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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: 484)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Forgame Holdings Limited (the “**Company**” or “**Forgame**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**” or “**we**”) for the year ended 31 December 2021.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2021 (2020: Nil).

OVERVIEW AND OUTLOOK

Overview

In 2021, the COVID-19 pandemic lingered worldwide due to the emergence of variants Delta and Omicron, bringing downward pressure to the global economy. As the COVID-19 vaccines are being promoted, the global economy was also gradually recovering, with an increase of approximately 6% in 2021 according to IMF’s projection. However, it will take time for the global economy to truly recover as a result of the ongoing political and economic turmoil in the world, divergent recovery paths among countries affected by the pandemic, and further widening gap in living standards among countries.

Due to the impact of the pandemic and complex market environment, the Company’s business faced continuous challenges. The Board and the management reviewed the internal operation and management strategies on a regular basis and proactively dealt with past issues while continuously improving the level of corporate governance. We continued to develop the online gaming and trading of electronic device and semiconductor business, improved the management and operation efficiency, and successfully recovered a portion of the past receivables, by which the Company got through a challenging year. In 2021, the Group recorded revenue of approximately RMB142.1 million, representing an increase of 165.4% compared to the same period of last year. Thanks to successful operating strategy adjustment and effective operating cost control, the Group achieved a turnaround from loss to profit during the year, with a profit of approximately RMB17.5 million for the year.

Outlook

As an ancient Chinese poetry goes, “Listen not to the rain beating against the trees. Why don’t you slowly walk and chant at ease?” Looking ahead to 2022, the Group will still face many uncertainties such as the instability of international politics, the continuing pandemic, the adjustments in policies regarding the issuance of game permits in the PRC, the intensification of industry competition and the accelerated product update iterations. Besides, the development of new games will also face great resistance. In 2022, the rise of new technologies and new concepts will bring new opportunities and challenges to the entire industry. Under the guidance of China’s grand strategy of “transporting data from eastern regions to western regions for storage and calculation”, the Group will consolidate internal and external resources, increase investment in research and development of games and peripheral storage products, and expand cooperation channels for game operations, actively explore opportunities for business upgrading and transformation, deepen and improve existing businesses, and stabilize income sources through diversified development to cope with market risks.

The journey is long and arduous but we will get through with determination and perseverance. Under a prudent and optimistic investment strategy, the Group will explore new investment opportunities while organically integrating existing resources and improving the management level, so as to ensure the steady development of the Group’s business that will benefit our shareholders (the “**Shareholders**”) in the long run.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2021, with the COVID-19 vaccines being promoted, the global economy has been recovering. However, the negative economic impact brought by the pandemic has far from ended, and the global economic outlook was still not optimistic. In light of such circumstances, the Group has reviewed its business development and operations and carried out a systematic planning and layout in terms of business strategy. On the one hand, the Group continued to maintain its operational foundation in respect of online gaming business while ensuring the achievement of its established business objectives. On the other hand, the Group strengthened the development of its trading of electronic products and semiconductors business as well as its supporting software and services, and actively promoted the integration of the Group’s new business with the existing business lines in terms of customer base and information system, so as to utilise the advantages of its resources and platforms, enabling us to achieve joint development and enhanced efficiency for the Group’s businesses through accurate strategy positioning and operation management for each business segment. As a result, the Group recorded total revenue of approximately RMB142.1 million in 2021, representing a significant increase of 165.4% from the same period of last year.

In respect of the online game business, the Group’s game business is mainly consisted of webgames and mobile games. The strategic focus on game business was mainly to optimise the return on investment of these businesses. By cooperation with professional teams to maintain continuous business operations of existing online games, we will continue to maintain the scale of game revenue as well as improve the cost-effectiveness of game business.

In respect of the trading of electronic device and semiconductor business, while maintaining a continuous, long-term and stable cooperation with major suppliers, the Group has continued to expand its overseas business scope with a steady increase in the number of cooperating vendors and product lines. The Group has also continued to provide relevant customers with a full range of comprehensive supporting solutions such as supporting technical services and supply chain financial services. Meanwhile, the Group attached great importance to the operations management and efficiency management of funds usage of the electronic device and semiconductor trading business, thereby further improving its delicacy management capabilities.

In respect of the internet micro-credit business, Jiujiang Yunke Information Technology and Consulting Co., Ltd (formerly known as Jiujiang Yunke Internet Microfinance Co., Ltd., “**Yunke**”) had completed the change of company name, business scope and registered capital in 2021. After completion of the change, Yunke exited the internet micro-credit business and engages in internet information technology services and consulting related business. At the same time, Yunke will continue to recover the outstanding loan receivables.

The following table sets forth the Group's income statement for the year ended 31 December 2021 as compared to that for the year ended 31 December 2020.

	Year Ended 31 December		Change %
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i> (Restated)	
Continuing operations			
Revenue	142,136	53,560	165.4%
Cost of revenue	(128,535)	(40,600)	216.6%
Gross profit	13,601	12,960	4.9%
Selling and marketing expenses	(5,496)	(4,782)	14.9%
Administrative expenses	(18,642)	(43,702)	-57.3%
Research and development expenses	(7,985)	(473)	1,588.2%
Other income	2,409	2,434	-1.0%
Other gains – net	5,457	3,509	55.5%
Finance cost	(218)	(15)	1,353.3%
Gain/(loss) on disposal of investments at fair value through profit or loss	20,787	(1,132)	NM
Share of loss of associates	(5,263)	(6,043)	-12.9%
Reversal/(impairment) of financial assets measured at amortised cost - net	26,967	(667)	NM
Profit/(loss) before income tax	31,617	(37,911)	NM
Income tax expense	(36)	(262)	-86.3%
Profit/(loss) from continuing operations	31,581	(38,173)	NM
Discontinued operations			
Loss from discontinued operations	(14,056)	(16,967)	-17.2%
Profit/(loss) for the year	17,525	(55,140)	NM

Note: NM-Not meaningful.

Continuing Operations

Revenue. Revenue increased by approximately 165.4% to RMB142.1 million for the year ended 31 December 2021 from RMB53.6 million for the year ended 31 December 2020. The following table sets forth the revenue of the Group by segment for the year ended 31 December 2021 and 31 December 2020 respectively:

	Year Ended 31 December			
	2021		2020	
	<i>RMB'000</i>	<i>% of Total Revenue</i>	<i>RMB'000 (Restated)</i>	<i>% of Total Revenue</i>
Revenue by Segment				
– Game business	18,244	12.8	29,781	55.6
– Electronic device & semiconductor business	<u>123,892</u>	<u>87.2</u>	<u>23,779</u>	<u>44.4</u>
Total Revenue	<u><u>142,136</u></u>	<u><u>100.0</u></u>	<u><u>53,560</u></u>	<u><u>100.0</u></u>

- Revenue generated from the Group’s game business decreased by approximately 38.7% to RMB18.2 million for the year ended 31 December 2021 from RMB29.8 million for the year ended 31 December 2020. Revenue generated from the online games decreased mainly due to the fact that some of the Group’s key games such as “Liberators” and “英雄遠征” have entered into the mature stage of their lifecycles and generated less revenue than the previous year.
- Revenue generated from the Group’s electronic device and semiconductor business was RMB123.9 million for the year ended 31 December 2021. The Group completed the acquisition of Shenzhen Xingyun Data Technology Co., Ltd.* (深圳市行雲數據技術有限公司) (“**Shenzhen Xingyun**”) on 18 November 2020. The revenue of Shenzhen Xingyun was mainly generated from sales of electronic device, such as memories and hard disk drives to corporate and industrial customers.

Cost of revenue. Cost of revenue increased by approximately 216.6% to RMB128.5 million for the year ended 31 December 2021 from RMB40.6 million for the year ended 31 December 2020. Such increase was primarily attributable to the consolidation of Shenzhen Xingyun into the Group’s business. Such increase was partially offset by a decrease in cost of the Group’s online games business in line with the revenue decrease of the online games business. For the year ended 31 December 2021, the percentage of cost of revenue to total revenue increased to 90.4% (2020: 75.8%).

Selling and marketing expenses. Selling and marketing expenses increased by approximately 14.9% to RMB5.5 million for the year ended 31 December 2021 from RMB4.8 million for the year ended 31 December 2020. Such increase was mainly due to the increased marketing efforts in order to expand the Group’s electronic device and semiconductor business.

Administrative expenses. Administrative expenses decreased by approximately 57.3% to RMB18.6 million for the year ended 31 December 2021 from RMB43.7 million for year ended 31 December 2020. Such decrease was primarily due the Group’s active cost control measures and improved operating efficiency.

Research and development expenses. Research and development expenses increased from RMB0.5 million for the year ended 31 December 2020 to RMB8.0 million for the year ended 31 December 2021. Such increase was primarily due to the increased research and development investment for game business.

Other gains – net. Other gains – net increased from RMB 3.5 million for the year ended 31 December 2020 to RMB5.5 million for the year ended 31 December 2021. The increase was primarily due to the increase of gain on dilution of investment in an associate and partially offset by the loss on change in fair value of consideration shares payable in relation to acquisition of Shenzhen Xingyun.

Gain/(loss) on disposal of investments at fair value through profit or loss. The Group recognised gain on disposal of investments at fair value through profit or loss in the amount of RMB20.8 million for the year ended 31 December 2021, as compared to RMB1.1 million loss for the year ended 31 December 2020. Such amount was primarily consisted of gain from investments in equity securities listed in PRC and Hong Kong.

Share of loss of associates. Share of loss of associates was RMB5.3 million for the year ended 31 December 2021, while share of loss of associates was RMB6.0 million for the year ended 31 December 2020.

Reversal/(impairment) of financial assets measured at amortised cost - net. The group recognized reversal of impairment of financial assets measured at amortised cost - net for the year ended 31 December 2021 of RMB27.0 million, as compared to the impairment net amount of RMB0.7 million for the year ended 31 December 2020. The net amount of reversal in 2021 was primarily consisted of reversal of impairment previously made for other receivables on disposal of investment in an associate.

Profit/(loss) from continuing operations. The Group recognised profit from continuing operations in the amount of RMB31.6 million for the year ended 31 December 2021, as compared to loss of RMB38.2 million for the year ended 31 December 2020. Due to the mixed effects from the above mentioned factors, the Group recorded a turnaround from loss to profit for the year ended 31 December 2021.

DISCONTINUED OPERATIONS

Loss from discontinued operations. The Group recognized loss from discontinued operations in the amount of RMB14.1 million for the year ended 31 December 2021, as compared to RMB17.0 million for the year ended 31 December 2020. The reduction of loss from discontinued operations was primarily due to the disposal of Beijing Xigua Huyu Technology Co., Ltd. (北京西瓜互娛科技有限責任公司) (“**Beijing Xigua**”) and the financial results of Beijing Xigua recognised in the discontinued operations of the Group for the year ended 31 December 2020.

NON-IFRSs MEASURES – EBITDA AND ADJUSTED EBITDA

To supplement the consolidated results of the Group which are prepared in accordance with IFRSs, certain non-IFRSs measures, including EBITDA and adjusted EBITDA, have been presented. These non-IFRSs 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-IFRSs financial measures for the years ended 31 December 2021 and 2020, to the nearest measures prepared in accordance with IFRSs:

	Year Ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)
Profit/(Loss) from continuing operations for the year	31,581	(38,173)
Add:		
Depreciation and amortization	1,902	6,758
Net interest income	(1,410)	(997)
Income tax expense	36	262
	<hr/>	<hr/>
EBITDA (unaudited)	32,109	(32,150)
Add:		
Share-based compensation	(1)	541
Changes in the value of investments at fair value through profit or loss	–	(383)
Gain/(loss) on disposal of investments at fair value through profit or loss	(20,787)	1,132
Loss on deregistration of a subsidiary	1,106	–
Fair value change of share consideration payable	2,792	(1,470)
Dividends received from investments at fair value through profit or loss	(1,139)	–
Reversal of impairment of other receivables on disposal of investment in an associate	(27,500)	–
	<hr/>	<hr/>
Adjusted EBITDA (unaudited)	(13,420)	(32,330)

FINANCIAL POSITION

As at 31 December 2021, the total equity of the Group amounted to RMB636.7 million as compared to that of RMB612.0 million as at 31 December 2020. Such increase was primarily due to the profit recognized for the year ended 31 December 2021.

The Group's net current assets amounted to RMB487.0 million as at 31 December 2021 as compared to that of RMB497.2 million as at 31 December 2020. The decrease of net current assets was a mixed effect of the slight increase of current assets and the increase of current liabilities. The increase of current liabilities was resulted from normal business operations.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Cash at bank and on hand	208,579	309,912
Cash at other financial institutions	161,687	75,604
	<u>370,266</u>	<u>385,516</u>
Bank borrowings	(4,000)	—
Net Cash	<u>366,266</u>	<u>385,516</u>

The Group's total cash and cash equivalent amounted to RMB370.3 million as at 31 December 2021 as compared to that of RMB385.5 million as at 31 December 2020. The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the cost of funding, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in RMB, followed by USD.

As of 31 December 2021, the Group's bank borrowings were repayable within 1 year and the interest rate is at one year Loan Prime Rate plus 0.95%. As of 31 December 2021, the Group's gearing ratio (calculated as bank borrowing divided by total assets) increased to a level of 0.55% (as at 31 December 2020: nil), which the Board believes is at an acceptable level.

FOREIGN EXCHANGE RISK

As at 31 December 2021, RMB122.7 million of the financial resources of the Group (as at 31 December 2020: RMB50.0 million) were held as deposits denominated in non-RMB currencies. Such increase was in line with the expansion of electronic device and semiconductor business. The Group will continue to actively manage its exposure to various foreign currencies and monitor its foreign exchange risk exposure to better preserve the Group's cash value.

CAPITAL EXPENDITURES

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditures		
– Purchase of property and equipment	36,183	2,285
– Purchase of intangible asset	723	583
	<u> </u>	<u> </u>
Total	<u>36,906</u>	<u>2,868</u>

Capital expenditures (excluding business combination) comprise the purchase of property and equipment, such as operation equipment and leasehold improvement, and the purchase of intangible assets, such as office software.

PLEDGE OF ASSETS

As at 31 December 2021, the Group had a pledge of assets of RMB0.7 million (as at 31 December 2020: RMB0.8 million) as restricted cash for corporate credit card deposits.

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any significant unrecorded contingent liabilities (as at 31 December 2020: nil).

Significant Investment

During 2021, the Group held a significant investment in an associate detailed as follows:

Company name	Date of incorporation	Carrying amount as at 31 December 2021	Investment Cost	Registered capital	Percentage of ownership interest attributable to the Group as at 31 December	
		<i>RMB'000</i>			<i>RMB'000</i>	<i>RMB'000</i>
北京分享時代科技股份 有限公司	23 February 2011	50,460	4,000	26,052.032	9.60%	10.31%

北京分享時代科技股份有限公司 (transliterated as Beijing Share Times Technology Co., Limited, “Share Times”) is a company that develops and operates intellectual properties (“IPs”) of celebrities, including design, promotion, and sales of IPs. Share Times was recognized as investments in associates. In 2021, the Group recognised share of loss of associates of approximately RMB2.9 million and gain on dilution of investment in an associate of approximately RMB9.0 million from Share Times. The Group will continue supporting the business development of Share Times, and seek synergy between Share Times and other investments of the Group to maximize their performances.

HUMAN RESOURCES

As at 31 December 2021, the Group had 46 full-time employees (as at 31 December 2020: 46), the vast majority of whom are based in the PRC.

Details of the Group’s remuneration policies and 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 2021.

MATERIAL ACQUISITION AND DISPOSAL

Disposal of 69.84% equity interest in Beijing Xigua

References are made to the announcements of the Company dated 24 April 2019, 24 May 2019, 26 June 2019, 21 November 2019, 11 December 2019, 10 March 2020, 19 March 2020, 8 May 2020, 22 October 2020, 23 October 2020, 12 November 2020, 24 December 2020 and 19 February 2021 (collectively, the “Disposal Announcements”) and the circular of the Company dated 2 December 2020 (the “Circular”) in relation to the acquisition of Beijing Xigua, the non-fulfilment of the Profit Guarantee and the follow up actions taken by the Company. Unless otherwise stated herein, capitalized terms used in this section shall have the same meanings as those defined in the Disposal Announcements.

Upon completion of the Equity Disposal in December 2020, Beijing Xigua has ceased to be a subsidiary of the Company and the Company no longer held any issues shares of Beijing Xigua. Further, on 19 February 2021, the Company announced the completion of off-market Share Buy-back in relation to the disposal of the 69.84% equity interest in Beijing Xigua.

Acquisition of Shenzhen Xingyun

References are made to the announcements of the Company dated 22 October 2020, 13 November 2020, 18 November 2020 and 20 January 2021 in relation to the acquisition of the Target Company and Shenzhen Xingyun (collectively, the “Acquisition Announcements”). Unless otherwise stated herein, capitalized terms used in this section shall have the same meanings as those defined in the Acquisition Announcements.

On 18 November 2020, the Company announced the Completion of the Acquisition as all conditions precedent under the Sale and Purchase Agreement have been fulfilled. The Target Company and Shenzhen Xingyun have thus become indirect wholly-owned subsidiaries of the Company. Further, on 20 January 2021, the Company announced the completion of the allotment and issuance of the consideration shares under the General Mandate, as well as the payment of the cash consideration in the amount of RMB6,000,000, in relation to the acquisition of the Target Company and Shenzhen Xingyun.

Shenzhen Xingyun is engaged in the sales of digital storage devices to corporate and individual users in the PRC. Upon Completion of the Acquisition, the Company took the opportunity to tap into the digital storage devices business in the PRC, which is expected to benefit the Group in diversifying its business portfolio and contributing to the financial performance of the Group on a long-term perspective.

Acquisition of Shenzhen Binghong

Reference is made to the announcement of the Company dated 6 April 2021, 27 April 2021, 10 May 2021, 31 May 2021, 25 June 2021, 22 July 2021 and 30 August 2021 and 30 September 2021 in relation to the acquisition of the Target Company and Shenzhen Binghong (collectively, the “**Binghong Acquisition Announcements**”). Unless otherwise stated herein, capitalized terms used in this paragraph shall have the same meanings as those defined in the Binghong Acquisition Announcements. As certain conditions precedent have not been fulfilled (or waived) and the Board has no intention to extend the Long Stop Date upon expiry thereof, the SPA has lapsed and ceased to have any effect and the Company, the Purchaser, the Vendor or the Guarantors shall not have any obligations and liabilities towards each other thereunder.

RISK AND HURDLES

The Group is exposed to a number of risks, including macroeconomic and external risks common to most industries, as well as risks specific to the industries in which the Group operates. The Group has formulated policies to ensure continuous identification, reporting, monitoring and management of significant risks that may adversely affect its business development.

As to the traditional online game business operated by the Group, the Group is mainly exposed to the following types of risks:

- (i) Industry policies and regulatory risks. Any changes and adjustments in policies by governmental regulatory bodies could affect the market, and the online game industry is subject to the supervision of various relevant authorities. If relevant authorities fail to resume the issuance of game publication numbers, this may have an adverse impact on its business operations;
- (ii) The risk of declines in current game revenue and profitability. Due to the life cycle of online games, changes in player preferences may cause uncertainties around the Company’s future business performance; and
- (iii) The rapid market changes from existing webgames to mobile games may have an adverse impact on its business operations.

As to the electronic device and semiconductor business, the Group is mainly exposed to the following types of risks:

- (i) Exchange risk. Since the Group's operations involve settlement in US dollars, it is exposed to the risk of fluctuations in exchange rates of the currency; and
- (ii) Inventory management risk. Due to the high value of semiconductor memory products, their prices are volatile and vulnerable to macroeconomic cyclicality. Improper inventory management may cause capital occupancy, leading to financial risks.

All of the above may have an adverse effect on the Group's performance. In addition, the Group is exposed to risks such as impairment loss due to invested companies' under-performance or contract party becoming insolvent, other unexpected one-off restructuring costs, and failures of certain material litigations or arbitrations, all of which will have an adverse effect on the Group's performance.

FUTURE PLANS

Looking forward, the Group will still face many pressures caused by the epidemic, such as economic downturn, industry competition, accelerated product update iterations, and stricter policy supervision in the game industry. However, the Group will actively respond to and ride on the changing environment and market trends, continue to steadily develop existing businesses. In line with China's grand strategy of East Data Computing in West, the Group will increase investment in research and development of games and peripheral storage products and expand cooperation channels for game operation, actively explore opportunities for business upgrading and transformation, implement various business strategies formulated by the Group. Through the development of business diversification, the Group will diversify stable income sources, enhance operating efficiency, improve cost control and strengthen cost management, so as to comprehensively improve the return on its assets. At the same time, the Group will keep an eye on the development of the market and the industry, and explore a development model suitable for it with an open mind and innovative thinking based on past experience and lessons.

The Group will actively seek to expand and transform its business, optimise its business structure and improve management efficiencies based on a perspective of sustainable development and a prudent and optimistic attitude, in an effort to deliver value for our shareholders in the long run.

POST-BALANCE SHEET EVENT

There was no significant subsequent event for the year ended 31 December 2021 to the approval date of the audited consolidated annual results of the Group for the year ended 31 December 2021 by the Board.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i> (Restated)
Continuing operations			
Revenue	3	142,136	53,560
Cost of revenue		<u>(128,535)</u>	<u>(40,600)</u>
Gross profit		13,601	12,960
Selling and marketing expenses		(5,496)	(4,782)
Administrative expenses		(18,642)	(43,702)
Research and development expenses		(7,985)	(473)
Other income		2,409	2,434
Other gains – net		5,457	3,509
Finance cost		(218)	(15)
Gain/(loss) on disposal of investments at fair value through profit or loss		20,787	(1,132)
Share of loss of associates		(5,263)	(6,043)
Reversal/(impairment) of financial assets measured at amortised cost – net		<u>26,967</u>	<u>(667)</u>
Profit/(loss) before income tax		31,617	(37,911)
Income tax expense	4	<u>(36)</u>	<u>(262)</u>
Profit/(loss) from continuing operations		<u>31,581</u>	<u>(38,173)</u>
Discontinued operations			
Loss from discontinued operations	5	<u>(14,056)</u>	<u>(16,967)</u>
Profit/(Loss) for the year	6	<u>17,525</u>	<u>(55,140)</u>
Other comprehensive (loss)/income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Changes in fair value of equity investments at fair value through other comprehensive income		(12,142)	21,287
Deferred tax effect arising from changes in fair value of equity investments at fair value through other comprehensive income		3,206	(5,902)
Currency translation differences		<u>(4,225)</u>	<u>(3,059)</u>
Other comprehensive (loss)/income for the year, net of tax		<u>(13,161)</u>	<u>12,326</u>
Total comprehensive income/(loss) for the year		<u>4,364</u>	<u>(42,814)</u>

	<i>Notes</i>	2021 RMB'000	2020 RMB'000 (Restated)
Profit/(loss) for the year attributable to:			
Owners of the Company			
– Continuing operations		31,608	(38,173)
– Discontinued operations		<u>(14,056)</u>	<u>(11,099)</u>
		<u>17,552</u>	<u>(49,272)</u>
Non-controlling interests			
– Continuing operations		(27)	–
– Discontinued operations		<u>–</u>	<u>(5,868)</u>
		<u>(27)</u>	<u>(5,868)</u>
Profit/(loss) for the year		<u>17,525</u>	<u>(55,140)</u>
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		4,391	(36,974)
Non-controlling interests		<u>(27)</u>	<u>(5,840)</u>
		<u>4,364</u>	<u>(42,814)</u>
Basic and diluted earnings/(loss) per share (RMB)			
	8		
– Continuing and discontinued operations		0.12	(0.32)
– Continuing operations		0.22	(0.25)
– Discontinued operations		<u>(0.10)</u>	<u>(0.07)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property and equipment		36,951	2,195
Intangible assets		19,019	18,791
Right-of-use assets		4,687	3,544
Investments in associates		55,075	51,343
Equity investments at fair value through other comprehensive income		34,873	41,614
Prepayments and other receivables		405	897
Deferred tax assets		4,381	4,381
		<u>155,391</u>	<u>122,765</u>
Current assets			
Inventories	<i>9</i>	80,927	8,413
Trade receivables	<i>10</i>	58,517	4,878
Loan receivables	<i>11</i>	–	8,000
Prepayments and other receivables		44,625	33,112
Investments at fair value through profit or loss		2,000	75,855
Equity investments at fair value through other comprehensive income		–	38,868
Restricted cash		1,669	765
Cash and cash equivalents		370,266	385,516
		<u>558,004</u>	<u>555,407</u>
Total assets		<u>713,395</u>	<u>678,172</u>

	<i>Notes</i>	2021 RMB'000	2020 <i>RMB'000</i>
EQUITY AND LIABILITIES			
Equity			
Share capital		93	102
Reserves		<u>636,563</u>	<u>612,945</u>
		636,656	613,047
Non-controlling interests		<u>–</u>	<u>(1,079)</u>
Total equity		<u>636,656</u>	<u>611,968</u>
Liabilities			
Non-current liabilities			
Deferred tax liabilities		2,012	5,218
Lease liabilities		<u>3,740</u>	<u>2,783</u>
		<u>5,752</u>	<u>8,001</u>
Current liabilities			
Trade payables	<i>12</i>	9,688	12,068
Other payables and accruals		22,698	37,224
Bank borrowings		4,000	–
Contract liabilities		28,882	4,527
Income tax liabilities		4,558	3,614
Lease liabilities		<u>1,161</u>	<u>770</u>
		<u>70,987</u>	<u>58,203</u>
Total liabilities		<u>76,739</u>	<u>66,204</u>
Total equity and liabilities		<u>713,395</u>	<u>678,172</u>
Net current assets		<u>487,017</u>	<u>497,204</u>
Total assets less current liabilities		<u>642,408</u>	<u>619,969</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL INFORMATION

Forgame Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 26 July 2011 as an exempted company with limited liability. The address of its 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 address of its principal place of business in Hong Kong is Unit 6, 1/F, Trust Centre, 912 Cheung Sha Wan Road, Lai Chi Kok, Kowloon, Hong Kong. The address of the headquarters is Room 1106, Block A Phase I, Innovation Technology Plaza, Tianan Digital City, Chegongmiao, Futian District, Shenzhen, China. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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 trading of electronic device and semiconductor (the “Electronic Device and Semiconductor Business”) in the People’s Republic of China (the “PRC”).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. IFRSs comprise International Financial Reporting Standards (“IFRS”); International Accounting Standards; and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

3. REVENUE AND 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 segments, has been identified as the executive directors of the Company that make strategic decisions.

In 2021, the Group ceased the operation of internet micro-credit business ("Internet Micro-credit Business"). Information about the discontinued operations is set out in Note 5. During the year, the CODM reassessed the performance and operation of the Group and concluded that the Group has two operating segments as follows:

- Game Business; and
- Electronic Device and Semiconductor Business

The CODM assesses the performance of the operating segments mainly based on segment revenue, and adjusted earnings before interest expense, taxes, depreciation and amortisation ("adjusted EBITDA") excluding share of loss of associates and gain on dilution of investment in an associate, 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, primarily with respect to equity-settled share-based payments, investment-related gains or losses and non-recurring event.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these consolidated 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 from continuing operations provided to the Group's CODM for the reportable segments for the years ended 31 December 2021 and 2020 is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i> (Restated)
Revenue from continuing operations		
<i>Revenue from contracts with customers</i>		
Game Business	18,244	29,781
Electronic Device and Semiconductor Business	<u>123,892</u>	<u>23,779</u>
Total revenue	<u><u>142,136</u></u>	<u><u>53,560</u></u>
Adjusted EBITDA from continuing operations		
Game Business	(11,315)	(28,105)
Electronic Device and Semiconductor Business	(5,837)	1,003
Share of loss of associates	(5,263)	(6,043)
Gain on dilution of investment in an associate	<u>8,995</u>	<u>815</u>
Total adjusted EBITDA from continuing operations	<u><u>(13,420)</u></u>	<u><u>(32,330)</u></u>
Adjusted EBITDA reconciles to profit/(loss) before income tax from continuing operations as follows:		
Total adjusted EBITDA from continuing operations	(13,420)	(32,330)
Net interest income	1,410	997
Depreciation and amortisation	(1,902)	(6,758)
Share-based compensation	1	(541)
Changes in the value of investments at fair value through profit or loss	-	383
Gain/(loss) on disposal of investments at fair value through profit or loss	20,787	(1,132)
Loss on deregistration of a subsidiary	(1,106)	-
Dividends received from investments at fair value through profit or loss	1,139	-
Reversal of impairment of other receivables on disposal of investment in an associate	27,500	-
Fair value change of share consideration payable	<u>(2,792)</u>	<u>1,470</u>
Profit/(loss) before income tax from continuing operations	<u><u>31,617</u></u>	<u><u>(37,911)</u></u>

Disaggregation of revenue from contracts with customers

Geographical information:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Continuing operations		
PRC (excluding Hong Kong)	108,996	46,010
Other regions	<u>33,140</u>	<u>7,550</u>
	142,136	53,560
Discontinued operations		
PRC (excluding Hong Kong)	<u>–</u>	<u>3,827</u>
	<u><u>142,136</u></u>	<u><u>57,387</u></u>

The Group also conducts operations in Hong Kong and other region. The geographical information on the non-current assets (other than investments in associates, equity investments at fair value through other comprehensive income and deferred tax assets) is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current assets		
PRC (excluding Hong Kong)	27,328	25,407
Hong Kong	<u>33,734</u>	<u>20</u>
	<u><u>61,062</u></u>	<u><u>25,427</u></u>

Timing of revenue recognition:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Continuing operations		
At a point in time	132,331	38,227
Over time	<u>9,805</u>	<u>15,333</u>
	142,136	53,560
Discontinued operations		
At a point in time	<u>–</u>	<u>3,827</u>
	<u><u>142,136</u></u>	<u><u>57,387</u></u>

Revenue from major customers:

Revenue from major customers individually accounting for 10% or more of total revenue is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Customer A (sales of electronic device and semiconductor)(Note)	28,392	–
Customer B (sales of electronic device and semiconductor)	<u>23,593</u>	<u>7,827</u>

Note: Customer A in 2020 does not meet the threshold of revenue over 10%.

4. INCOME TAX EXPENSE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i> (Restated)
Current tax – PRC and oversea enterprise income tax	<u>36</u>	<u>262</u>

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.

The income tax provision of the Group in respect of operations in Hong Kong is provided at 8.25% on assessable profits up to HK\$2,000,000, and the applicable tax rate is 16.5% on any part of assessable profits over HK\$2,000,000 based on the assessable profit for the years ended 31 December 2021 and 2020.

The income tax provision of the Group in respect of operations in Taiwan is provided at 20% on assessable profits (2020: 19%).

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 years ended 31 December 2021 and 2020, based on the existing legislation, interpretations and practices in respect thereof.

Shenzhen Xingyun Data Technology Co., Ltd. (深圳市行雲數據技術有限公司) (“Shenzhen Xingyun”) was qualified as High and New Technology Enterprises” (“HNTEs”) under PRC Enterprise Income Tax Law (“EIT Law”) in 2020. Thus, the applicable tax rate was 15% for the year ended 31 December 2021.

Besides HNTEs, Shenzhen Xingyun was qualified as a small low-profit enterprise (“SLPE”) in 2020. According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that became effective from 2019 onwards, the applicable tax rate was 20% for the SLPE. For the SLPE of annual taxable income that is less than or equal to RMB1,000,000, the effective taxable income is calculated based on 25% of the annual taxable income. For the SLPE of annual taxable income that is over RMB1,000,000 and less than or equal to RMB3,000,000, the effective taxable income is calculated based on 50% of the annual taxable income. For the year ended 31 December 2020, Shenzhen Xingyun calculated its income tax as SLPE due to the preferential tax treatment.

According to the relevant EIT Laws jointly promulgated by the Ministry of Finance of the PRC, State Tax Bureau of the PRC, and Ministry of Science of the PRC that became effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”).

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% PRC withholding tax. 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%.

No deferred income tax liability has been recognised in respect of WHT on the undistributed earnings of the subsidiaries incorporated in the PRC as those PRC subsidiaries with foreign immediate parent are all with accumulated losses (i.e. without any distributable earnings) as of 31 December 2021 and 2020.

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

	2021 RMB'000	2020 <i>RMB'000</i> (Restated)
Profit/(loss) before income tax	<u>31,617</u>	<u>(37,911)</u>
Tax calculated at statutory income tax rates applicable to profit/(loss) of the consolidated entities in their respective jurisdictions	6,625	(8,423)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	(814)	(312)
Utilisation of previously unrecognised tax losses	(2,986)	(984)
Tax losses and timing differences for which no deferred income tax asset was recognised	12,343	10,008
Tax effect of (income not taxable)/ expense not deductible, net Super Deduction	(14,523)	(27)
	<u>(609)</u>	<u>–</u>
Income tax expense	<u>36</u>	<u>262</u>

5. DISCONTINUED OPERATIONS

The Group's profit/(loss) for the year is stated after (charging)/crediting the following:

	2021 RMB'000	2020 <i>RMB'000</i> (Restated)
Loss of discontinued operation – Internet Micro-credit Business	<u>(14,056)</u>	<u>(13,105)</u>
Loss of discontinued operation – Beijing Xigua	–	(28,096)
Gain on disposal of discontinued operation -Beijing Xigua	<u>–</u>	<u>24,234</u>
	<u>–</u>	<u>(3,862)</u>
	<u>(14,056)</u>	<u>(16,967)</u>

- (a) In December 2016, the Group obtained a license to carry out Internet Micro-credit Business from the government and thereafter commenced the operation of the Group's internet micro-credit service in the PRC. The license expired in August 2021 and has not been renewed. As a result, the financial performance of Internet Micro-credit Business was then classified as discontinued operation of the Group for the year ended 31 December 2021 and 2020. The comparative figures of the financial performance for the year ended 31 December 2020 have been restated on such basis.

The results of the Internet Micro-credit Business's discontinued operation for the year ended 31 December 2021 and 2020, which have been included in consolidated profit or loss and other comprehensive income, are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	–	6,880
Expenses	(22,587)	(16,449)
Other income	6	6,236
Other gain – net	72	32
Finance cost	–	(78)
Reversal/(impairment) of financial assets measured at amortised cost – net	<u>8,831</u>	<u>(9,631)</u>
Loss before income tax	(13,678)	(13,010)
Income tax expense	<u>(378)</u>	<u>(95)</u>
Loss from discontinued operation	<u>(14,056)</u>	<u>(13,105)</u>
Net cash outflow from operating activities	<u>(93,842)</u>	<u>(142,429)</u>
Net cash used in the subsidiary	<u>(93,842)</u>	<u>(142,429)</u>

- (b) On 12 November 2020, the Company announced the disposal transaction on the Group's entire 69.84% equity interest in Beijing Xigua Huyu Technology Co., Ltd. (北京西瓜互娱科技有限公司) ("Beijing Xigua"), at a cash consideration of RMB20,000,000 and share consideration of 22,268,908 shares. The disposal was completed in December 2020. As a result, the financial performance of Beijing Xigua was then classified as discontinued operation of the Group for the year ended 31 December 2020.

The results of the Beijing Xigua's discontinued operation for the period from 1 January 2020 to 24 December 2020, which have been included in consolidated profit or loss and other comprehensive income, are as follows:

	2020 <i>RMB'000</i>
Revenue	3,827
Cost of revenue	(12,026)
Expenses	(13,387)
Other income	258
Other gains – net	280
Finance cost	(1,053)
Loss on fair value change of derivative financial instrument	(6,200)
Reversal of impairment of assets, net	<u>206</u>
Loss before income tax	(28,095)
Income tax expense	<u>(1)</u>
Loss from discontinued operation	<u><u>(28,096)</u></u>
Net cash outflow from operating activities	(8,857)
Net cash outflow from investing activities	(825)
Net cash inflow from financing activities	<u>385</u>
Net cash used in the subsidiaries	<u><u>(9,297)</u></u>

No tax charge or credit arose on gain on disposal of the discontinued operations.

6. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year from continuing operations is stated after charging/(crediting) the following:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i> <i>(Restated)</i>
Amortisation of intangible assets	189	2,974
Allowance for inventories	4,319	75
Cost of inventories sold	114,378	22,144
Depreciation of right-of-use assets	586	2,384
Depreciation of property and equipment	1,127	1,400
Auditor's remuneration		
– Audit services	2,313	3,800
– Non-audit services	200	230
(Reversal)/impairment of financial assets measured at amortised cost – net		
– Provision of impairment for trade receivables, net	80	725
– (Reversal)/provision of impairment for other receivables, net	<u>(27,047)</u>	<u>(58)</u>
	<u>(26,967)</u>	<u>667</u>
Staff costs including directors' emoluments		
– Fees, wages, salaries and bonus	8,847	16,100
– Pension costs – defined contribution plans	405	101
– Social security costs, housing benefits and other employee benefits	389	1,205
– Share-based compensation expenses	<u>(1)</u>	<u>542</u>
	<u>9,640</u>	<u>17,948</u>

7. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2021, nor has any dividend been proposed at the end of the reporting period (2020: nil).

8. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

The basic earnings/(loss) per share for the year ended 31 December 2021 is calculated based on the profit/(loss) attributable to the owners of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i> (Restated)
Profit/(loss) attributable to owners of the Company:		
From continuing operations	31,608	(38,173)
From discontinued operations	<u>(14,056)</u>	<u>(11,099)</u>
	<u>17,552</u>	<u>(49,272)</u>
	2021	2020
Weighted average number of ordinary shares for the year ended 31 December	<u>142,823,254</u>	<u>155,517,486</u>

Diluted earnings/(loss) per share

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary sharing during the year ended 31 December 2021. The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2020.

9. INVENTORIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Finished goods	<u>80,927</u>	<u>8,413</u>

10. TRADE RECEIVABLES

Credit sales are mainly derived from the Electronic Device and Semiconductor Business and the normal credit term was from 15 to 90 days from respective transaction dates.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	73,595	19,890
Provision for loss allowance	<u>(15,078)</u>	<u>(15,012)</u>
Carrying amount	<u><u>58,517</u></u>	<u><u>4,878</u></u>

The aging analysis of trade receivables, based on recognition date of the trade receivables and net of allowance, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0-30 days	29,475	2,034
31-60 days	28,680	1,125
61-90 days	289	1,210
91-180 days	12	177
181-365 days	<u>61</u>	<u>332</u>
	<u><u>58,517</u></u>	<u><u>4,878</u></u>

11. LOAN RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Guaranteed loans	82,869	99,700
Collateralised loans	<u>23,590</u>	<u>23,590</u>
	106,459	123,290
Provision for loss allowance	<u>(106,459)</u>	<u>(115,290)</u>
Carrying amount	<u><u>-</u></u>	<u><u>8,000</u></u>

The loan terms granted to customers are within one year, and the loan receivables are all dominated in RMB.

Analysis of loan receivables by overdue and impaired status are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Individually impaired	106,459	123,290
Less: Allowance for impairment losses	<u>(106,459)</u>	<u>(115,290)</u>
Net balance	<u><u>–</u></u>	<u><u>8,000</u></u>

12. TRADE PAYABLES

The aging analysis of trade payables, based on recognition date of trade payables, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0-30 days	2,465	3,930
31-60 days	1,284	847
61-90 days	861	1,582
91-180 days	451	790
181-365 days	4	360
Over 1 year	<u>4,623</u>	<u>4,559</u>
	<u><u>9,688</u></u>	<u><u>12,068</u></u>

13. MATERIAL EVENTS

(i) An alleged lawsuit relating to right of publicity

On 22 April 2020, the Company announced that there were certain recent media reports reporting that Ms. Selena Gomez, an American singer, songwriter, actress, and television producer (“Ms. Gomez”), had filed a lawsuit against Mutant Box Interactive Limited (“Mutant Box”) and Guangzhou Feidong Software Technology Co., Ltd. (“GZ Feidong”), both being subsidiaries of the Company, alleging that Mutant Box and GZ Feidong have portrayed Ms. Gomez’s character on, and profited off her likeness for, a mobile fashion game, “Clothes Forever” without the consent of Ms. Gomez.

On 12 October 2020, Mutant Box received a formal summons and complaint filed by Ms. Gomez as plaintiff against, among others, Mutuant Box, GZ Feidong and the Company as defendants (the “Defendants”) in the Supreme Court of California in the United States in respect of an action for violation of and conspiracy to violate statutory and common law right of publicity.

Accordingly, Ms. Gomez seeks damages and other relief against the Defendants, including general damages for harm to reputation and loss of standing in the community in the amount of US\$1 million and special damages for commercial value of the unauthorised use of Ms. Gomez’s right of publicity in the amount of US\$9 million. Ms. Gomez as the plaintiff also reserved her right to seek punitive damages in the amount of US\$25 million.

(ii) Frozen Shares of Certain PRC Operational Entities

Pursuant to the requirements of a civil paper (Document 2019 Yue 0106 Caibao 43) issued by a court in the PRC (the “Court”), legal shares of 23.75% (representing paid up capital of RMB2,375,000), 23.75% (representing paid up capital of RMB2,375,000) and 20.94% (representing paid up capital of RMB2,094,000) of Guangzhou Feiyin Information Technology Co., Ltd (廣州菲音信息科技有限公司), Guangzhou Weidong Internet Technology Co., Ltd (廣州維動網絡科技有限公司) and Guangzhou Jieyou Software Co., Ltd (廣州捷遊軟件有限公司), respectively, which are held by Mr. Wang Dongfeng (the “Mr. Wang”)(collective defined as the “Frozen Shares”) have been frozen by the Court due to lawsuits made against Mr. Wang as a defendant. The frozen period is from 26 February 2019 to 25 February 2021. During the frozen period, the Frozen Shares could not be transferred to other parties without the consent of the Court, and the Frozen Shares might also be demanded by the Court to be disposed in order to settle any damages, as determined by the Court, arising from the lawsuits. Up to the date of this announcement, the frozen status of the Frozen Shares in the official website of Intellectual Property Bureau of Guangzhou Municipality(廣州知識產權局) has expired.

The directors of the Company (the “Directors”), based on the advice of its PRC legal advisor, consider that the contractual arrangements are in compliance with relevant PRC laws and regulations and are legally binding and enforceable. There is no significant change for the contractual arrangements.

(iii) Contractual dispute

On 14 May 2021, the Company announced that the Company has been recently informed of a civil complaint (the “Civil Complaint”) dated 6 May 2021 filed by Pingxiang Huisheng Industrial Investment Management Co., Ltd. (萍鄉市匯盛工業投資管理有限公司) (the “Plaintiff”) as plaintiff with Jiangxi Pingxiang Intermediate People’s Court (江西省萍鄉市中級人民法院) against Mr. Ruan Qian (阮謙) (the “Defendant 1”), the Company, Mr. Wang and Pingxiang Caizhi Data Technology Co., Ltd. (萍鄉市財智數據科技有限公司) (the “Defendant 2”, together with the Defendant 1, the Company and Mr. Wang, collectively the “Defendants”) in relation to a contractual dispute.

The Plaintiff alleged that the Defendant 1 failed to complete the purchase after the relevant investment period and claimed, among others, the following: 1) the Defendant 1 to purchase the 20% equity interest in the Defendant 2 held by the Plaintiff and pay the Plaintiff the outstanding sum of the consideration of the Purchase and the relevant overdue interests, totaling approximately RMB621.5 million calculated as at 6 May 2021; 2) the Defendants to pay the Plaintiff the reasonable costs and expenses in relation to the Civil Complaint and pay the litigation costs; and 3) the Defendant 2, Mr. Wang and the Company to be jointly responsible for the abovementioned payment obligations.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief based on the information currently available, the Company is not connected to the Plaintiff, the Defendant 1 and the Defendant 2, and neither does the Company agree to any of the claims stated in the Civil Complaint. The Company has been collecting information and seeking legal advice.

In October 2021, the case was first heard in the Jiangxi Pingxiang Intermediate People’s Court (萍鄉市中級人民法院) and no verdict was given in the court. The case was subsequently suspended in a civil ruling in December 2021.

The Company will continue to take proactive actions to safeguard the Group’s interest. The Company is of the view that the above legal proceedings currently do not affect the normal business and operations of the Group.

EXTRACT OF THE AUDITOR’S REPORT

The following is an extract of the independent auditor’s report from ZHONGHUI ANDA CPA Limited on the Group’s consolidated financial statements for the year ended 31 December 2021:

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Qualified Opinion

Limited accounting books and disposal of Beijing Xigua

As disclosed in note 12, Ms. Li Luyi (“Ms. Li”), the former executive director and chief executive officer of the Company, was responsible for the management and operation of Beijing Xigua prior to her loss of contact from late October to early November 2019 and her resignation on 7 November 2019. On 12 November 2020, the Company announced the disposal transaction on the Group’s 69.84% equity interest in Beijing Xigua. The disposal was completed in December 2020. Due to the insufficient supporting documents and relevant explanations on the accounting books and records in respect of Beijing Xigua and its operations, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the disposal of Beijing Xigua and the income and expenses for the year ended 31 December 2020, and the segment information and other related disclosure notes in relation to the Group, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

(a) Income and expenses:

	For the year ended 31 December 2020 RMB’000
Loss from discontinued operations	<u><u>3,862</u></u>

(b) Related party transactions and disclosures in relation to Beijing Xigua and its operations

No sufficient evidence has been provided to satisfy ourselves as to the existence, accuracy and completeness of the disclosures of the related party transactions for the year ended 31 December 2020 in relation to Beijing Xigua and its operations as required by International Accounting Standard 24 (Revised) “Related Party Disclosures”.

Any adjustments to the figures as described from above might have a consequential effect on the Group’s result and cashflows for the year ended 31 December 2020 and the related disclosures thereof in the consolidated financial statements.

BOARD’S VIEW ON THE AUDIT QUALIFICATIONS

Qualified opinion in relation to limited accounting books and disposal of Beijing Xigua (“Xigua Qualification”)

Board’s view

Although the Company had completed the disposal of Beijing Xigua in 2020, the financial results of Beijing Xigua for the year ended 31 December 2020 are shown as corresponding figures in the 2021 auditor’s report. The Board expects the Xigua Qualification to be removed in the next year’s auditor’s report.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company’s Listed Securities

Pursuant to the special resolution passed in an extraordinary general meeting of the Company held on 24 December 2020, the Company bought back 22,268,908 shares (the “**Consideration Shares**”) from KongZhong Corporation (as designated by Shanghai Dacheng Network Technology Co., Ltd. to hold the Consideration Shares on its behalf), which were duly cancelled on 19 February 2021.

Save as disclosed above, during the year ended 31 December 2021, neither the Company nor any of its subsidiaries 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 Thursday, 19 May 2022 to Tuesday, 24 May 2022, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Tuesday, 24 May 2022. 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, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong before 4:30 p.m. on Wednesday, 18 May 2022.

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 Group for the year ended 31 December 2021.

Scope of Work of ZHONGHUI ANDA CPA Limited

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2021 as set out in this preliminary announcement have been agreed by the Group's auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2021. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

Corporate Governance Code

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value of the Group and accountability of the Board. The Company's corporate governance practices are based on the code provisions as set out in the Corporate Governance Code in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (the "**CG Code**").

Save as disclosed below, the Directors consider that the Company has complied with all the code provisions as set out in the CG Code throughout the year ended 31 December 2021.

- (a) *Code provision A.1.8 of the CG Code stipulates that an issuer should arrange appropriate insurance cover in respect of legal action against its directors.*

On 31 August 2021, the director's liability insurance policy expired. The Company is using its reasonable endeavors to negotiate with the insurers for the contract terms in order to procure appropriate insurance cover as soon as possible. The Company has always been in strict compliance with the principles and requirements of the Listing Rules. As at 31 December 2021, the Company was not involved in any material litigation liabilities that were incurred by any Director. Each Director has the necessary qualification and experience required in performing his duty. The Company estimates that in the reasonably foreseeable future, there is limited risk that there would be any material event for which any Director shall take significant responsibility. Other than the above period, the Company has arranged for appropriate directors' and officers' liability insurance in respect of legal action brought against the Directors and officers.

(b) 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.

During the period from 25 August 2021 to 17 December 2021, Mr. CUI Yuzhi served as both the chairman of the Board and the chief executive officer of the Company. The Board believed that the appointment of Mr. CUI Yuzhi as both the chairman of the Board and the chief executive officer of the Company was conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently, given the extensive experience in the relevant industries which Mr. CUI Yuzhi possesses. Further, the Board considered that there was a strong independent element on the Board which can effectively exercise independent judgments in the course of decision-making. In addition, all major decisions in relation to the Company's matters were made in consultation with members of the Board and Board committees, as well as the senior management of the Company as appropriate.

On 17 December 2021, Mr. DENG Ge was appointed as the chief executive officer of the Company, and Mr. CUI Yuzhi ceased to be the chief executive officer of the Company. Upon the above change of the chief executive officer of the Company, the roles of chairman and chief executive officer of the Company vest in Mr. CUI Yuzhi and Mr. DENG Ge respectively, and the Company has re-complied with code provision A.2.1 of the CG Code.

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. The Board will continue to monitor and review the Company's corporate governance practices from time to time to ensure compliance with the latest statutory requirements and professional standards.

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 2021.

Publication of the 2021 Annual Results and 2021 Annual Report

This annual results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (www.hkexnews.hk) and the Company (www.forgame.com). The annual report of the Company for the year ended 31 December 2021 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in April 2022.

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
CUI Yuzhi
Chairman

Hong Kong, 25 March 2022

As at the date of this announcement, the executive directors are Mr. CUI Yuzhi, Mr. ZHU Liang and Mr. HAN Jun; the independent non-executive directors are Mr. WANG Dong, Mr. WONG Chi Kin, Mr. LU Xiaoma and Mr. JI Yong.