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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)

**(i) OPERATING ADJUSTMENT TO BEIJING XIGUA
AND
(ii) UPDATES TO INSIDE INFORMATION**

This announcement is made by Forgame Holdings Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”):

- (i) to provide updates to the Group’s business development in relation to the operating adjustment to be made to Beijing Xigua; and
- (ii) to provide updates in relation to (a) the results of the agreed profit guarantee arising from the acquisition of Beijing Xigua and (b) the status of the payment for the outstanding consideration for Disposal of JLC in furtherance to the announcement of the Company dated 11 December 2019 (the “**Announcement**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

(i) OPERATING ADJUSTMENT TO BEIJING XIGUA

In view of the outbreak of the novel coronavirus disease (COVID-19) (the “**Epidemic**”) in the People’s Republic of China (the “**PRC**”) since January 2020, a number of provinces and municipalities in the PRC have activated level I response, being the highest-level response, to major public health emergencies and adopted various strict measures to curb the spread of the Epidemic, including postponing and imposing restriction on the date of resumption of work after the Lunar New Year holidays, enforcing quarantine and imposing ban on travel and logistics at provincial and/or municipal level.

Given that crowd gathering is restricted, offline services industry has borne the brunt of the Epidemic. Beijing Xigua’s physical stores under the Group were severely affected.

As the Epidemic continues and it remains unknown as to when the situation will be stabilized, the recovery of offline entertainment consumption remains uncertain. After prudent consideration of the business reduction plan submitted by Beijing Xigua’s management team and having obtained the consent from all the other shareholders of Beijing Xigua, the Board agreed with Beijing Xigua’s proposal on retaining not more than 10 best performing direct sales stores and closing down other direct sales stores which are expected to record a significant decrease in revenue due to the Epidemic, so as to minimize the adverse impact of the Epidemic on the operations and financial position of the Company.

The Board believes that the PRC government is confident and capable of getting through the Epidemic, and will continue to closely monitor the development of the Epidemic and the progress of the operating adjustment.

(ii) UPDATES TO INSIDE INFORMATION

Reference is made to the Announcement.

(a) Non-fulfillment of profit guarantee in respect of the acquisition of Beijing Xigua

As stated in the Announcement, the Group had been communicating on the options for compensation in relation to the potential non-fulfillment of profit guarantee based on the then unaudited consolidated management accounts of Beijing Xigua for the eleven months ended 30 November 2019.

The Board would like to update shareholders and potential investors that, based on the management accounts of Beijing Xigua, Beijing Xigua recorded an unaudited cumulative loss of approximately RMB16 million for the period from 1 June 2019 to 31 December 2019, falling short of RMB59 million as compared to the agreed RMB43 million of net profits as originally contemplated and guaranteed pursuant to the investment agreement entered into among the Company and the vendor, KongZhong Group and Beijing Xigua. The non-fulfilment of the profit guarantee was mainly due to the deteriorating operational performance of Beijing Xigua.

As a result of the non-fulfilment of the profit guarantee, the Company has elected to request from the vendor, KongZhong Group and Beijing Xigua for a compensation by way of cash in full of approximately RMB150,152,857.

However, based on the Company's further communication, the parties have yet to agree on the compensation option in relation to the shortfall of the profit guarantee. Accordingly, on 10 March 2020, the Company has instructed its PRC legal adviser to issue a demand letter to the vendor, KongZhong Group and Beijing Xigua, stating the Company's decision to opt for a compensation by way of cash in full and demanding for a compensation payment from the vendor, KongZhong Group and Beijing Xigua within 30 days upon the date of receipt of the demand letter. Based on the calculation made by the Company, the amount of compensation due from the vendor, KongZhong Group and Beijing Xigua amounted to RMB150,152,857.

The Company will continue to closely follow up with the vendor, KongZhong Group and Beijing Xigua, and will make further announcement in relation to any update as and when appropriate in accordance with the requirements of the Listing Rules.

(b) Non-payment by the Purchasers in relation to the disposal of JLC

Reference is made to the Company's disposal of 54.54% of JLC pursuant to the Disposal Agreement entered into by and among the Company, The Blue Whale Tech Ltd. ("**Blue Whale**") and Best Hero Investments Limited ("**Best Hero**").

As stated in the Announcement, the Purchasers have previously indicated to the Company of their unwillingness to fulfil their payment obligations for the remaining 70% of the Original Consideration (the “**Second Instalment**”) pursuant to the Disposal Agreement. The Second Instalment was payable on or before 6 March 2020. As at 6 March 2020, the Second Instalment remained unpaid by the Purchasers. Accordingly, on 10 March 2020, the Company has instructed its legal advisers as to Hong Kong laws to, issue a demand letter for and on behalf of the Company to each of the Purchasers, pursuant to which the Company demands full payment of the Second Instalment. Depending on the situation, the Company may also consider demanding the Purchasers to pay the default interest on the Second Instalment and to indemnify the Company against the Company’s expenses incurred as a result of the breach of the Purchasers. As of the date of this announcement, each of Best Hero and Blue Whale is liable to pay to the Company the US or HK Dollar equivalent of RMB12,174,701 and RMB21,028,399, respectively.

The Company will continue to closely follow up with the Purchasers, and will make further announcement in relation to any update as and when appropriate in accordance with the requirements of the Listing Rules.

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

By order of the Board
Forgame Holdings Limited
HAN Jun
Chairman

Hong Kong, 10 March 2020

As at the date of this announcement, the executive directors of the Company are Mr. HAN Jun and Ms. LIANG Na; the non-executive director of the Company is Mr. ZHANG Qiang; the independent non-executive directors of the Company are Mr. HOW Sze Ming, Mr. ZHAO Cong Richard and Mr. WAN Joseph Jason.