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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)

**DISCLOSEABLE TRANSACTION
ACQUISITION OF 69.84% EQUITY INTEREST IN THE TARGET COMPANY
AND THE ISSUE OF CONSIDERATION SHARES
UNDER GENERAL MANDATE**

THE TRANSACTION

On 24 April 2019 (after trading hours), the Company, the Investor (a direct wholly-owned subsidiary of the Company), KongZhong, the Vendor and the Target Company, among others, entered into the Investment Agreement pursuant to which (i) the Investor has conditionally agreed to, by way of the Subscription, subscribe for 9.30% equity interest in the Target Company in the form of new registered capital for a total consideration of RMB20,000,000; and (ii) the Vendor has conditionally agreed to sell, and the Investor has conditionally agreed to acquire, 60.54% equity interest in the Target Company (corresponding to RMB1,109,890 in the paid-up registered capital of the Target Company) for a total consideration of RMB130,152,857, by way of the Equity Transfer. Pursuant to the Investment Agreement, the consideration for the Equity Transfer will be satisfied by the allotment and issue of 22,268,908 new Shares as the Consideration Shares by the Company under the General Mandate to the entity(ies) designated by the Vendor at the issue price of HK\$6.876 per Consideration Share. The Consideration Shares will, upon issue, represent (i) approximately 16.24% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 13.97% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, subject to Completion and assuming that there will be no change in the issued share capital of the Company save for the allotment and issue of the Consideration Shares.

IMPLICATIONS UNDER THE LISTING RULES

As the highest of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Transaction is more than 5% but less than 25%, the Transaction constitutes a discloseable transaction for the Company and is subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

The Consideration Shares will be allotted and issued pursuant to the General Mandate. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares in due course.

Completion is subject to the satisfaction of the conditions precedent to the Investment Agreement and there is no assurance that such conditions precedent will be fulfilled. Therefore, the transactions contemplated under the Investment Agreement may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the shares or any securities of the Company.

INTRODUCTION

On 24 April 2019 (after trading hours), the Company, the Investor, KongZhong, the Vendor and the Target Company, among others, entered into the Investment Agreement, the principal terms of which are as follows:

THE TRANSACTION

Date

24 April 2019

Parties

- (i) the Company
- (ii) the Investor
- (iii) KongZhong
- (iv) the Vendor
- (v) the Target Company
- (vi) KongZhong China
- (vii) Mr. Wang Leilei
- (viii) Shanghai Wangyu
- (ix) Mr. Jiang

(x) Mr. Sheng

As at the date of this announcement, KongZhong holds approximately 7.44% interest in the Company. Save as disclosed in this announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, each of the parties above and their ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Subject matter

The Subscription

Pursuant to the Investment Agreement, the Investor has conditionally agreed to subscribe for 9.30% equity interest in the Target Company in the form of new registered capital (corresponding to RMB170,552 in the registered capital of the Target Company) for a total consideration of RMB20,000,000. Upon completion of the Subscription, the registered capital of the Target Company shall increase from RMB1,662,880 to RMB1,833,432.

The Equity Transfer

Pursuant to the Investment Agreement, the Vendor has conditionally agreed to sell, and the Investor has conditionally agreed to acquire, 60.54% equity interest in the registered capital of the Target Company (corresponding to RMB1,109,890 in the paid-up registered capital of the Target Company) for a total consideration of RMB130,152,857.

Immediately after completion of the Subscription and the Equity Transfer, the Investor shall hold 69.84% equity interest of the Target Company.

Consideration

The Consideration shall be settled (i) as to RMB20,000,000 with respect to the Subscription, in readily available cash; and (ii) as to RMB130,152,857 with respect to the Equity Transfer, by the Company allotting and issuing 22,268,908 new Shares as the Consideration Shares at the issue price of HK\$6.876 under the General Mandate, credited as fully paid, to the entity(ies) designated by the Vendor, in accordance with the terms of the Investment Agreement.

The Consideration was determined based on arm's length negotiations between, among others, the Company, the Investor, KongZhong and the Vendor, taking into account a number of factors including but not limited to: (i) the assessment on the prospects of the virtual reality game industry by the Company's management; (ii) the Thresholds (as defined below) as guaranteed profits as set out in the section titled "Profit Guarantee" below; (iii) a valuation of the 100% equity value of the Target Company and its subsidiaries, namely 北京玩氩科技有限責任公司 (Beijing Wan Ke Technology Co., Ltd.*), 蕪湖空見信息科技有限公司 (Wuhu Kongjian Information Technology Co., Ltd.*) and 天津玩氩科技有限公司 (Tianjin Wan Ke Technology Co., Ltd.*) (the "**Valuation**") prepared by the Independent Valuer adopting market approach; (iv) the future development of the Target Company, in

particular its potential of being one of the largest VR game brands in the PRC; and (v) the benefits to be derived by the Group from the Transaction as described under the section headed “Reasons for and benefits of the Transaction” in this announcement.

Valuation

According to the Valuation performed by the Independent Valuer, the appraised value of the Target Group is RMB251,315,000 as at 31 March 2019 (the “**Valuation Date**”), which was prepared using market approach. As the Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules, the requirements under Rules 14.60A and 14.62 of the Listing Rules are applicable.

The following are the details of the principal assumptions upon which the Valuation was based:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Group;
- The financial projection of the Target Group (the “**Projection**”) has been prepared on a reasonable basis, reflecting estimates (i.e. assumptions and parameters adopted in the Projection) which have been arrived at after due and careful consideration by the management of the Target Group;
- The availability of finance will not be a constraint on the forecast growth of the operation of the Target Group in accordance with the Projection;
- The Target Group will retain and have competent management, key personnel, and technical staff to support their ongoing operation; and
- There are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values. Further, there is no responsibility for changes in market conditions after the Valuation Date.

The Board has reviewed the bases and assumptions based upon which the Valuation has been prepared by the Valuer. The Board has also considered the letter addressed to the Company from the reporting accountant of the Company, Baker Tilly Hong Kong Limited (“**Baker Tilly**”) confirming, among other things, that they have reviewed the accounting policies and calculations of the profit forecast on which the Valuation is based. The Board is of the opinion that the Valuation prepared by the Independent Valuer has been made after due and careful enquiry.

A letter from each of Baker Tilly and the Board has been submitted to the Stock Exchange, and is set out in Appendix I and Appendix II respectively to this announcement pursuant to Rule 14.62 of the Listing Rules.

Experts and Consents

The qualifications of the experts who have given their statements in this announcement are as follows:

Name	Qualification
Baker Tilly Hong Kong Limited	Certified Public Accountants
AVISTA Valuation Advisory Limited	Independent Valuer

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Baker Tilly and the Independent Valuer is a third party independent of the Group and its connected persons.

As at the date of this announcement, none of Baker Tilly and the Independent Valuer has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for the securities in any member of the Group.

Each of Baker Tilly and the Independent Valuer has given and has not withdrawn its consent to the publication of this announcement with inclusion of its report or letter and all references to its name in the form and context in which it respectively appears in this announcement.

Consideration Shares

The Consideration with respect to the Equity Transfer in the amount of RMB130,152,857 will be satisfied by the Company allotting and issuing 22,268,908 new Shares as Consideration Shares at the issue price of HK\$6.876 under the General Mandate, credited as fully paid, to the entity(ies) designated by the Vendor, in accordance with the terms of the Investment Agreement.

The issue price of HK\$6.876 per Consideration Share represents:

- (a) a discount of approximately 8.20% to the closing price of HK\$7.49 per Share as quoted on the Stock Exchange on 24 April 2019, being the date of the Investment Agreement;
- (b) a discount of approximately 9.17% to the average closing price of HK\$7.57 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to the date of the Investment Agreement; and
- (c) a premium of approximately 12.89% to the average closing price of HK\$6.09 per Share as quoted on the Stock Exchange for the last twenty (20) consecutive trading days immediately prior to the date of the Investment Agreement.

The issue price per Consideration Share was arrived at upon arm's length negotiation between the Company and the Vendor based on the following considerations: (i) the share prices in the past twenty (20) trading days; and (ii) the future development of the Group.

Although the issue price of the Consideration Shares was at a discount to the closing price of the Shares on 24 April 2019, being the date of the Investment Agreement, the Directors noticed that the discount was resulted from the upward movement trend of the recent market price of the Shares following the publication of the announcement of the Company dated 9 April 2019 in connection with the potential acquisition of the Target Company.

The Consideration Shares will, upon issue, represent (i) approximately 16.24% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 13.97% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, subject to Completion and assuming that there will be no change in the issued share capital of the Company save for the allotment and issue of the Consideration Shares.

The Consideration Shares shall be issued by the Company under the General Mandate. At the annual general meeting of the Company held on 25 May 2018, the General Mandate was granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with up to 27,649,807 new Shares, being 20% of the number of issued Shares as at the date of passing of the resolution by the Shareholders in relation to the General Mandate. As at the date of this announcement, 1,851,568 Shares have been issued under the General Mandate.

The Consideration Shares will be issued to and held under an escrow account to be designated by KongZhong and/or the Vendor and, subject to the Actual Net Profits (as defined below) of the Target Company during the Guarantee Period (as defined below), may be released by the escrow agent to the Vendor in batches in accordance with the terms of the Investment Agreement.

The Consideration Shares will rank *pari passu* in all respects with each other and with the Shares in issue at the time of issue of the Consideration Shares.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares in due course.

Conditions precedent

Completion shall be conditional upon fulfillment (or, where applicable, waiver by the Investor, the Target Company, the Existing Shareholders and/or the KongZhong Group) of the conditions precedent (the “**Conditions Precedent**”) including:

- (a) trading in the Shares on the Stock Exchange not having been withdrawn from the Stock Exchange or being suspended for any period of more than fourteen (14) consecutive trading days (other than in relation to the Transaction or circumstances which the Company is required to make an announcement pursuant to Chapters 13, 14 or 14A of the Listing Rules) on or before Completion and no indication being received in writing on or before Completion from the Securities and Futures Commission or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange will or may be withdrawn or objected to as a result of the Completion or in connection with the terms of any Transaction Document;

- (b) all representations and warranties made by the Target Company, the Existing Shareholders and the KongZhong Group remaining true and accurate in all material respects and not misleading, in each case as at Completion by referring to the facts and circumstances subsisting;
- (c) all representations and warranties made by the Company and the Investor remaining true and accurate in all material respects and not misleading, in each case as at Completion by referring to the facts and circumstances subsisting;
- (d) no litigation proceedings in relation to each member of the Target Group, the Existing Shareholders and the KongZhong Group;
- (e) no material adverse change in relation to each member of the Target Group, the Existing Shareholders and the KongZhong Group;
- (f) each member of the Target Group has been legally incorporated and validly existing and in good standing;
- (g) each member of the Target Group conducts its business in compliance with regulatory requirements;
- (h) the Target Company, the Existing Shareholders and the KongZhong Group having in material aspects performed the pre-Completion undertakings pursuant to the Investment Agreement;
- (i) the Company and the Investor having in material aspects performed the pre-Completion undertakings pursuant to the Investment Agreement;
- (j) the Investor being reasonably satisfied with the results of the due diligence review of the Target Group;
- (k) each of the Existing Shareholders having waived their respective pre-emptive right and rights of first refusal in relation to transactions contemplated under the Transaction Documents;
- (l) the unconditional approval from the shareholders of the Target Company for the Transaction Documents and transactions contemplated thereunder having been obtained; and all necessary approvals, consents, waivers and/or authorisations required under all applicable laws, regulations and agreements in connection with the Transaction and/or implementation thereof and all other matters incidental thereto having been obtained;
- (m) the Transaction Documents having been duly executed and delivered by parties thereto and becoming effective, and there being no breach of Transaction Documents;
- (n) the Target Company having obtained a license in relation to its electronic publication products or completed the relevant registration requirements;
- (o) an undertaking letter from Mr. Wang Fulai (one of the Founders) being delivered to the Investor confirming the patent with application number 201710547068.5 will be transferred to the Target Company upon its effective date unconditionally and without consideration and without violation of the rights of any other third parties;

- (p) any financing conducted or to be conducted by offline stores of the Target Company being in compliance with regulatory requirements;
- (q) the execution and delivery of the non-competition undertaking of the Founders, the Vendor, Mr. Wang Leilei, Mr. Jiang, Mr. Sheng and the KongZhong Group in the form as set out in the Investment Agreement;
- (r) the execution and delivery of undertakings from, among others, the Target Company, the Vendor, the KongZhong Group and its subsidiaries respectively in the form as set out in the Investment Agreement with respect to their joint and several compensation liability in connection with the obligations arising from the profit guarantee provision in the Investment Agreement, details of which are set out in the section titled “Profit Guarantee” below;
- (s) the KongZhong Group, the Existing Shareholders and the Target Company shall procure certain key employees as set out in the Investment Agreement of the Target Company entering into a service contract and non-compete agreements;
- (t) the granting by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Consideration Shares (the “**Listing Approval**”) and such Listing Approval not being revoked prior to Completion;
- (u) the Target Company, the Existing Shareholders and the KongZhong Group providing written confirmation to the Investor confirming the conditions precedent set out above have been fully satisfied; and
- (v) the Company and the Investor providing written confirmation to the KongZhong Group confirming the conditions precedent set out above have been fully satisfied.

In the event that any of the above conditions precedent is not fulfilled or waived (as the case may be) on or before 31 August 2019 (or such other date as agreed between the parties), the obligations under the Investment Agreement shall lapse and be of no further effect.

Completion

Upon fulfillment (or waiver, as the case may be) of the Conditions Precedent:

- (a) the Target Company and the Existing Shareholders shall issue to the Investor a written request for payment with respect to the Subscription (the “**Subscription Request**”). The Investor shall pay consideration for the Subscription to the Target Company in full in accordance with the instructions set out in the Subscription Request within ten (10) Business Days after the receipt and confirmation of the Subscription Request; and
- (b) the Vendor shall issue to the Company a written request for issue of the Consideration Shares with respect to the Equity Transfer (the “**Issue Request**”). The Company shall issue the Consideration Shares to the entity(ies) designated by the Vendor in accordance with the instructions set out in the Issue Request within ten (10) Business Days after the receipt and confirmation of the Issue Request or other dates agreed by the parties.

After Completion, the Company will indirectly hold 69.84% equity interest in the Target Company. The Target Company will become a subsidiary of the Company and the financial results of the Target Group will be consolidated into those of the Group.

Profit Guarantee

Pursuant to the Investment Agreement, the Vendor, the KongZhong Group and the Target Company guarantee and undertake on a joint and several basis to the Investor that the net profit after tax (the “**Actual Net Profits**”) recognized by the auditor’s report issued by the audit firm mutually agreed and confirmed by the Investor and KongZhong Group, excluding the non-recurring profits and losses of the Target Company’s consolidated statements, and the service fees incurred by the Target Group and the Company and its subsidiaries, which are jointly confirmed by the Company and KongZhong Group, shall not be less than RMB43,000,000, RMB52,000,000 and RMB62,000,000 (“**Thresholds**”, and each of them a “**Threshold**”) for the period from 1 June 2019 to 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021, respectively (the “**Guarantee Period**”). In the event that the Actual Net Profits in any financial year stated above is lower than the relevant Threshold, the Vendor, the KongZhong Group and the Target Company, on a joint and several basis, shall, within thirty (30) Business Days after the audited financial statements for such financial year is made available, compensate for the shortfall by one of the following two options to be elected by the Company.

Option A

1 June 2019 to 31 December 2019

If the Target Company fails to meet the Actual Net Profits in the sum of RMB43,000,000 during the period from 1 June 2019 to 31 December 2019, the Target Company, the Vendor and the KongZhong Group shall:

- (i) compensate the Company on the shortfall to the Actual Net Profits in cash based on the following formula:

Amount of compensation in cash: (RMB43,000,000 – Actual Net Profits for the period from 1 June 2019 to 31 December 2019)/RMB157,000,000 × RMB20,000,000; and

- (ii) have the actual number of the Consideration Shares to be released to the Vendor by the escrow agent downward adjusted in accordance with the following formula:

Adjusted number of Consideration Shares to be cancelled = (RMB43,000,000 – Actual Net Profits for the period from 1 June 2019 to 31 December 2019)/RMB157,000,000 × total number of Consideration Shares issued at Completion

Financial year ending 31 December 2020

If the Target Company fails to meet the Actual Net Profits in the sum of RMB52,000,000 by 31 December 2020, the Target Company, the Vendor and the KongZhong Group shall:

- (i) compensate the Company on the shortfall to the Actual Net Profits in cash based on the following formula:

Amount of compensation in cash: (RMB52,000,000 – Actual Net Profits for the financial year ending 31 December 2020)/RMB157,000,000 × RMB20,000,000; and

- (ii) have the actual number of the Consideration Shares to be released to the Vendor by the escrow agent downward adjusted in accordance with the following formula:

Adjusted number of Consideration Shares to be cancelled = (RMB52,000,000 – Actual Net Profits for the financial year ending 31 December 2020)/RMB157,000,000 × total number of Consideration Shares issued at Completion

Financial year ending 31 December 2021

If the Target Company fails to meet the Actual Net Profits in the sum of RMB62,000,000 by 31 December 2021, the Target Company, the Vendor and the KongZhong Group shall:

- (i) compensate the Company on the shortfall to the Actual Net Profits in cash based on the following formula:

Amount of compensation in cash: (RMB62,000,000 – Actual Net Profits for the financial year ending 31 December 2021)/RMB157,000,000 × RMB20,000,000; and

- (ii) have the actual number of the Consideration Shares to be released to the Vendor by the escrow agent downward adjusted in accordance with the following formula:

Adjusted number of Consideration Shares to be cancelled = (RMB62,000,000 – Actual Net Profits for the financial year ending 31 December 2021)/RMB157,000,000 × total number of Consideration Shares issued at Completion

Option B

1 June 2019 to 31 December 2019

If the Target Company fails to meet the Actual Net Profits in the sum of RMB43,000,000 during the period from 1 June 2019 to 31 December 2019, the Target Company, the Vendor and the KongZhong Group shall pay to the Company, in readily available cash, the RMB equivalent of the amount determined by the following formula:

(RMB43,000,000 – Actual Net Profits for the period from 1 June 2019 to 31 December of 2019) × percentage of equity interest of the Investor in the Target Company as at 31 December 2019 × 5

Financial year ending 31 December 2020

If the Target Company fails to meet the Actual Net Profits in the sum of RMB52,000,000 by 31 December 2020, the Target Company, the Vendor and the KongZhong Group shall pay to the Company, in readily available cash, the RMB equivalent of the amount determined by the following formula:

$$(RMB52,000,000 - \text{Actual Net Profits for the financial year ending 31 December 2020}) \times \text{percentage of equity interest of the Investor in the Target Company as at 31 December 2020} \times 5$$

Financial year ending 31 December 2021

If the Target Company fails to meet the Actual Net Profits in the sum of RMB62,000,000 by 31 December 2021, the Target Company, the Vendor and the KongZhong Group shall pay to the Company, in readily available cash, the RMB equivalent of the amount determined by the following formula:

$$(RMB62,000,000 - \text{Actual Net Profits for the financial year ending 31 December 2021}) \times \text{percentage of equity interest of the Investor in the Target Company as at 31 December 2021} \times 5$$

In the event that the Company opts for Option B, the total amount compensated to the Company and/or the Investor during the Guarantee Period shall not exceed RMB150,152,857, being the amount of the Consideration.

During the Guarantee Period, holder(s) of the Consideration Shares will be entitled to exercise voting rights attaching to, and receive any dividends (including scrip dividend), rights issue, bonus issue and distribution in specie in respect of, all of the Consideration Shares deposited in the escrow account.

In the event that the Target Company fails to meet any of the Thresholds in any year(s) during the Guarantee Period, but the Actual Net Profits for the whole Guarantee Period in aggregate amount to or exceed RMB157,000,000, the Investor may at its discretion grant certain Shares to the Vendor and/or entities designated by the Vendor as a reward based on the number of unreleased Consideration Shares and/or the amount of cash compensated to the Investor during the Guarantee Period.

THE SHAREHOLDERS AGREEMENT

Date

24 April 2019

Parties

- (i) the Investor
- (ii) KongZhong
- (iii) the Vendor
- (iv) the Target Company
- (v) KongZhong China
- (vi) Mr. Wang Leilei
- (vii) Shanghai Wangyu
- (viii) Mr. Jiang
- (ix) Mr. Sheng
- (x) The Company

The Shareholders Agreement will contain various rights of shareholders in the Target Company, including but not limited to:

Pre-emptive right

The Shareholders Agreement will contain a pre-emptive right whereby any proposed issue of new equity securities of the Target Company to a third party shall first be issued to all the shareholders of the Target Company on a pro-rata basis. Any such offer shall remain open for at least thirty (30) days and all the shareholders of the Target Company shall have thirty (30) days (the “**Pre-Emptive Period**”) within which they may decide to exercise the pre-emptive right. To the extent that any shareholder of the Target Company does not wish to subscribe for its pro-rata amount, the remaining new equity securities shall be issued to other shareholders wishing to subscribe for additional equity securities. To the extent that any remaining new equity securities are not taken up by the existing shareholders of the Target Company, the Target Company shall be entitled to issue such equity securities to such third party at any time during the period of thirty (30) days after the end of the Pre-Emptive Period.

Right of first refusal

The Shareholders Agreement will provide that, so long as the Vendor is interested in the equity interests of the Target Company (as adjusted for any share dividends, consolidation, combinations, reclassifications or splits with respect to such shares and the like), in the

event that the Investor proposes to sell any of its interest in the Target Company to a third party, it shall first offer such interest to the Vendor on the same terms that it proposes to sell the interest to the third party. The Vendor shall have a period of twenty (20) days within which it may decide to acquire the interest. If the Vendor elects not to exercise its right to acquire the interest, the Investor shall be entitled to sell the interest to the third party on terms no more preferable to the third party than the terms originally offered.

Tag-along right

The Shareholders Agreement will also contain a tag-along right whereby in the event of a proposed sale of any equity interests of the Target Company by the Investor, the Vendor shall have the right but not the obligation to sell the same proportion of its shareholding as Investor proposes to sell on the same terms and conditions, and Investor shall be required to procure the third-party transferee to purchase such equity interests from Vendor on the same terms and conditions.

Corporate Governance

Pursuant to the Shareholders Agreement, after the date of Completion:

- (a) the Target Company shall have one (1) executive director to be nominated by the controlling shareholder and elected by shareholders' meeting;
- (b) the Target Company shall have one (1) supervisor to be nominated by the Vendor and elected by shareholders' meeting; and
- (c) the Target Company shall have one (1) manager to be nominated by the Vendor and appointed by the executive director.

INFORMATION ABOUT THE GROUP

The Company is an investment holding company. The Group is principally engaged in developing and publishing domestic and overseas webgames and mobile games as well as providing internet micro-credit service and financial information service in the PRC.

The Investor is a wholly-owned subsidiary of the Company and a company established under the laws of the PRC with limited liability. It is principally engaged in the development of softwares and design of game softwares.

INFORMATION ABOUT THE KONGZHONG GROUP AND THE VENDOR

KongZhong is a company incorporated under the laws of the Cayman Islands with limited liability and is an investment holding company.

KongZhong China is a company established under the laws of the PRC with limited liability. It is principally engaged in developing computer software and providing integrated technical advisory services of computer systems.

The Vendor is a company established under the laws of the PRC with limited liability. It is principally engaged in publication of internet games and controlled by KongZhong by way of certain contractual arrangements.

INFORMATION ABOUT THE TARGET COMPANY

The Target Company is a company established under the laws of the PRC with limited liability. The Target Company is principally engaged in offering self-developed games as well as exclusively licensed games in its physical stores that are equipped with space positioning technology and virtual reality devices. As at the date of this announcement, the Target Company is owned as to 68.25% by the Vendor, 5% by Shanghai Wangyu, 20% by Mr. Jiang and 6.75% by Mr. Sheng.

Set out below is a summary of the unaudited consolidated financial information of the Target Company for the years ended 31 December 2017 and 2018:

	For the year ended 31 December 2017 (RMB) (unaudited)	For the year ended 31 December 2018 (RMB) (unaudited)
Net loss before tax	1,960,501	5,402,953
Net loss after tax	1,960,501	5,402,953

As at 31 December 2018, the Target Company has unaudited consolidated net assets of approximately RMB4,945,363. As at 28 February 2019, the Target Company has unaudited consolidated net assets of approximately 1,923,607.

REASONS FOR AND BENEFITS OF THE TRANSACTION

As stated in the Company's annual results announcement dated 27 March 2019, the Group intends to continue monitoring new technologies for game and fintech including virtual reality ("VR") in order to actively upgrade its business. Since VR's invention, VR has been deemed as a next generation of technology that might bring significant changes to human lives. Through VR technology, people are able to generate experience in a simulated environment, and one of the most exciting applications is VR games.

The Target Company has been developing VR technology and games for years, and it has successfully developed "a kind of space positioning system and method", which is currently under the application for a national patent in the PRC. Such technology resolved the problem of accurately positioning fast moving players in large space, and enabled multiple players to have safe virtual battle experience against monsters, zombies, and opponents with guns, swords, or magic in VR games. Currently, the Target Company has delivered four games such as "Death fire" (致命火力) and "Sword and magic" (劍與魔法), etc. All of these games have been very popular among young players.

Though the Target Company only operated five stores at the end of the year 2018, the stores had recorded very positive player feedback and consumption data. Therefore, the Target Company intends to open over a hundred direct-sale stores and over a hundred franchise stores under the brand name “Player No. 1” all over the PRC, and this business plan will be supported by the Target Company’s current shareholders and the Group. Each of the Target Company, the Vendor and the KongZhong Group is confident about the business plan and agreed to provide profit guarantee for RMB157,000,000 from 1 June 2019 to 31 December 2021.

Through this Transaction, the Group will benefit from the following:

1. VR games represent the future of game industry. Entering VR game business will be an upgrade to the Group’s current game business, and complete its strategic deployments;
2. The Target Company is currently in the fast growing stage and the cashability is expected to be strong in the near future. Acquiring the Target Company will generate economic return to the Group’s overall financial performance. If the Target Company fails to complete its profit guarantee, the Group will be able to recover the shortfall from compensation;
3. If the Target Company’s business plan is successfully implemented, the Group will own a great number of stores all over the PRC, and the increasing brand influence will be beneficial to the Group and the Shareholders as a whole; and
4. The Target Company’s VR business will be able to generate synergy effect with the Group’s game operations. The Group will help the Target Company to build a business circle including research, development, operation and publishing of VR games.

The Directors (including the independent non-executive Directors) are of the view that the Transaction is on normal commercial terms, and such terms are fair and reasonable and that the Transaction is in the interests of the Company and its Shareholders as a whole.

EFFECT OF THE ISSUE OF CONSIDERATION SHARES ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company had 137,104,705 Shares in issue. For reference and illustration purposes only, assuming there is no other change in the shareholding structure of the Company, the following table illustrates the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the allotment and issue of the 22,268,908 Consideration Shares and assuming that all of the Consideration Shares will be released to the Vendor (or its designated entity(ies)) in accordance with the terms of the Investment Agreement.

Name of Shareholder	As at the date of this announcement		Immediately after the allotment and issue of the Consideration Shares	
	Number of Shares held	Approximate %	Number of Shares held	Approximate %
Foga Group Ltd.	21,673,338	15.81%	21,673,338	13.60%
GU Wei	11,790,830	8.60%	11,790,830	7.40%
Foga Holdings Ltd.	7,763,997	5.66%	7,763,997	4.87%
KongZhong Corporation ⁽¹⁾	10,202,168	7.44%	10,202,168	6.40%
Foga Internet Development Ltd.	7,785,700	5.68%	7,785,700	4.89%
YANG Tao ⁽²⁾	1,340,000	0.98%	1,340,000	0.84%
China Create Capital Limited	9,584,000	6.99%	9,584,000	6.01%
The Vendor (or its designated entity(ies))	0	0%	22,268,908	13.97%
Other Shareholders	<u>66,964,672</u>	<u>48.84%</u>	<u>66,964,672</u>	<u>42.02%</u>
Total	<u><u>137,104,705</u></u>	<u><u>100%</u></u>	<u><u>159,373,613</u></u>	<u><u>100%</u></u>

Notes:

- (1) KongZhong Corporation is a beneficial owner of 8,350,600 Shares and a nominee holding 1,851,568 Shares for and on behalf of 上海大承網絡技術有限公司 (Shanghai Dacheng Network Technology Co., Ltd.*).
- (2) Mr. YANG Tao was granted 1,340,000 restricted share units under the restricted share unit scheme in 2016, 335,000 of which vested on 1 December 2016, 335,000 vested on 1 June 2017, 335,000 vested on 1 December 2017 and 335,000 vested on 1 June 2018.

IMPLICATIONS UNDER THE LISTING RULES

As the highest of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Transaction is more than 5% but less than 25%, the Transaction constitutes a discloseable transaction for the Company and is subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

Completion is subject to the satisfaction of the conditions precedent to the Investment Agreement and there is no assurance that such conditions precedent will be fulfilled. Therefore, the transactions contemplated under the Investment Agreement may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the shares or any securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Board”	the board of Directors
“Business Day”	a day which is not a Saturday, Sunday or public holiday in the PRC
“Company”	Forgame Holdings Limited (Stock Code: 00484), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Transaction pursuant to the Investment Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the total consideration of the Transaction, being RMB150,152,857
“Consideration Shares”	22,268,908 new Shares which shall be allotted and issued by the Company to satisfy the consideration with respect to the Equity Transfer in accordance with the Investment Agreement
“Director(s)”	the director(s) of the Company
“Equity Transfer”	the acquisition of 60.54% equity interest in the Target Company by the Investor from the Vendor pursuant to the terms of the Investment Agreement as set out in the section “The Transaction — Subject Matter”
“Existing Shareholders”	the existing shareholders of the Target Company as at the date of this announcement, namely the Vendor, Shanghai Wangyu, Mr. Jiang and Mr. Sheng
“Founders”	founders of the Target Company, being 謝航 (Mr. Xie Hang*), 王福來 (Mr. Wang Fulai*) and 魏一搏 (Mr. Wei Yibo*)

“General Mandate”	the general mandate granted to the Directors at the annual general meeting of the Company held on 25 May 2018 to exercise the powers of the Company to allot, issue and other deal with additional Shares up to 20% of the number of issued Shares as at the date of passing the resolution in relation to such general mandate (being 138,249,037 Shares)
“Group”	collectively, the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Valuer”	AVISTA Valuation Advisory Limited
“Investment Agreement”	the investment agreement dated 24 April 2019 entered into between, among others, the Company, the Investor, KongZhong, the Vendor and the Target Company in respect of the Transaction
“Investor”	廣州市雲米軟件科技有限公司 (Guangzhou Yunmi Software Technology Co., Ltd.*), a company established with limited liability in the PRC and a direct wholly-owned subsidiary of the Company
“KongZhong”	KongZhong Corporation, a company incorporated in the Cayman Islands with limited liability
“KongZhong China”	空中(中國)有限公司 (KongZhong (China) Co., Ltd.*), a company established with limited liability in the PRC and is owned as to 100% by KongZhong
“KongZhong Group”	collectively, KongZhong and KongZhong China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Jiang”	姜騰 (Mr. Jiang Teng*), a resident of the PRC and a shareholder of the Target Company
“Mr. Sheng”	盛勇 (Mr. Sheng Yong*), a resident of the PRC and a shareholder of the Target Company
“Mr. Wang Leilei”	王雷雷 (Mr. Wang Leilei*), a resident of the PRC and the <i>de facto</i> controller of KongZhong
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“PRC GAAP”	the PRC Accounting Standards for Business Enterprises (中國企業會計準則) promulgated by the Ministry of Finance of the PRC on 15 February 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Wangyu”	上海網魚網咖投資管理有限公司 (Shanghai Wangyu Wangka Investment Management Co., Ltd.*), a company established in the PRC with limited liability and a shareholder of the Target Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders Agreement”	the shareholders agreement dated 24 April 2019 entered into by the parties mentioned in the section headed “The Shareholders Agreement — Parties”
“Shares”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of 9.30% equity interest in the Target Company in the form of new registered capital of the Target Company by the Investor pursuant to the terms of the Investment Agreement as set out in the section “The Transaction — Subject Matter”
“Target Company”	北京西瓜互娛科技有限責任公司 (Beijing Xigua Huyu Technology Co., Ltd.*), a company established with limited liability in the PRC
“Target Group”	the Target Company and its subsidiaries and branch companies
“Transaction”	collectively, the Subscription, the Equity Transfer and other transactions contemplated under the Investment Agreement
“Transaction Documents”	collectively, the Investment Agreement, the Shareholders Agreement, the amended articles of the Target Company in the form as set out in the Investment Agreement, the shareholders’ resolutions of the Target Company in relation to the Transaction, and any other transaction documents executed in connection with the Transaction

“Vendor”

上海大承網絡技術有限公司 (Shanghai Dacheng Network Technology Co., Ltd.*), a company established in the PRC with limited liability and a company controlled by KongZhong

“%”

per cent

By order of the Board
Forgame Holdings Limited
WANG Dongfeng
Chairman

Hong Kong, 24 April 2019

As at the date of this announcement, the executive Directors are Mr. WANG Dongfeng, Ms. LIANG Na, Mr. ZHANG Yang and Ms. LI Luyi; the non-executive Director is Mr. ZHANG Qiang; the independent non-executive Directors are Mr. HOW Sze Ming, Mr. ZHAO Cong Richard and Mr. WAN Joseph Jason.

* For identification purpose only

Appendix I — Letter from Baker Tilly Hong Kong Limited

The following is the text of a letter received from the Company's reporting accountant, Baker Tilly Hong Kong Limited, for inclusion in this announcement.

Independent Assurance Report on the Calculations of Projections of Profits in connection with the Valuation of 北京西瓜互娛科技有限責任公司 (translated as “Beijing Xigua Huyu Technology Co., Ltd” and hereinafter referred to as “Beijing Xigua”)

We refer to the projections of profits on which the valuation (the “Valuation”) included in the valuation report dated 18 April 2019 prepared by Avista Valuation Advisory Limited in respect of the appraisal of the fair value of Beijing Xigua as at 31 March 2019 is based. The Valuation, based on the projections of profits for the period from 1 March 2019 to 31 December 2019 (the “Projections of Profits”), is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Directors' Responsibilities

The directors of the Company (the “Directors”) are responsible for the preparation of the Projections of Profits in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation (the “Bases and Assumptions”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the Projections of Profits for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentially and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the Projections of Profits on which the Valuation is based. We are not reporting on the appropriateness and validity of the Bases and Assumptions on which the Projections of Profits are based and our work does not constitute any valuation of Beijing Xigua.

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance on whether the Projections of Profits, so far as the calculations are concerned, has been properly complied in accordance with the Bases and Assumptions adopted by the Directors. We reviewed the arithmetical calculations and the compilation of the Projections of Profits in accordance with the Bases and Assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

The Projections of Profits depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Projections of Profits have been properly complied in all material respects in accordance with the Bases and Assumptions adopted by the Directors as set out in the Valuation.

Yours faithfully,

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 24 April 2019

Appendix II — Letter from the Board

24 April 2019

Listing Division
The Stock Exchange of Hong Kong Limited
11th Floor, One International Finance Centre
1 Harbour View Street
Hong Kong

Dear Sirs,

Discloseable Transaction — Acquisition of 69.84% Equity Interest in 北京西瓜互娛科技有限責任公司 (Beijing Xigua Huyu Technology Co., Ltd.*) and the Issue of Consideration Shares under General Mandate

We refer to the announcement of the Forgame Holdings Limited (the “**Company**”) dated 24 April 2019 concerning the captioned transaction (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the valuation report dated 18 April 2019 issued by AVISTA Valuation Advisory Limited (the “**Valuer**”) regarding the valuation of 100% equity interests of the 北京西瓜互娛科技有限責任公司 (Beijing Xigua Huyu Technology Co., Ltd.*) and its subsidiaries as at 31 March 2019 (the “**Valuation**”), which constitutes a profit forecast under Rule 14.61 of the Listing Rules (the “**Profit Forecast**”).

We have reviewed the bases and assumptions based upon which the Valuation has been prepared by the Valuer, and reviewed the Valuation for which the Valuer is responsible. We have also considered the report from Baker Tilly Hong Kong Limited, the reporting accountant of the Company, confirming that, so far as the accounting policies and calculations are concerned, the Profit Forecast have been properly complied in all material respects in accordance with the bases and assumptions as set out in the valuation report.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the Board is of the opinion that the Valuation prepared by the Valuer has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board
Forgame Holdings Limited
WANG Dongfeng
Chairman

* *For identification purpose only*