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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)

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

Reference is made to the announcement of Forgame Holdings Limited (the “**Company**”) dated 24 April 2019 (the “**Announcement**”). Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Announcement.

The Company would like to provide further information regarding the Transaction as follows:

FURTHER INFORMATION IN RELATION TO THE CONSIDERATION

As disclosed in the Announcement, the Consideration was determined taking into account a number of factors including but not limited to (i) the assessment on the prospects of the virtual reality game industry; (ii) the Thresholds; (iii) the Valuation carried out by the Independent Valuer; (iv) the future development of the Target Company; and (v) the benefits to be derived by the Group from the Transaction.

Valuation

As disclosed in the Announcement, the appraised value of the Target Group is approximately RMB251 million as at 31 March 2019.

The Valuation was prepared by adopting the market approach. By which, the Independent Valuer selected comparable companies which are engaged in the provision of indoor entertainment related services. After selecting the comparable companies, the Independent Valuer adopted price-to-earnings multiple (the “**P/E multiple**”) as the indicator of the fair value of the comparable companies. As the Target Group is still in rapid development stage as of the Valuation Date, the Independent Valuer has adopted the forecasted net profit of the Target Group for the financial year ending 2019 (the “**FY2019**”) for the purpose of its

appraisal. For consistency and better comparability, the Independent Valuer has obtained and applied the FY2019 forecasted earnings of the comparable companies to derive the FY2019 forecasted P/E multiples (the “**Forward P/E multiple**”) of the comparable companies.

Taking into consideration that the ownership interest in the Target Group is not readily marketable and the Forward P/E multiple adopted in the Valuation was calculated from public listed companies, which represents marketable ownership interest, the Forward P/E multiple is then adjusted to an illiquid basis by adopting a lack of marketability discount of 22% (the “**LOMD**”) to adjust such marketable interest fair value to non-marketable interest fair value based on Black-Scholes-Merton put option model and having considered industry specific factors like the volatility of comparable companies in the indoor entertainment market in order to maximize the comparability to that of the Target Group.

Taking into consideration that the Target Group is loss-making and still at its early stage of business as of the Valuation Date, it was then considered more appropriate to adopt the low-end of the range of the Forward P/E multiple for FY2019 of the comparable companies for the Valuation.

Based on the aforementioned methodology and estimation, the adjusted Forward P/E multiple that the Independent Valuer has adopted for the valuation is 8.34x (the “**Adjusted Forward P/E Multiple**”).

The forecasted net profit of the Target Group for FY2019 was based on the best estimation provided by the management of the Target Group. The revenue of the Target Group is mainly based on the revenue derived from its provision of indoor VR entertainment services to customers by its VR retail stores. Based on (i) the VR stores expansion plan of the Target Group for FY2019 (i.e. to open up to 150 new direct-sale stores and 160 new franchise stores) as well as the increasing costs and expenses for the first 5 months of FY2019 when the Target Company has been fast opening new stores prior to such stores arriving in their peak performance thereafter; (ii) the seasonality factor in the business of the Target Company; and (iii) the historical operating data of the Target Company, including average customer’s spending, customer flow and expenses, the forecasted net profit of the Target Group for FY2019 is estimated to be approximately RMB30.124 million. The appraised value of the Target Company of RMB251 million was computed by multiplying RMB30.124 million with the Adjusted Forward P/E Multiple (i.e. 8.34x).

Upon arm’s length negotiations among the parties to the Transaction, the Target Company agreed to proceed with the Transaction based on RMB215 million, which is lower than the value as appraised by the Independent Valuer. The Consideration in the amount of RMB150,152,857 (comprising of RMB20,000,000 cash and RMB130,152,857 new shares) is calculated based on RMB 215 million: RMB20,000,000 cash shall be the consideration of the subscription for 9.30% equity interest in the Target Company in the form of new registered capital; RMB130,152,857 new shares shall be the consideration of the acquisition for 60.54% equity interest in the Target Company (corresponding to RMB1,109,890 in the paid-up registered capital of the Target Company). Upon completion of the Transaction, the Investor will obtain 69.84% equity interest in the Target Company.

Profit Guarantee

Like many other technology companies, the Target Company experiences multiple business stages. At its initial stage, the Target Company underwent research and development in VR technology and VR games. Upon completion of which, the Target Company opened up a very limited number of stores to test the market recognition and collect players' feedback. And at the same time, the Target Company would continue improving the VR technology and VR games according to the market responses and players' feedback. At the very last stage and upon the technology and games are proven to be successful, and the consumption data indicates a profit making business model, the Target Company would increase the number of stores to capture significant growth in revenue and net profit.

During the first 3 stages, the Target Company recorded low revenue and high research and development expenses, which resulted in losses in 2017 and 2018. The Target Company is currently in the last stage of its business cycle. In the early period of its last stage, the Target Company is still expected to record net loss in the first half of 2019, given that the Target Company will have high costs and expenses when it attempts to open new stores. However, it is expected that the fast growing revenue will soon bring the Target Company to a profit making position in the second half of 2019.

As aforesaid, in the first 5 months of FY2019, as the Target Company has been fast opening new stores which in turn increased costs and expenses incurred by the Target Company, and that the new stores will only gradually reach their peak performance thereafter, upon which, it will record profit. Accordingly, it is expected that there will be a turnaround of the profitability of the Target Company. As the profit forecast indicated, the Target Company is expected to make net profit of RMB41,756,576 for the period from June 2019 to December 2019, which is the base of the profit guarantee for the period from June 2019 to December 2019 (i.e. RMB43,000,000). For the years 2020 and 2021, an industry growth rate of 20% per year was applied with the profit guarantee for the period from June 2019 to December 2019 as the base. The 20% growth rate was determined based on the annual growth rate of over 30% for the VR business as appraised by independent industry research reports as well as the uncertainties surrounding the VR business. As a result, the profit guarantees for the years 2020 and 2021 were determined as RMB52,000,000 and RMB62,000,000, respectively.

Based on the foregoing, the current loss making position of the Target Company is within the Board's expectation, and the Board expects the Target Company will turn into a profit making position from the second half of the year of 2019 onward. Accordingly, the Board is of the view that the profit guarantee will be achievable.

OPERATION MANAGEMENT OF THE TARGET COMPANY

On 14 April 2019, Ms. LI Luyi (“**Ms. Li**”) had been appointed as an executive Director and co-chief operations officer of the Group. Ms. Li is primarily responsible for the Group's business operation, and upon the completion of the Transaction, Ms. Li will also oversee the Target Company's business operation. Ms. Li has over 17 years of experience in the internet industry, and she had been working as key operation management in multiple well-known companies. Her leadership, expertise and strategic vision in operation will be a key element to the success of the new VR business.

The founders of the Target Company and the key technology employees have entered into employment contracts with the Target Company for a term no less than 3 years and non-competition deeds in favour of the Target Company on 15 March 2019. The founders and the technical team will continue to serve the Target Company to develop new technology and games for VR business.

The Target Company's future business plan consists of online operation and offline operation. For online operation, in view of the fact that VR game's main target customers are young players, the Target Company plans to massively obtain customers through spreading attraction on social network and/or media application. With years of internet operation experience, the Group's chief executive officer Mr. WANG Dongfeng will provide online social network/media marketing resolution to the Target Company. For offline operation, the Target Company had hired key offline operation talents from Wanda (萬達) and UGG to assist the Target Company's expansion plan. The current general manager of the operation center of the Target Company has experience in operating over 120 Wanda kidsplace (萬達寶貝王) stores.

Based on the aforesaid, the Company is of the view that the Company will have sufficient management experience in the field of the VR business to manage the operation of the Target Group upon completion of the Transaction.

FURTHER INFORMATION IN RELATION TO THE CONSIDERATION SHARES

As disclosed in the Announcement, the Consideration Shares will be deposited into an escrow account as designated by KongZhong and/or the Vendor. The escrow account will be managed by Valuable Capital Limited (華盛資本證券有限公司) (the "**Escrow Agent**"), an independent third party to the Company. In each Guarantee Period, the respective portion of the Consideration Shares will be released by the Escrow Agent to the Vendor upon satisfaction of the relevant Threshold. Further, any dividend declared during the Guarantee Period will also be paid to the Escrow Agent and will be released by the Escrow Agent to the Vendor upon satisfaction of the relevant Threshold.

In the event that the Actual Net Profits in any financial year is lower than then relevant Threshold, the Vendor, the KongZhong Group and the Target Company shall compensate for the shortfall either by Option A (a cash and equity compensation) or Option B (a cash compensation) as described under the section headed "Profit Guarantee" in the Announcement. The Company will elect either Option A or Option B based on the then actual circumstance, e.g. the then market price of the Shares.

In the event that the Company elects Option A, any Consideration Shares not issued to the Vendor as a result of a shortfall of the relevant Threshold will then be returned by the Escrow Agent to the Company for cancellation within 30 business days after the audited financial statements of the Target Group for such financial year is made available, and any dividend deposited to the Escrow Agent will be returned to the Company.

In the event that the Company elects Option B, the total amount to be compensated to the Company and/or the Investor shall not exceed RMB150,152,857, being the amount of the Consideration.

Based on the due diligence conducted against the business prospects of the Target Group as well as the profit forecast, the Company takes the view that the chance that the profit guarantee provided by the Vendor, the KongZhong Group and the Target Company under the Investment Agreement cannot be fulfilled (or the Target Group would actually suffer a loss in the three years ending 31 December 2021) is relatively minimal. Accordingly, the Company is of the view that the aforesaid compensation mechanism is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

By order of the Board
Forgame Holdings Limited
WANG Dongfeng
Chairman

Hong Kong, 24 May 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.