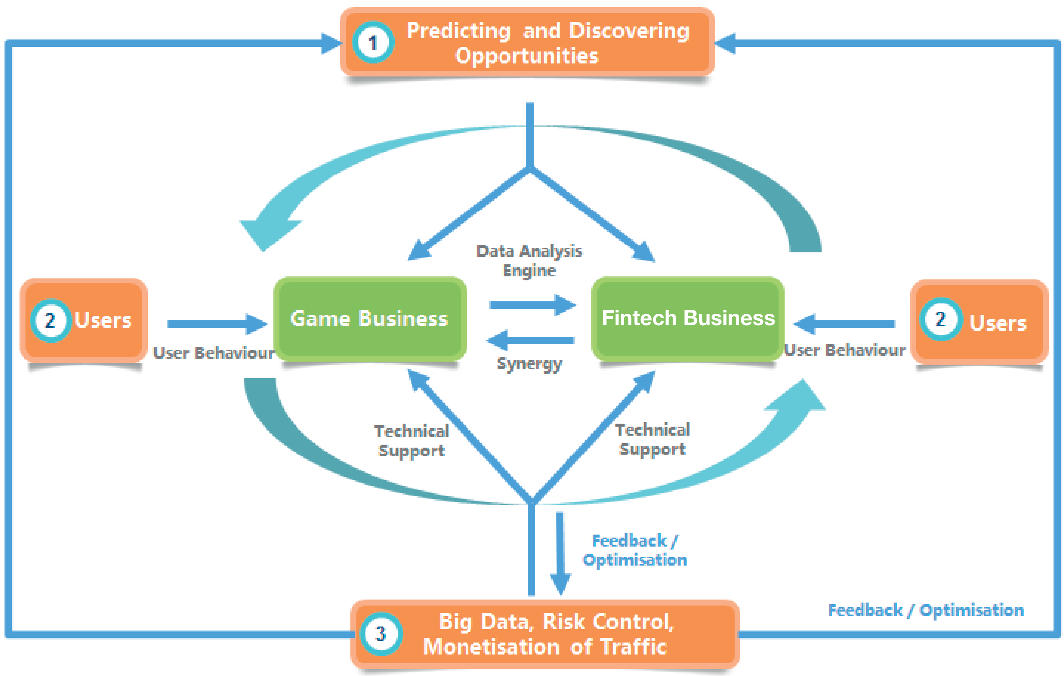
Overview

We are pleased to announce that Forgame regained profitability in 2017, and **generated EBITDA of RMB105.3 million, net profit of RMB68.6 million and basic earnings per share of RMB0.54**. The Group efficiently executed the strategic goals it set in 2016 by successfully developing and expanding its fintech business, and further optimising the allocation of its game development resources. Forgame's fintech business grew rapidly, and hit its strategic goal by contributing 47.0% of total revenue during the year. On behalf of Forgame's management team and employees, the chief executive officer of the Company would like to thank our Shareholders for their continued support throughout the past challenging years.



Since Forgame's establishment, we have been particularly adept at understanding the preferences of China's internet users, including successfully predicting the growing popularity of web and mobile games as well as the advent of fintech years after. Forgame has never been absent from growing trends on the internet. Following a few years in which we were developing our capabilities, we have once again leveraged our **core competencies in big data analytics** and successfully applied them to the game and fintech markets over the past years.

Core Competencies of Forgame



Throughout its development history, Forgame has demonstrated its solid capabilities in (i) predicting emerging opportunities, (ii) rapidly building systematic infrastructure to take advantage of the opportunities and attract large user bases, and (iii) analysing big data and user behaviour and rapidly applying our deep business experience towards optimising and adjusting our development strategies in support of our long-term and sustainable business development.

As we continue to build our business out to scale, we will obtain more high-quality user data, refine and optimise our big data analysis capabilities, and form a closed-loop virtuous cycle. Our strong big data analysis capabilities directly support our ability to predict and discover emerging opportunities. This forms an ecosystem with self-growing circulation.

Game Business

With respect to the established game business, the production team behind "Liberators", the Group's first overseas blockbuster, analysed the large amount of data collected from overseas players to optimise promotion strategy, improve player retention, and design more appealing game features. In 2017, "Liberators" generated annual revenue of RMB78.7 million, and had a total of 6,477,876 (as of 31 December 2017) registered players. The production team expects to introduce new games to European and US markets in 2018. The management expects these new games will replicate the success we had with "Liberators" and strengthen Forgame's presence in the overseas markets.

Fintech Business

As we laid out in our 2017 interim report, operations for our internet micro-credit platform began in January 2017 after obtaining an internet micro-credit business licence in December 2016. With a full year of fintech operational experience behind us, we have accumulated a large amount of user data and leveraged our big data analysis capabilities to build solid risk control systems of internet micro-credit. We facilitated 4,589,476 loans in 2017 to 1,428,941 borrowers. As the regulatory environment for fintech in China tightens, we are confident that our internet micro-credit business, which is compliant, licensed, and equipped with big user data and technological capabilities, will see a healthier and more sustainable growth.

After Forgame acquired a 55% equity interest in the premium online wealth management business Jianlicai from Yinker Inc. (“**Yinker**”) on 16 August 2017, we leveraged our deep experience in the game sector and big data analysis to comprehensively enhance its operations. As part of this effort, we developed four artificial intelligence systems which included a business intelligence system (“Tianji (天璣)”), a big data risk control system (“Kaiyang (開陽)”), an intelligent asset matching system (“Tianshu (天樞)”) and a payment routing system (“Yuheng (玉衡)”). Out of these four systems, the intelligent asset matching technology and the interest calculation method are undergoing patents application. With the incorporation of these four systems, Jianlicai has attracted the market’s attention and has been recognised with many awards such as the “2017 most influential wealth management brand” by professional financial media. As of 27 March 2018, Jianlicai had more than 8.8 million registered users and cumulative transaction volume of RMB 96.7 billion since its inception.

Outlook

Throughout the history of business, all truly great enterprises are ones that remain committed to the creation of social value. **The greatest commercial value comes from the realisation of social value.** Forgame aspires to become a great enterprise that brings the enjoyment of games and the convenience of inclusive finance to the general public. Let happiness be at your fingertips, let financial inclusion be everywhere (讓快樂觸手可及,讓金融隨手可得). This is Forgame’s commitment to the society along with its mission to promote cutting-edge technologies.

We carefully reviewed our significant improvements on our operational and financial performances in 2017. As we head into 2018, we will continue to optimise the allocation of our game development resources, and increase investment into our fintech business, especially with regards to developing core technological capabilities such as big data and artificial intelligence. We believe that the improvement of our performances in 2017 was not accidental but was an inevitable result of the continuous development of our own capabilities over the past few years. At the same time, we must also remind investors that our fintech business is in an emerging industry in China with many uncertainties. More information on this is highlighted in the "Management Discussion and Analysis – Diversification Plan: Risks and Hurdles" of this announcement. Forgame expects to maintain its solid growth momentum into 2018 as it creates sustainable long-term value for its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the year of 2017, the Group recorded a positive EBITDA of approximately RMB105.3 million thanks to the expansion of the Group's principal business into fintech, effective cost control measures and investment gains. This is a milestone in the Group's history as it marks the turnaround of the Group's financial performance and proves the effectiveness of the Group's strategy.

As at 31 December 2017, the Group's principal business has expanded to fintech. We have started internet micro-credit business since January 2017. This business is primarily dedicated to providing individuals and consumers who were not served by traditional financial institutions in the People's Republic of China ("**China**" or the "**PRC**") with practical and flexible short-term financing solutions. The Group's internet micro-credit business generates substantially all of its income through interests accrued on the loans extended to its customers. We provide two types of loans, namely, guaranteed loans and collateralised loans to our customers. We had served 1,428,941 cumulative borrowers as at 31 December 2017, and originated RMB7.5 billion of loans during the year 2017.

In the Group's fintech ecosystem, we also provide online wealth management service to individual investors through the operations of websites and mobile phone applications. This business generates substantially all of its income through service fees, which is calculated as a percentage of the amount of assets matched on the platform. It provides technology driven and customer oriented asset matching strategy to its investors. It had over 8.8 million registered users and grown its cumulative transaction volume to over RMB96.7 billion as at 27 March 2018.

The Group's game business continues to focus on the execution of the overseas market strategy. In the year of 2017, "Liberators" has generated a total revenue of over RMB78.7 million, representing a 185% growth from the revenue generated in 2016. Besides, the Group has launched a casual mobile game, "Clothes Forever", allowing players to mix and match various outfits to redefine the concept of fashion in a virtual world, and an exciting mobile SLG (simulation game) "Battle Space". These two new mobile games are developed and operated by the team of "Liberators" and target at international markets as "Liberators" did.

On 13 November 2017, the Group announced a positive profit alert, expecting a net profit ranging from approximately RMB56.0 million to RMB76.0 million for the six months ending 31 December 2017. As it turned out, the Group's net profit for the six months ended 31 December 2017 reached RMB86.4 million, which outperformed the expected upper end of the range by RMB10.4 million. This outperformance is mainly due to the gains from an additional investment disposal and fintech business performance beating expectation in December 2017.

Game Business

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

	Year Ended 31 December	
	2017	2016
Game		
Average MPUs (in thousands)(1) (2) (3)	**75**	795
Monthly ARPPU (RMB)(3)	**203**	38

Notes:

(1) The 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.

(3) The numbers differ from those shown in 2016 annual report of the Company because the MPUs in 2016 annual report of the Company did not eliminate the duplication in paying users of self-developed games published on the Group's own platforms.

– **MPU.** The average monthly paying users ("**MPUs**") for the game segment decreased to approximately 75 thousand in 2017 from approximately 795 thousand in 2016. This decrease was primarily due to several key games, such as "Boonie Bears (熊出沒)" series, "Storm World (風暴大陸)", "Sword Immortal (劍仙緣)", "Soul Guardian: Mobile (凡人修真手遊)" and "True King (真王)", having entered into the mature stage of their lifecycles resulting in fewer paying users in these games.

– **ARPPU.** Monthly average revenue per paying user ("**ARPPU**") level of game segment increased to approximately RMB203 for the year 2017 as compared with RMB38 for the year ended 2016. This increase was primarily attributable to the mix effect of game portfolio. Specifically, "Liberators", which enjoyed a higher ARPPU level, had increased its weight in terms of revenue and MPU in the Group's game product portfolio as a whole, while "Boonie Bears (熊出沒)" series games, which enjoyed a lower ARPPU level had decreased their weight in terms of revenue and MPU in the Group's game portfolio.

Fintech Business

The fintech business of the Group consists of internet micro-credit business and online wealth management business.

The following tables set forth certain operating statistics relating to the Group's internet micro-credit business:

	Year Ended 31 December 2017
Average balance of outstanding performing loans (RMB in million) [(1)]	256
Average size of our loans (in RMB) [(2)]	1,641

	As at 31 December 2017
Cumulative number of borrowers[(3)]	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 in 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 period indicated or as at the date indicated relating to the Group's online wealth management business:

	Year Ended 31 December 2017
Average investing users acquisition cost (in RMB) (1)	**164**
Average size of investments (in RMB) (2)	**12,705**

	As at December 31 2017
Cumulative amount of investments (RMB in million) (3)	**80,419**
Registered users	**8,049,755**

Notes:

(1) Calculated as the average acquisition cost per investing user of online wealth management business for the period.

(2) The total investment amount from investing users of online wealth management business divided by the total number of investments for the period.

(3) Cumulative amount of investment from investors of "Jianlicai" brand in online wealth management business since its inception in May 2015.

The Group provides online wealth management services through the operations of websites and mobile phone applications. By providing efficient and technology driven asset matching services backed up with safe assets to investors, the Group charges service fees from the asset providers. The average annualised return on investment for investing users of our online wealth management business is generally in the range of 5-7%.

User profile of our online wealth management business - The investing individuals of our wealth management business are mainly adults of the age ranging from 25 to 35, and the number of male users and the number of female users are generally even. A majority of our users are white collars and married with kid(s). Users from tier one or tier two cities in the PRC comprise a majority of our users.

The following table sets forth the Group's income statement for the year ended 31 December 2017 as compared to the year ended 31 December 2016:

	Year Ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	%
Revenue	**346,466**	361,564	-4.2%
Cost of revenue	**(124,185)**	(289,015)	-57.0%
Gross profit	**222,281**	72,549	206.4%
Selling and marketing expenses	**(77,274)**	(88,820)	-13.0%
Administrative expenses	**(99,439)**	(121,983)	-18.5%
Research and development expenses	**(49,425)**	(96,476)	-48.8%
Other income	**7,701**	11,787	-34.7%
Other losses	**(9,394)**	(14,246)	-34.1%
Finance income-net	**5,384**	8,701	-38.1%
Gain on dilution of investments accounted for using the equity method	**—**	3,907	-100.0%
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	**10,850**	2,047	430.0%
Impairment of investment in associates	**—**	(22,219)	-100.0%
Impairment of available-for-sale financial assets	**(6,540)**	(108,063)	-93.9%
Impairment loss on intangible assets and property and equipment	**(5,077)**	(30,198)	-83.2%
Profit/(loss) before income tax	**73,143**	(383,014)	-119.1%
Income tax expense	**(4,495)**	(13,478)	-66.6%
Profit/(loss) for the year	**68,648**	(396,492)	-117.3%

Note: NM means not meaningful.

Revenue. Revenue decreased by approximately 4.2% to RMB346.5 million for the year ended 31 December 2017 from RMB361.6 million for the year ended 31 December 2016. The following table sets forth the revenue of the Group by segment for the years ended 31 December 2017 and 2016:

	Year Ended 31 December			
	2017		2016	
	(RMB'000)	***(% of Total Revenue)***	*(RMB'000)*	*(% of Total Revenue)*
Revenue by Segment				
– Game Business	**183,447**	**53.0**	361,564	100.0
– Fintech Business	**163,019**	**47.0**	—	—
Total Revenue	**346,466**	**100.0**	361,564	100.0

– Revenue generated from the Group's game segment decreased by approximately 49.3% to RMB183.4 million for the year ended 31 December 2017 from RMB361.6 million for the year ended 31 December 2016. This decrease was primarily due to the fact that some of the Group's key games have entered into the mature stage of their lifecycles and generated less revenue than the previous year, which was partially offset by the increase in revenue generated from the Group's overseas webgame "Liberators".

– Revenue generated from the Group's fintech segment was approximately RMB163.0 million for the year ended 31 December 2017 (2016: Nil). This revenue was generated from the Group's fintech business including internet micro-credit business and online wealth management business.

Adjusted EBITDA. Adjusted EBITDA increased to RMB58.6 million for the year ended 31 December 2017 from negative adjusted EBITDA of RMB207.8 million for the year ended 31 December 2016. The following table sets forth the adjusted EBITDA of the Group by segment for the years ended 31 December 2017 and 2016:

	Year Ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	*%*
Adjusted EBITDA by Segment			
Game Business	**15,840**	(213,767)	-107.4%
Fintech Business	**31,871**	—	NM

Note: The difference between the sum of adjusted EBITDA of the game and fintech segments 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 segment increased to RMB15.8 million for the year ended 31 December 2017 from negative adjusted EBITDA of RMB213.8 million for the year ended 31 December 2016. This increase was mainly due to (i) optimised game portfolio resulting in higher contribution from games with higher gross profit, and (ii) effective cost management in selling and marketing expenses, administrative expenses and research and development expenses in 2017.

– Adjusted EBITDA in respect of the Group's fintech segment was RMB31.9 million for the year ended 31 December 2017 (2016: Nil). This adjusted EBITDA was generated from the Group's fintech business including internet micro-credit business and online wealth management business.

Cost of revenue. Cost of revenue decreased by approximately 57.0% to RMB124.2 million for the year ended 31 December 2017 from RMB289.0 million for the year ended 31 December 2016. This decrease was mainly attributable to lower content costs and revenue sharing costs of self-developed mobile games and outsourcing expenses of mature games in line with the revenue decrease of such games. The decrease in cost of revenue was partially offset by the incremental cost of revenue, mainly payment service fees, of the fintech business. For the year ended 31 December 2017, the percentage of cost of revenue to total revenue decreased to 35.8% (2016: 79.9%).

Selling and marketing expenses. Selling and marketing expenses decreased by approximately 13.0% to RMB77.3 million for the year ended 31 December 2017 from RMB88.8 million for the year ended 31 December 2016. This decrease was mainly attributable to the decrease in the promotion and advertising expenses of the Group's key game "Liberators", which was partially offset by the incremental selling and marketing expenses incurred by fintech business.

Administrative expenses. Administrative expenses decreased by approximately 18.5% to RMB99.4 million for the year ended 31 December 2017 from RMB122.0 million for the year ended 31 December 2016. This decrease was mainly due to the fact that there were one-off losses relating to the write-down of prepayments and receivables of certain PRC hard-core games in 2016, while there was no such losses in 2017. This decrease was partially offset by professional service fees in relation to the acquisition of a 55% equity interest in Jlc Inc..

Research and development ("R&D") expenses. R&D expenses decreased by approximately 48.8% to RMB49.4 million for the year ended 31 December 2017 from

RMB96.5 million for the year ended 31 December 2016. This decrease was primarily due to the ongoing effort of the Group to optimise its R&D capability, as well as the reduction in the R&D expenses of the Group's game business, which was partially offset by the incremental R&D expenses of the fintech business.

Other income. Other income decreased by approximately 34.7% to RMB7.7 million for the year ended 31 December 2017 from RMB11.8 million for the year ended 31 December 2016. This decrease was mainly due to a lower interest income resulting from a lower average balance of cash and cash equivalents in 2017 compared to the previous year.

Other losses. Other losses decreased by approximately 34.1% to RMB9.4 million for the year ended 31 December 2017 from RMB14.2 million for the year ended 31 December 2016. The other losses in 2017 included (i) a RMB5.9 million fair value loss as a result of the change in the value of financial assets at fair value through profit or loss, (ii) a RMB1.2 million loss related to the disposal of property and equipment, and (iii) a RMB2.3 million exchange loss.

Finance income-net. Finance income-net primarily consists of the interest income from short-term bank deposits. The finance income-net of the Group decreased by approximately 38.1% to RMB5.4 million for the year ended 31 December 2017 from RMB8.7 million for the year ended 31 December 2016. This decrease was mainly due to a lower average balance of short-term bank deposits of the Group in 2017 compared to the previous year.

Gain on disposal of investment in an associate. Gain on disposal of investment in an associate for the year ended 31 December 2017 was RMB62.6 million (2016: Nil). The gain was attributable to the disposal of a 20% equity interest in Beijing Hongruan Xiechuang Communication and Technology Co., Ltd.* (北京虹軟協創通訊技術有限公司)("**Beijing Hongruan**"), a then associated company of the Group, in 2017. For details of the disposal, please refer to the Company's announcements dated 24 May 2017 and 20 November 2017 and the section headed "Management Discussion and Analysis – Material Acquisition and Disposal – Disposal of a 20% equity interest in Beijing Hongruan" in this announcement.

Gain on disposal of available-for-sale financial assets. Gain on disposal of available-for-sale financial assets for the year ended 31 December 2017 was RMB11.5 million (2016: Nil). The gain was mainly attributable to the disposal of a 10% equity interest in one of the Group's investee companies in 2017.

Share of income of investments accounted for using the equity method. Share of income of investments accounted for using the equity method for the year ended 31 December 2017 was RMB10.9 million, as compared to an income of RMB2.0 million for the year ended 31 December 2016. This gain reflected the improved financial and operational performance of the Group's investee companies. Some of the Group's investee companies had recorded higher profit before tax compared to the previous year.

Impairment of available-for-sale financial assets. Impairment of available-for-sale financial assets for the year ended 31 December 2017 was RMB6.5 million, which represented the provision for impairment loss in respect of some of our angel investments after reviewing the Group's investment portfolio. The reviews involved performing assessment on product-potential analysis of their key products.

Impairment loss on intangible assets and property and equipment. Impairment loss on intangible assets and property and equipment was RMB5.1 million for the year ended 31 December 2017 compared to RMB30.2 million for the year ended 31 December 2016. The impairment loss in 2017 was mainly the intangible assets impairment of the Group's game business, whereas the impairment loss in 2016 was primarily caused by the expected write-down of PRC hard-core game intellectual property licence fees resulting from a strategic repositioning plan.

Income tax expense. Income tax expense decreased by approximately 66.6% to RMB4.5 million for the year ended 31 December 2017 from RMB13.5 million for the year ended 31 December 2016. The income tax expense consisted of the income tax expense incurred by the disposal of a 20% equity interest in Beijing Hongruan, a then associated company of the Group, and the income tax expense related to the Group's fintech business. In comparison, the higher income tax expense in 2016 primarily reflected the write-offs of certain deferred tax assets previously recognised which the Board considered unlikely to be utilised in the future.

Profit/(loss) for the year. As a result of the foregoing, the profit for the year ended 31 December 2017 was RMB68.6 million, as compared to a loss of RMB396.5 million for the year ended 31 December 2016. The improved profitability for the year was primarily due to increase in revenue and gross profit margin relating to our fintech business, improvement of efficiency in selling and marketing, administrative and R&D expenses and certain investment gains resulted from the disposal of equity interest in Beijing Hongruan. The Group will continue to manage the operating costs and expenses at a reasonable level and optimise the Group's profitability.

NON-IFRSs MEASURES-EBITDA AND ADJUSTED EBITDA

To supplement the consolidated results of the Group which are prepared in accordance with IFRSs, certain non-IFRS measures, including EBITDA and adjusted EBITDA, have been presented. These unaudited non-IFRS 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-IFRS financial measures for the years ended 31 December 2017 and 2016, to the nearest measures prepared in accordance with IFRSs:

	Year Ended 31 December	
	2017	2016
	(RMB'000)	*(RMB'000)*
Profit/(loss) for the year	**68,648**	(396,492)
Add:		
Depreciation and amortisation	**40,473**	34,556
Net interest income	**(8,297)**	(15,700)
Income tax expense	**4,495**	13,478
EBITDA (unaudited)	**105,319**	(364,158)
Add:		
Share-based compensation	**14,889**	16,272
Changes in the value of financial assets at fair value through profit or loss	**5,889**	9,791
Gain on disposal of investment in an associate	**(62,576)**	—
Gain on disposal of available-for-sale financial assets	**(11,500)**	—
Impairment of investment in associates	**—**	22,219
Impairment of available-for-sale financial assets	**6,540**	108,063
Adjusted EBITDA (unaudited)	**58,561**	(207,813)

FINANCIAL POSITION

As at 31 December 2017, the total equity of the Group amounted to RMB1,181.4 million, compared to RMB1,058.1 million as at 31 December 2016. This increase was mainly due to the decrease in accumulated losses as discussed in the paragraphs headed "Profit/(loss) for the year".

The Group's net current assets amounted to RMB796.9 million as at 31 December 2017, compared to RMB665.1 million as at 31 December 2016. This increase was primarily due to (i) increase in working capital of the Group's fintech business and (ii) the proceeds and increase in receivables in relation to the consideration for the disposal of a 20% equity interest in Beijing Hongruan.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cash at bank and on hand	**588,299**	264,123
Cash at other financial institutions	**66,616**	3,863
Short-term deposits	**34,650**	448,997
Total	**689,565**	716,983

The total cash, cash equivalent and short-term deposits of the Group amounted to RMB689.6 million as at 31 December 2017, compared to RMB717.0 million as at 31 December 2016. This balance remained relatively stable as the Group reinvested its financial resources into the operations of fintech segment in order to grow its fintech business.

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 2017, the Group's gearing ratio (calculated by bank borrowing divided by total assets) was 0% (as at 31 December 2016: 0%), which means the Group did not have any bank borrowing balance as at 31 December 2017. The borrowing requirements of the Group are not subject to seasonality.

MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed below, during the year ended 31 December 2017, the Group did not perform any material acquisition or disposal of subsidiaries and associated companies.

Acquisition of a 55% equity interest in Jlc Inc.

On 25 June 2017, the Company announced the acquisition of a 55% equity interest of Jlc Inc. (the "**Acquisition**") from Yinker in consideration of the cancellation of the convertible bonds issued by Yinker to the Group in the principal amount of RMB300.0 million (approximately USD45.2 million) (the "**Convertible Bonds**").

The Company restructured the Convertible Bonds transaction in such a way so that the Company could (i) gain operational and financial control over certain subsidiaries of Yinker in order to further and directly expand into the internet finance industry, (ii) consolidate such subsidiaries' financial results into the Group, and (iii) create synergies with the Group's existing internet finance business. The aforementioned benefits would not have as meaningful an impact should the Company have converted the Convertible Bonds into minority shares of Yinker.

Following the completion of the Acquisition on 16 August 2017, Jlc Inc. and its subsidiaries including its operational entities in the PRC, which by virtue of a series of contractual arrangements, have been accounted for as subsidiaries of Jlc Inc., became subsidiaries of the Company and their financial results have been consolidated in the Company's financial statements.

The details of the contractual arrangements are set out in the Company's announcement dated 25 June 2017 and will be set out in the annual report of the Company for the year ended 31 December 2017. For details of the transactions, please refer to the announcements of the Company dated (i) 3 August 2016 and 27 September 2016 in respect of, among other things, the Company's subscription of the Convertible Bonds issued by Yinker to the Group pursuant to an investment agreement dated 3 August 2016, and (ii) 28 April 2017, 25 June 2017, 16 August 2017, 1 September 2017 and 16 November 2017 in respect of, among other things, the restructuring of the Convertible Bonds transaction and the Acquisition pursuant to a supplemental agreement dated 25 June 2017 (the "**Supplemental Agreement**").

As Jlc Inc. has became a subsidiary of the Company since the completion of the Aquisition on 16 August 2017, its performance in 2017 has been fully discussed in various parts in the section headed "Management Discussion and Analysis – Business Review" of this announcement.

Disposal of a 20% equity interest in Beijing Hongruan

On 24 May 2017, the Company announced the disposal of its 20% equity interest in Beijing Hongruan. Following the completion of this disposal on 15 November 2017, the Company has ceased to hold any interest in Beijing Hongruan, and Beijing Hongruan has ceased to be an associated company of the Company and its financial results are no longer equity accounted for in the consolidated financial statements of the Group.

Please refer to the announcements of the Company dated 24 May 2017 and 20 November 2017 for further details of this disposal.

PROFIT GUARANTEE IN RESPECT OF THE ACQUISITION OF A 55% EQUITY INTEREST IN JLC INC.

Pursuant to the Supplemental Agreement in respect of the Acquisition, the investment payment made by the Company was subject to a profit guarantee (the "**Profit Guarantee**") linked to the audited net income (after adjustment) (the "**Adjusted Net Income**") of Jlc Inc. and its subsidiaries (the "**Target Group**") for the year ended 31 December 2017.

Based on the audited financial results of the Target Group for the year ended 31 December 2017, the Target Group's Adjusted Net Income has exceeded RMB60.0 million and therefore the Profit Guarantee of not less than RMB60.0 million has been fulfilled. For details of the Profit Guarantee, please refer to the section headed "The Restructuring of the Investment Agreement - Profit Guarantee Payment" in the announcement of the Company dated 25 June 2017.

FOREIGN EXCHANGE RISK

As at 31 December 2017, RMB59.4 million of the financial resources of the Group (2016: RMB345.7 million) were held in deposits denominated in non-RMB currencies. The decrease in the deposits denominated in non-RMB currencies was due to the conversion of a significant amount of the Group's bank deposits from USD into RMB to support the Group's fintech business. 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	
	2017	2016
	(RMB'000)	*(RMB'000)*
Capital expenditures		
– Purchase of property and equipment	**5,807**	971
– Purchase of intangible asset	**189**	9,909
Total	**5,996**	10,880

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 2017, the Group had a pledge of assets of RMB0.8 million (as at 31 December 2016: RMB0.8 million) as restricted cash for corporate credit card deposits.

Contingent Liabilities

As at 31 December 2017, the Group did not have any significant unrecorded contingent liabilities.

Human Resources

As at 31 December 2017, the Group had 422 full-time employees, the vast majority of whom were based in Guangzhou and Beijing. As the Group expanding its business scope to fintech business, the management has actively made headcount adjustments while monitoring human resources costs. As a result, the Group had a net increase of 23 employees in 2017. The following table sets forth the number of employees by function as at 31 December 2017:

	Number of Employees	**% of Total**
Research and Development	167	40%
Operation	31	7%
Sales and Marketing	85	20%
General and Administration	139	33%
Total	422	100%

Details of the Group's remuneration policies, 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 2017.

POST BALANCE SHEET EVENT

There was no material subsequent event during the period from 31 December 2017 to the approval date of the financial statements of the Company for the year ended 31 December 2017 by the Board of Directors on 27 March 2018.

DIVERSIFICATION PLAN: RISKS AND HURDLES

As Forgame continues its expansion into fintech business, there are certain risks that could adversely affect the Company's operations and financials due to fintech market's immaturity. The major hurdles include (i) new policies or any amendment to current policies in relation to fintech regulation, (ii) main strategic business partners not able to provide sustainable services, (iii) collapse of real estate market or other markets causing our collaterals not able to cover our loan exposures, (iv) new fintech products not recognised by market, (v) departure of key employees, and (vi) increasing competition causing decrease of profit margin because of cost of user acquisition increases or other reasons.

Meanwhile, in our established game business, the major hurdles include (i) delays of game launches, (ii) games developed not able to meet market expectation at 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 revenue.

In addition, the Group is exposed to risks such as fluctuation of foreign exchange, impairment charge due to invested companies' underperformance or becoming insolvent, and other unexpected one-off restructuring costs, all of which will negatively impact the Group's net profit.

Since 2014, the Group have made investments in a number of mobile game studios and incubators in China with a remaining value of approximately RMB27.4 million post investment impairment and losses in 2017, out of which approximately RMB12.1 million were classified as "investments in associates".

In 2017, although some of the investments performed better compared to previous years, it is difficult to judge whether these investments could survive the market with increasing competition. Therefore, potential impairments or write-offs may occur.

FUTURE PLANS

In the future, the Group will continue to seek game segment's overseas expansion. The business model of "Liberators" has proven successful, and the Group has developed a sustainable overseas publishing capability based on the considerable player data accumulated. Such capability is expected to be replicable in future games.

On the other hand, the performance of our fintech segment has given confidence to the Group to diversify its business and increase its exposure into broader technology opportunities, such as data analytics and artificial intelligence technology that can enhance the Group's core advantages.

The Group plans to evaluate investment opportunities across various parts of the internet, media, and technology industry with the aim of building an ecosystem that would create synergy to drive growth and profitability.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

		Year Ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	2	**346,466**	361,564
Cost of revenue	3	**(124,185)**	(289,015)
Gross profit		**222,281**	72,549
Selling and marketing expenses	3	**(77,274)**	(88,820)
Administrative expenses	3	**(99,439)**	(121,983)
Research and development expenses	3	**(49,425)**	(96,476)
Other income		**7,701**	11,787
Other losses		**(9,394)**	(14,246)
Finance income - net		**5,384**	8,701
Gain on dilution of investments accounted for using the equity method		**—**	3,907
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		**10,850**	2,047
Impairment of investment in associates		**—**	(22,219)
Impairment of available-for-sale financial assets		**(6,540)**	(108,063)
Impairment loss on intangible assets and property and equipment		**(5,077)**	(30,198)
Profit/(loss) before income tax		**73,143**	(383,014)
Income tax expense	4	**(4,495)**	(13,478)
Profit/(loss) for the year		**68,648**	(396,492)

		Year Ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss:			
– Change in value of available-for-sale financial assets		**(298)**	(5,202)
Items that will not be subsequently reclassified to profit or loss:			
– Currency translation differences		**(19,632)**	35,783
Total other comprehensive (loss)/income, before tax		**(19,930)**	30,581
Income tax relating to components of other comprehensive (loss)/income		**45**	780
Other comprehensive (loss)/income for the year, net of tax		**(19,885)**	31,361
Total comprehensive income/(loss) for the year		**48,763**	(365,131)
Profit/(loss) attributable to:			
– Owners of the Company		**74,035**	(395,174)
– Non-controlling interests		**(5,387)**	(1,318)
		68,648	(396,492)

	Note	Year Ended 31 December **2017** ***RMB'000***	 2016 *RMB'000*
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		**54,150**	(363,813)
– Non-controlling interests		**(5,387)**	(1,318)
		48,763	(365,131)
Earning/(loss) per share (expressed in RMB per share)			
– Basic	5	**0.54**	(2.89)
– Diluted	5	**0.53**	(2.89)

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**8,565**	8,217
Intangible assets		**376,596**	17,381
Investments accounted for using the equity method		**12,057**	23,582
Financial assets at fair value through profit or loss		**—**	319,922
Available-for-sale financial assets		**15,312**	23,150
Prepayments and other receivables		**3,876**	1,183
Deferred income tax assets		**524**	—
		416,930	393,435
Current assets			
Trade receivables	7	**40,249**	40,480
Loan receivables		**231,742**	—
Prepayments and other receivables		**144,145**	10,112
Restricted cash		**751**	807
Short-term deposits		**34,650**	448,997
Cash and cash equivalents		**654,915**	267,986
		1,106,452	768,382
Total assets		**1,523,382**	1,161,817

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**87**	87
Shares held for Restricted Share Units Scheme		**(9,584)**	—
Share premium		**2,074,087**	2,073,900
Reserves		**(74,402)**	(65,296)
Accumulated losses		**(881,487)**	(949,535)
		1,108,701	1,059,156
Non-controlling interests		**72,716**	(1,046)
Total equity		**1,181,417**	1,058,110
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**32,177**	64
Deferred revenue		**270**	410
		32,447	474
Current liabilities			
Trade payables	8	**34,169**	26,652
Other payables and accruals		**252,854**	64,107
Income tax liabilities		**15,469**	1,620
Deferred revenue		**7,026**	10,854
		309,518	103,233
Total liabilities		**341,965**	103,707
Total equity and liabilities		**1,523,382**	1,161,817

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General Information and Basis of Preparation

(a) 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 online wealth management service and internet micro-credit 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 subsequently commenced the operation of the Group's Fintech Business in the PRC.

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

(b) 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 available-for-sale financial assets, and financial assets at fair value through profit or loss, 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.

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 2017:

– Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IFRS 12,

– Disclosure initiative – amendments to IFRS 7, and

– Annual Improvements to IFRS Standards 2014-2016 Cycle.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning January 1, 2017. They are relevant to the operations of the Group but have not been early adopted.

		Effective for annual periods beginning on after
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Leases	January 1, 2019

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.

2 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 segment, has been identified as the executive directors of the Company that make strategic decisions. In December 2016, the Group obtained a license to carry out internet micro-credit business from the government and subsequently commenced the operation of the Group's Fintech Business in the PRC. During the year of 2017, the Fintech Business has been expanding and the management has concluded that this segment should be separately reported and the comparatives have been restated. As a result, the Group has identified the following operating segments from service perspective:

– 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 financial assets at fair value through profit or loss, gain on disposal of investment in an associate, gain on disposal of available-for-sale assets, non-recurring event such as impairment of investment in associates 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 2017 and 2016 is as follows:

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
Game Business	**183,447**	361,564
Fintech Business	**163,019**	—
Total	**346,466**	361,564
Adjusted EBITDA		
Game Business	**15,840**	(213,767)
Fintech Business	**31,871**	—
Share of income of investments accounted for using the equity method	**10,850**	2,047
Gain on dilution of investments accounted for using the equity method	**—**	3,907
Total adjusted EBITDA	**58,561**	(207,813)
Adjusted EBITDA reconciles to profit/(loss) before income tax as follows:		
Total adjusted EBITDA	**58,561**	(207,813)
Share-based compensation	**(14,889)**	(16,272)
Changes in the value of financial assets at fair value through profit or loss	**(5,889)**	(9,791)
Impairment of investment in associates	**—**	(22,219)
Impairment of available-for-sale financial assets	**(6,540)**	(108,063)
Gain on disposal of investment in an associate	**62,576**	—
Gain on disposal of available-for-sale financial assets	**11,500**	—
Depreciation and amortisation	**(40,473)**	(34,556)
Net interest income	**8,297**	15,700
Profit/(loss) before income tax	**73,143**	(383,014)

(i) 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 2017 and 2016 is as follows:

	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**

	Year Ended 31 December 2016		
	PRC (Excluding Hong Kong)	Other Regions	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	314,451	47,113	361,564

A breakdown of revenue derived from different forms for years ended 31 December 2017 and 2016 is as follows:

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
– Game Business	**183,447**	361,564
– Online wealth management service	**109,526**	—
– Interest income	**53,493**	—
	346,466	361,564

Revenues of approximately RMB97,066,000 (2016: Nil) are derived from a single external customer. These revenues are attributed to the Fintech Business segment.

As at 31 December 2017 and 2016, majority of the non-current assets of the Group were located in the PRC.

3 Expenses by Nature

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Employee benefit expenses	**120,697**	138,975
Content cost, distribution cost and other outsourcing expenses	**70,617**	252,846
Promotion and advertising expenses	**41,331**	78,353
Amortisation of intangible assets	**36,397**	22,787
Payment handling fees	**17,679**	—
Professional fees	**14,027**	7,966
Bandwidth and server custody fees	**11,138**	13,596
Operating lease rentals in respect of office buildings	**7,747**	10,812
Travelling and entertainment expenses	**7,447**	7,938
Auditor's remuneration		
– Audit services	**5,000**	4,500
– Non-audit services	**3,668**	1,004
Depreciation of property and equipment	**4,076**	11,769
Impairment loss on loan receivables	**3,510**	—
Impairment loss on trade receivables	**1,217**	15,699
Impairment loss on prepayments and other receivables	**170**	19,815
Legal claim	**500**	2,000
Others	**5,102**	8,234
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**350,323**	596,294

4 Income Tax Expense

The income tax expense of the Group for the years ended 31 December 2017 and 2016 are analysed as follows:

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax:		
– PRC and oversea enterprise income tax	**10,029**	792
Deferred income tax:		
– Decrease in deferred tax assets	**608**	12,686
– Decrease in deferred tax liabilities	**(6,142)**	—
Income tax expense	**4,495**	13,478

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

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) before income tax	**73,143**	(383,014)
Tax calculated at statutory income tax rates applicable to profits/(losses) of the consolidated entities in their respective jurisdictions	**15,417**	(91,046)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	**(6,895)**	33,395
Reversal of previously recognised tax losses and timing differences	**—**	12,686
Utilization of previously unrecognised tax losses	**(16,025)**	—
Tax losses and timing differences for which no deferred income tax asset was recognised	**7,326**	49,736
Tax losses for which deferred income tax asset was recognised	**(524)**	—
Super deduction of research and development expenses	**(1,656)**	(1,737)
Expenses not deducted for income tax purposes:		
– Share-based compensation	**2,315**	2,317
– Others	**4,537**	8,127
Income tax expense	**4,495**	13,478

(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 2017 (2016: Nil).

(c) Taiwan business income tax

Forgame International Co., Ltd. ("Yunyou") is incorporated in Taiwan, and the business income tax rate is 17% for the year ended 31 December 2017 (2016: 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 2017 (2016: 25%), based on the existing legislation, interpretations and practices in respect thereof.

Guangzhou Weidong Internet Technology Co., Ltd. ("Weidong") and Guangzhou Feiyin Information Technology Co., Ltd. ("Feiyin") have renewed their qualification of "High and New Technology Enterprises" ("HNTEs") under the EIT Law in 2016. Accordingly, they were entitled to a preferential income tax rate of 15% for a 3-year period, and the applicable tax rate was 15% for the year ended 31 December 2017 (2016: 15%).

Guangzhou Feidong Software Technology Co., Ltd. ("Feidong") and Guangzhou Jieyou Software Co., Ltd. ("Jieyou") were qualified as HNTEs under the EIT Law in 2014 and their qualifications were expired in 2016. Feidong has renewed its qualification of HNTEs in 2017, thus the applicable tax rate of Feidong was 15% for the year ended 31 December 2017 (2016: 12.5%), while Jieyou was failed to sustain its qualification of HNTEs in 2017 and hence the applicable tax rate of Jieyou was 25% for the year ended 31 December 2017 (2016: 12.5%).

Beijing Jinweilai Financial Information Service Co., Ltd. ("Jinweilai") was also qualified as HNTE under EIT Law in 2017. Accordingly, it was entitled to a preferential income tax rate for a 3-year period, and the applicable tax was 15% for the year ended 31 December 2017.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that became effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has 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 2017 and 2016.

(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 2017, 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 2017.

5 Earning/(loss) per Share

(a) Basic

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

	Year Ended 31 December	
	2017	2016
Profit/(loss) attributable to owners of the Company (RMB'000)	**74,035**	(395,174)
Weighted average number of ordinary shares in issue	**137,507,309**	136,806,927
Basic earning/(loss) per share (in RMB/share)	**0.54**	(2.89)

(b) Diluted

For the year ended 31 December 2017, 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. Diluted earning/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted earning/(loss) per share). No adjustment is made to earnings (numerator).

	Year Ended 31 December	
	2017	2016
Profit/(loss) attributable to owners of the Company (RMB'000)	**74,035**	(395,174)
Weighted average number of ordinary shares in issue	**137,507,309**	136,806,927
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 earning/(loss) per share	**139,709,447**	136,806,927
Diluted earning/(loss) per share (in RMB/share)	**0.53**	(2.89)

6 Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

7 Trade Receivables

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Third parties	**54,979**	62,217
Related parties	**1,673**	1,919
	56,652	64,136
Less: provision for impairment	**(16,403)**	(23,656)
	40,249	40,480

As at 31 December 2017 and 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
0-30 days	**21,722**	11,055
31-60 days	**3,920**	7,052
61-90 days	**6,841**	5,623
91-180 days	**2,943**	12,030
181-365 days	**3,338**	11,262
Over 1 year	**17,888**	17,114
	56,652	64,136

(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 facilitate their assets with 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 date. As at 31 December 2017, trade receivables which had been past due but not impaired amounted to RMB12,137,000. These receivables were due from a number of game platforms and assets providers which were assessed by the Group to have no significant financial difficulties and they could be recovered based on past trading and repayment history. Generally the maximum age of majority of this category of trade receivables is less than one year.

8 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	
	2017	2016
	RMB'000	*RMB'000*
0-30 days	**9,393**	7,183
31-60 days	**5,588**	3,238
61-90 days	**3,659**	3,199
91-180 days	**5,746**	9,188
181-365 days	**5,210**	1,712
Over 1 years	**4,573**	2,132
	34,169	26,652

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 23 May 2017, 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 23 May 2017) 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.

During the year ended 31 December 2017, neither the Company nor any member company of the Group 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 Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the annual general meeting of the Company to be held on Friday, 25 May 2018. 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 Friday, 18 May 2018.

Use of Proceeds from Initial Public Offering

The Company's Shares were listed on The Stock Exchange of Hong Kong Limited (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 2017, 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 2017, 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 2017.

Scope of Work of PricewaterhouseCoopers

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 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 2017.

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 everchanging business environment in which the Group operates and the fact that the Company was only listed around the end of 2013, the chairman and chief executive officer 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 thus considers that a separation of the role of the chairman and chief executive officer is premature and may create unnecessary costs for the daily operations of the Group. Further, 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. 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 2017.

Publication of the Audited Consolidated Annual Results and 2017 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 2017 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in April 2018.

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 2018

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.

* *For identification purposes only*