

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Forgame Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the transferee or to the banker, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**Forgame Holdings Limited**

**雲遊控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00484)**

**(I) MAJOR AND CONNECTED TRANSACTION  
INVOLVING OFF-MARKET SHARE BUY-BACK;  
(II) SPECIAL DEAL RELATING TO LOAN ASSIGNMENT;  
AND  
(III) NOTICE OF EGM**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 13 to 43 of this circular. A letter from the Listing Rules IBC is set out on pages 44 to 45 of this circular. A letter from the Takeovers Code IBC is set out on pages 46 to 47 of this circular. A letter from the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 48 to 71 of this circular.

A notice convening the EGM to be held at Room 1106 Block A Phase I, Innovation Technology Plaza, Tianan Digital City, Chegongmiao, Futian District, Shenzhen, China on Thursday, 24 December 2020 at 14:00 is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

**PRECAUTIONARY MEASURES FOR THE EGM**

Taking into account the recent development of the Epidemic (COVID-19), the Company will implement the following prevention and control measures at the EGM to protect our shareholders from the risk of infection (details can be found in Note 7 of the Notice of EGM):

- compulsory body temperature check and health declarations
- compulsory wearing of surgical mask for each attendee
- no distribution of gift or refreshment

Any person who does not comply with the precautionary measures or is subject to any PRC Government prescribed quarantine may be denied entry into the EGM venue. The Company reminds shareholders that they may appoint the chairman of the EGM as a proxy to vote on the relevant resolutions instead of attending the EGM in person.

2 December 2020

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## DEFINITIONS

*In this circular, the following expressions have the meanings set out below unless the context requires otherwise:*

“2017 Annual Report”	the annual report of the Group for the year ended 31 December 2017
“2018 Annual Report”	the annual report of the Group for the year ended 31 December 2018
“2019 Annual Report”	the annual report of the Group for the year ended 31 December 2019
“2020 Interim Report”	the interim report of the Group for the six months ended 30 June 2020
“Acquisition”	the acquisition of the 69.84% equity interests in Beijing Xigua by the Investor pursuant to the terms and conditions of the Investment Agreement
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Actual Net Profits”	the net profits after tax of Beijing Xigua recognised by the relevant Auditor’s report for the period from 1 June 2019 to 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 under the Investment Agreement, details of which were disclosed in the Announcement dated 24 April 2019
“Announcements”	collectively, 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 and 12 November 2020 in relation to the Acquisition, the non-fulfilment of the Profit Guarantee, the follow up actions taken by the Company and the Transfer Agreement, and each an “Announcement”
“Articles”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Auditor”	ZHONGHUI ANDA CPA Limited, certified public accountants
“Beijing Xigua”	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

## DEFINITIONS

“Beijing Zhongding”	北京中鼎神起文化傳播有限公司 (Beijing Zhongding Shenqi Cultural Communication Co., Ltd.*), a company established in the PRC and is owned as to 99.01% by a deemed connected person of the Company under Rule 14A.21 of the Listing Rules
“Board”	the board of Directors
“Buy-back Price”	HK\$6.876 per Sale Share under the Share Buy-back
“BVI”	the British Virgin Islands
“Cash Consideration”	a sum of RMB25,519,280 in cash composed of RMB20,000,000 for the Equity Disposal and RMB5,519,280 for the Loan Assignment
“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 relevant registration procedures for change (工商變更登記) with respect to the Equity Disposal
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration Shares”	22,268,908 Shares (including all dividends and distribution declared or to be declared after completion of the Investment Agreement, but none of which has been declared or made by the Company) for the purpose of satisfying the consideration with respect to the Acquisition, which are currently held by the Escrow Agent and have not been released to Shanghai Dacheng as Beijing Xigua has not fulfilled the Profit Guarantee pursuant to the terms of the Investment Agreement, and each a “Consideration Share”
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Decoration Services Agreement”	the decoration services agreement entered into between Beijing Xigua and Beijing Zhongding on 20 May 2019 pursuant to which Beijing Zhongding agreed to provide decoration services (including but not limited to the provision of renovation, decoration and other related services for the VR stores) to Beijing Xigua group. The actual transaction amount paid by Beijing Xigua to Beijing Zhongding pursuant to the Decoration Services Agreement for the period from 26 June 2019 to 31 December 2019 amounted to RMB4.6 million
“Director(s)”	the director(s) of the Company

## DEFINITIONS

“Disposal Agreement”	the share transfer agreement dated 26 April 2019 entered into by and among the Company, Blue Whale Tech Ltd., AP China SPC in relation to the disposal of 54,544,421 sale shares in Jlc Inc. to Blue Whale Tech Ltd. and Best Hero Investments Limited from the Company for a consideration of RMB47,433,000 (or US\$ or HK\$ equivalent), and as supplemented and amended by the Supplemental Agreement, details of which were disclosed in the circular of the Company dated 12 July 2019
“EGM”	an extraordinary general meeting of the Company to be convened on Thursday, 24 December 2020 for the Independent Shareholders to consider and, if thought fit, to approve the resolutions approving the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment)
“Epidemic”	the epidemic outbreak of the respiratory disease caused by the novel coronavirus disease (COVID-19)
“Equity Disposal”	the disposal of the 69.84% equity interest in Beijing Xigua from the Company and the Investor to KongZhong China (or its designated third party)
“Escrow Agent”	Valuable Capital Limited (華盛資本證券有限公司), an independent third party to the Company, who is the agent managing the escrow account containing the Consideration Shares
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates

## DEFINITIONS

“Financial Assistance Loan Agreement”	the loan agreement dated 19 September 2019 entered into among (i) Beijing Xigua; (ii) Yunke; (iii) 天津玩氦科技有限公司 (Tianjin Wanke Technology Co., Ltd.*), a company established with limited liability in the PRC and wholly owned by Beijing Xigua; (iv) 北京易動無限網絡科技有限公司 (Beijing Yidong Wuxian Network Technology Co., Ltd*), a company controlled by KongZhong pursuant to contractual arrangements, being a member of the KongZhong group; and (v) 北京空中優宜信息技術有限公司 (Beijing KongZhong Youyi Information Technology Co., Ltd*), a company controlled by KongZhong pursuant to contractual arrangements, being a member of the KongZhong group, pursuant to which (a) Yunke has agreed to provide the loan with principal amount of RMB15,000,000, at an interest rate of 12% per annum for a term of 12 months to Beijing Xigua and Tianjin Wanke Technology Co., Ltd.; (b) Beijing Yidong Wuxian Network Technology Co., Ltd and Beijing KongZhong Youyi Information Technology Co., Ltd have agreed to provide the corporate guarantee in favour of Yunke; and (c) Beijing Xigua and Tianjin Wanke Technology Co., Ltd. shall pledge their trade receivables in the total amount of approximately RMB30,300,000 in favour of Yunke
“Full Cash Compensation”	the election by the Company to demand the cash compensation in the amount of RMB150,152,857 from Shanghai Dacheng being the consideration for the Acquisition, due to the non-fulfilment of the Profit Guarantee pursuant to the terms and conditions of the Investment Agreement
“Gongqingcheng’s Shareholders”	collectively, Mr. Wang Leilei (47.67%), Wang Ruyuan* (王茹遠) (8.63%), Sha Man* (沙曼) (8.63%), Beijing Chuchuang Zhidian Investment Management Center (Limited Partnership)* (北京初創知點投資管理中心(有限合夥)) (4.55%), Chen Chaorui* (陳朝瑞) (4.32%), Guangzhou Weidong Internet Technology Co., Ltd.* (廣州維動網絡科技有限公司) (4.32%), Beijing Chuangyi Hexian Kemao Co., Ltd.* (北京創藝和弦科貿有限公司) (4.32%), Gongqingcheng Dongneng Leiting Investment Management Partnership Enterprise (Limited Partnership)* (共青城動能雷霆投資管理合夥企業(有限合夥)) (3.02%), Wang Yuntao (王雲濤) (2.59%), Li Xianglu (李湘魯) (2.33%), Zhao Yue (趙越) (2.16%), Jia Tao (賈濤) (2.16%), Jiang Weiqiang (江偉強) (2.16%), Li Wenwen (李聞文) (2.16%), Zhou Youfeng (周友鳳) (0.54%) and Yi Zuofa (嵇作法) (0.43%)
“Group”	the Company and its subsidiaries

## DEFINITIONS

“Guangzhou Feidong”	廣州菲動軟件科技有限公司 (Guangzhou Feidong Software Technology Co., Ltd.*), a company incorporated in PRC and a wholly-owned subsidiary of the Company, which Beijing Xigua was indebted to in the amount of the Outstanding Sum under the Loan Agreement
“Hexie Chengzhang’s Other Shareholders”	collectively, National Council For Social Security Fund* (全國社會保障基金理事會) (35.65%), Yiwu City Financial Holdings Co., Ltd.* (義烏市金融控股有限公司) (22.28%), Tianjin Tianbao Holdings Co., Ltd.* (天津天保控股有限公司) (17.82%), Hubei Province Changjiang Economy Lead Fund Partnership Enterprise (Limited Partnership)* (湖北省長江經濟帶引導基金合夥企業(有限合夥)) (14.85%), Chinese Academy of Sciences Holdings Co., Ltd.* (中國科學院控股有限公司) (2.97%), Foshan City Chuangxin Chuangye Chanye Lead Fund Investment Co., Ltd.* (佛山市創新創業產業引導基金投資有限公司) (1.49%), Hangzhou City Financial Investment Group Co., Ltd.* (杭州市金融投資集團有限公司) (1.49%), and Yiwu City Chouhe Investment Management Partnership Enterprise (Limited Partnership)* (義烏市稠合投資管理合夥企業(有限合夥)) (0.46%)
“Hexie Tianming’s Shareholders”	collectively, Niu Kuiguang* (牛奎光) (25.5%), Lin Dongliang* (林棟梁) (25%), Yang Fe* (楊飛) (25%) and Wang Jingbo* (王靜波) (24.5%)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“Implied Transfer Consideration”	the implied amount of RMB155,672,137 payable by Shanghai Dacheng and KongZhong China to the Company for the Transfer contemplated under the Transfer Agreement with respect to the unwinding of the Acquisition and the Loan Assignment, which is equivalent to the sum of consideration for the Acquisition (i.e. RMB150,152,857) and consideration for the Loan Assignment (i.e. RMB5,519,280)
“Independent Board Committee”	collectively, the Listing Rules IBC and the Takeovers Code IBC

## DEFINITIONS

“Independent Financial Adviser”	Pelican Financial Limited, a corporation licenced by the SFC to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders (as applicable) in connection with the Transfer Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	the Shareholder(s) of the Company other than (i) the KongZhong Group, Shanghai Dacheng and the parties acting in concert with each of them; (ii) the Shareholders who are involved in or interested in the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment); and (iii) Shareholders who have a material interest in the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment) which is different from the interest of all other Shareholders, and who are required to abstain from voting on the relevant resolutions at the EGM
“Investment Agreement”	the investment agreement dated 24 April 2019 entered into, among others, the Company, the Investor, the KongZhong Group, Shanghai Dacheng and Beijing Xigua in respect of, among others, the Acquisition
“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
“Jianlicai”	Jianlicai (“簡理財”) brand. As disclosed in the circular of the Company dated 12 July 2019, Jlc Inc. principally engaged in the financial information service in the PRC through the operations of websites and mobile phone applications under the Jianlicai (“簡理財”) brand. The primary assets of the JLC Group constitute the Jianlicai brand which provides online financial assets information to the investing users in the PRC
“JLC Disposal”	the disposal of 54.54% of the entire issued share capital of Jlc Inc. Prior to the completion of the JLC Disposal taking place on 6 September 2019, Jlc Inc. was held as to 54.54% by the Company. After the completion, the Company no longer held any shares in Jlc Inc. and Jlc Inc. ceased to be a subsidiary of the Company

## DEFINITIONS

“JLC Group”	Jlc Inc. and its subsidiaries
“JLC Qualification”	the qualified opinion issued by the Auditor on the Company’s results for the year ended 31 December 2019 in relation to the income, expenses, assets and liabilities of JLC Group which was disposed of in 2019, and the full impairment on the consideration receivable of RMB33,203,000 from the JLC Disposal
“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
“Last Trading Day”	11 November 2020, being the last trading day of the Shares immediately before the issue of the Announcement
“Latest Practicable Date”	27 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Listing Rules IBC”	the independent committee of the Board, comprising Mr. WANG Dong, Mr. WONG Chi Kin, Mr. CUI Yuzhi and Mr. LU Xiaoma, being all the independent non-executive Directors, established to give recommendations to the Independent Shareholders in respect of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment)
“Loan Agreement”	the loan agreement dated 21 November 2019 entered into, among others, Beijing Xigua and Guangzhou Feidong, pursuant to which Guangzhou Feidong agreed to grant the loan in the amount of no more than RMB53,000,000 to Beijing Xigua
“Loan Assignment”	the assignment of the Outstanding Sum to KongZhong China (or its designated third party) originally due to Guangzhou Feidong pursuant to the terms and conditions of the Transfer Agreement

## DEFINITIONS

“Long Stop Date”	31 December 2020 (or any such later date as the parties to the Transfer Agreement may agree in writing)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Mr. Jiang”	姜騰 (Mr. JIANG Teng*), a resident of the PRC and is interested in 18.14% equity interests of Beijing Xigua
“Mr. Sheng”	盛勇 (Mr. SHENG Yong*), a resident of the PRC and is interested in 6.12% equity interests of Beijing Xigua
“Mr. Wang Leilei”	王雷雷 (Mr. WANG Leilei*), a resident of the PRC and the <i>de facto</i> controller of KongZhong. In respect of the relationship between Mr. WANG Leilei and KongZhong Group as well as his interests thereof, please refer to the paragraph headed “Information About the KongZhong Group And Shanghai Dacheng” in this circular for a chart in respect of the shareholding structure of Shanghai Dacheng for further details
“Mutant Box”	Mutant Box Interactive Limited, company incorporated in United Kingdom and a subsidiary of the Company
“Outstanding Sum”	the sum of RMB30,599,878 composed of the outstanding principal of RMB28,077,600 and the accumulated interest of RMB2,522,278 that Beijing Xigua is indebted to Guangzhou Feidong under the Loan Agreement prior to the entering into of the Transfer Agreement
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

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“PRC Operational Entities”	collectively, (1) Guangzhou Feiyin Information Technology Co., Ltd. (also referred to as Guangzhou Feiyin Information Technology Company Limited)* (廣州菲音信息科技有限公司); (2) Guangzhou Weidong Internet Technology Co., Ltd. (also referred to as Guangzhou Weidong Internet Technology Company Limited)* (廣州維動網絡科技有限公司); and (3) Guangzhou Jieyou Software Co., Ltd. (also referred to as Guangzhou Jieyou Software Company Limited)* (廣州捷遊軟件有限公司), all of which are limited companies established under the laws of the PRC, the financial results of which have been consolidated and accounted for as subsidiaries of the Company by virtue of certain contractual arrangements, details of which have been disclosed in 2019 Annual Report and the prospectus of the Company dated 19 September 2013
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme approved and adopted by the Shareholders on 31 October 2012, which was amended and restated on 1 September 2013, for the benefit of the Directors, members of senior management, employees and other eligible participants defined in such scheme
“Proceeds Receivable”	the consideration receivable of RMB33,203,000 from the JLC Disposal
“Profit Guarantee”	the profits guaranteed by the KongZhong Group, Shanghai Dacheng and Beijing Xigua with respect to the relevant net profit after tax of Beijing Xigua not less than the Thresholds, details of which were disclosed in the Announcements dated 24 April 2019 and 25 May 2019
“Relevant Period”	the period commencing 6 months preceding the date of the Announcement dated 12 November 2020 and up to and including the Latest Practicable Date
“Remaining Group”	the Group immediately after the Completion
“RSU”	restricted share unit(s) granted pursuant to the RSU Scheme
“RSU Scheme”	the scheme conditionally approved and adopted by the Company on 1 September 2013 for the grant of RSUs to RSU participants following the completion of initial public offering of the Shares on the Stock Exchange
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

## DEFINITIONS

“Shanghai Dacheng”	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, a company owned as to 98.54% by KongZhong China by way of certain contractual arrangements and the vendor with respect to the Acquisition in the Investment Agreement
“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 is interested in 1.36% equity interests of Beijing Xigua
“Share(s)”	the ordinary share(s) of par value US\$0.0001 each in the share capital of the Company
“Share Buy-back”	the buy-back of the Consideration Shares by the Company from Shanghai Dacheng for cancellation pursuant to the terms and conditions of the Transfer Agreement, which constitutes an off-market share buy-back by the Company under Rule 2 of the Share Buy-back Code
“Share Buy-back Code”	the Hong Kong Code on Share Buy-backs
“Shareholder(s)”	the holder(s) of the Shares
“Spacevision SPA”	the sale and purchase agreement dated 22 October 2020 entered into among the Foga Tech Limited (a wholly owned subsidiary of the Company) (as purchaser), Baseway Co Ltd (an independent third party) (as vendor) and Ms. Gu Wei and Shenzhen Binghong Investment Co. Ltd.* (深圳市秉宏投資有限公司) (independent third parties, together, as guarantors), pursuant to which Baseway Co Ltd has conditional agreed to sell, and Foga Tech Limited has agreed to acquire, the entire issued share capital of Spacevision Co, Ltd, in cash at the consideration of RMB24,000,000
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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“Strategic Cooperation Framework Agreement”	the strategic cooperation framework agreement dated 5 September 2019 entered into among the Company and KongZhong, pursuant to which the Group has agreed to offer and KongZhong group has agreed to procure the VR experience services, in consideration of the fees payable by the KongZhong group to the Group. The fees receivable by the Group for provision of the VR experience services to the KongZhong group under the Strategic Cooperation Framework Agreement are calculated at a rate to be agreed by the Group and the KongZhong group on normal commercial terms following arm’s length negotiations, with reference to the prevailing market rates but are in any event no more favourable to the KongZhong Group than those offered by the Group to independent third parties for the same or similar type of the VR experience services
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Agreement”	the agreement dated 9 July 2019 entered into by and among the Company, Blue Whale Tech Ltd., Best Hero Investments Limited and Jlc Inc. to supplement the Disposal Agreement, pursuant to which AP China SPC, being one of the purchasers in the Disposal Agreement, agreed to assign to Best Hero Investments Limited all its rights, privileges, power, title, interest, protections and all benefits accruing to AP China SPC under the Disposal Agreement, together with all its obligations thereunder, to the effect as if Best Hero Investments Limited had been an original party to the Disposal Agreement since the date of the Disposal Agreement, details of which were disclosed in the circular of the Company dated 12 July 2019
“Supplemental SPA”	the supplemental agreement to the Spacevision SPA dated 13 November 2020 to amend the payment terms of the relevant consideration to the effect that (a) in the event that the listing committee of the Stock Exchange has granted the relevant listing approval before the relevant determination date, the consideration shall be paid and settled by (i) RMB6,000,000 in cash; and (ii) RMB18,000,000 by the allotment and issuance of 9,614,760 consideration shares under the general mandate of the Company at the issue price of HK\$2.19 by the Company to Ms. Gu Wei; and (b) in the event that the relevant listing approval has not been obtained on or before the relevant determination date, the total consideration of RMB24,000,000 shall be paid and settled by the Company in cash within seven (7) business days after the relevant determination date
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

## DEFINITIONS

“Takeovers Code IBC”	the independent committee of the Board, comprising Mr. ZHANG Qiang, Mr. WANG Dong, Mr. WONG Chi Kin, Mr. CUI Yuzhi and Mr. LU Xiaoma, being all the non-executive Director and independent non-executive Directors, who have no direct or indirect interest in the Transfer Agreement and the transactions contemplated thereunder, established to give recommendations to the Independent Shareholders in respect of the Equity Disposal, the Share Buy-back and the Loan Assignment
“Thresholds”	the relevant actual net profits of Beijing Xigua for the period from 1 June 2019 to 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 would not be less than RMB43,000,000, RMB52,000,000 and RMB62,000,000 pursuant to the terms and conditions of the Investment Agreement, and each a Threshold. For further details, please refer to the Announcements dated 24 April 2019 and 24 May 2019
“Transfer”	the transactions with respect to the unwinding of the Acquisition (by way of the Equity Disposal and the Share Buy-back) and the Loan Assignment
“Transfer Agreement”	the Transfer agreement entered into, among others, the Company, the Investor, Shanghai Dacheng, the KongZhong Group, Beijing Xigua and Guangzhou Feidong on 12 November 2020 (after trading hours) in relation to the Transfer
“Yunke”	Jiujiang Yunke Internet Microfinance Co., Ltd.* (九江市雲客網絡小額貸款有限公司), a wholly-owned subsidiary of Guangzhou Feiyin Information Technology Co., Ltd. (also referred to as Guangzhou Feiyin Information Technology Company Limited)* (廣州菲音信息科技有限公司) established under the laws of the PRC in 2016. Guangzhou Feiyin Information Technology Co., Ltd. (also referred to as Guangzhou Feiyin Information Technology Company Limited) * (廣州菲音信息科技有限公司) is one of the PRC Operational Entities

LETTER FROM THE BOARD



**Forgame Holdings Limited**

**雲遊控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00484)**

*Executive Directors:*

Mr. HAN Jun (*Vice President*)  
Mr. DIAO Guoxin (*Acting Chief Executive Officer*)  
Mr. ZHU Liang (*Chief Financial Officer*)

*Non-executive Director:*

Mr. ZHANG Qiang (*Chairman*)

*Independent Non-executive Directors:*

Mr. WANG Dong  
Mr. WONG Chi Kin  
Mr. CUI Yuzhi  
Mr. LU Xiaoma

*Registered office:*

The offices of Osiris International  
Cayman Limited  
Suite #4-210, Governors Square  
23 Lime Tree Bay Avenue  
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Grand Cayman KY1-1209  
Cayman Islands

*Principal place of business*

*in Hong Kong:*  
16/F, Man Yee Building  
60–68 Des Voeux Road Central  
Central  
Hong Kong

2 December 2020

*To the Shareholders,*

Dear Sir/Madam,

**(I) MAJOR AND CONNECTED TRANSACTION  
INVOLVING OFF-MARKET SHARE BUY-BACK;  
(II) SPECIAL DEAL RELATING TO LOAN ASSIGNMENT;  
AND  
(III) NOTICE OF EGM**

Reference is made to the announcement dated 12 November 2020 in relation to the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment in which the Loan Assignment also constituting a special deal in accordance with Rule 25 of the Takeovers Code).

The purpose of this circular is to provide you with, among other things (i) further details of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment); (ii) the letter from the Listing Rules IBC giving its recommendation to the Independent Shareholders on the

## LETTER FROM THE BOARD

Transfer Agreement and the transactions contemplated thereunder (including the Equity Disposal, the Share Buy-back and the Loan Assignment); (iii) the letter from the Takeovers Code IBC giving its recommendation to the Independent Shareholders on the Transfer Agreement and the transactions contemplated thereunder (including the Equity Disposal, the Share Buy-back and the Loan Assignment); (iv) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in the same regard; (v) the notice of the EGM and (vi) other information as required under the Listing Rules, the Share Buy-back Code and the Takeovers Code.

### BACKGROUND

References are made to the Announcements in relation to the Acquisition, the non-fulfilment of the Profit Guarantee, the follow up actions taken by the Company.

On 24 April 2019, among others, the Company, the Investor, Shanghai Dacheng, Beijing Xigua and the KongZhong Group entered into the Investment Agreement, pursuant to which (i) the Investor conditionally agreed to subscribe for 9.30% equity interest in Beijing Xigua in the form of new registered capital for a consideration of RMB20,000,000 in cash; and (ii) Shanghai Dacheng conditionally agreed to sell, and the Investor conditionally agreed to acquire, 60.54% equity interest in Beijing Xigua for a consideration of RMB130,152,857 (in the form of 22,268,908 Consideration Shares), by way of the equity transfer. The Consideration Shares have been deposited into an escrow account managed by the Escrow Agent as designated by KongZhong. The consideration of the equity transfer abovementioned was satisfied by the allotment and issue of the Consideration Shares at the issue price of HK\$6.876 per Consideration Share. Completion of the Investment Agreement took place on 26 June 2019.

Under the Investment Agreement, the relevant actual net profits of Beijing Xigua for the period from 1 June 2019 to 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 should not be less than the relevant Thresholds. Otherwise, Shanghai Dacheng, the KongZhong Group and Beijing Xigua on a joint and several basis shall 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 Beijing Xigua 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, Beijing Xigua, Shanghai Dacheng 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

## LETTER FROM THE BOARD

- (ii) have the actual number of the Consideration Shares to be released to Shanghai Dacheng 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 the completion*

### *Financial year ending 31 December 2020*

If Beijing Xigua fails to meet the Actual Net Profits in the sum of RMB52,000,000 by 31 December 2020, Beijing Xigua, Shanghai Dacheng 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 Shanghai Dacheng 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 the completion*

### *Financial year ending 31 December 2021*

If Beijing Xigua fails to meet the Actual Net Profits in the sum of RMB62,000,000 by 31 December 2021, Beijing Xigua, Shanghai Dacheng 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 Shanghai Dacheng 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 the completion*

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### **Option B**

*1 June 2019 to 31 December 2019*

If Beijing Xigua 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, Beijing Xigua, Shanghai Dacheng and the KongZhong Group shall pay to the Company, in readily available cash, the RMB equivalent of the amount determined by the following formula:

$(\text{RMB}43,000,000 - \text{Actual Net Profits for the period from 1 June 2019 to 31 December of 2019}) \times \text{percentage of equity interest of the Investor in Beijing Xigua as at 31 December 2019} \times 5$

*Financial year ending 31 December 2020*

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

$(\text{RMB}52,000,000 - \text{Actual Net Profits for the financial year ending 31 December 2020}) \times \text{percentage of equity interest of the Investor in Beijing Xigua as at 31 December 2020} \times 5$

*Financial year ending 31 December 2021*

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

$(\text{RMB}62,000,000 - \text{Actual Net Profits for the financial year ending 31 December 2021}) \times \text{percentage of equity interest of the Investor in Beijing Xigua as at 31 December 2021} \times 5$

In the event that the Company opts for Option B, the total amount compensated to the Company and/or the Investor during the relevant guarantee period shall not exceed RMB150,152,857, being the amount of the Full Cash Compensation.

In addition, subsequent to completion of the Investment Agreement, as Beijing Xigua needed financing to open more stores to expand its business, the Loan Agreement was entered into, among others, Beijing Xigua and Guangzhou Feidong (a wholly-owned subsidiary of the Company), pursuant to which Guangzhou Feidong agreed to grant the loan in the amount of no more than RMB53,000,000 to Beijing Xigua. Subsequently, the loan in the total amount of RMB32,300,000 was granted by Guangzhou Feidong to Beijing Xigua, being RMB14,000,000 granted on 21 November 2019, RMB10,000,000 granted on 31 December 2019 and RMB8,300,000 granted on 7 March 2020. As at the Latest Practicable Date, a sum of

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RMB4,222,400 has been repaid by Mr. Jiang and Mr. Sheng, the shareholders of Beijing Xigua who are jointly liable to certain extent for the repayment, and Beijing Xigua is still indebted to Guangzhou Feidong the Outstanding Sum.

As disclosed in the 2019 Annual Report, based on the management accounts of Beijing Xigua, Beijing Xigua recorded a loss for the period from 1 June 2019 to 31 December 2019, falling short of over RMB43,000,000 as compared to relevant Actual Net Profit for such period of RMB43,000,000 as originally contemplated and guaranteed pursuant to the Investment Agreement. As a result of such non-fulfilment of the Profit Guarantee, the Company has elected to request Shanghai Dacheng, the KongZhong Group and Beijing Xigua for the Full Cash Compensation. As disclosed in the Announcement dated 10 March 2020, the Company has instructed its PRC legal adviser to issue a demand letter to Shanghai Dacheng, the KongZhong Group and Beijing Xigua demanding for the Full Cash Compensation. The Company also requested repayment of the Outstanding Sum from Beijing Xigua.

As disclosed in the Announcement dated 23 October 2020, the Company was given to understand that Shanghai Dacheng and the KongZhong Group have difficulties in arranging for the Full Cash Compensation. The Company was also given to understand that Beijing Xigua has difficulties in repaying the Outstanding Sum. Since the non-fulfilment of the Profit Guarantee, the parties to the Investment Agreement have held various rounds of negotiations and discussions to come to an amicable resolution of the matter. In particular, in light of the circumstances, together with the fact that (a) all the Consideration Shares are currently being held under an escrow account managed by the Escrow Agent; and (b) the financial difficulties that Beijing Xigua and the KongZhong Group are facing in repaying the Outstanding Sum, the parties to the Investment Agreement have been contemplating a mutually agreeable and viable settlement plan which has eventuated into the Transfer Agreement involving (a) the unwinding of the Acquisition (by way of the Equity Disposal and the Share Buy-back); and (b) the Loan Assignment.

The Transfer Agreement was considered and regarded by the parties to the Investment Agreement as the optimal solution to resolve the long-standing issues associated with (a) the non-fulfilment of the Profit Guarantee; (b) the deteriorating operational performance of Beijing Xigua; and (c) the protection of the interests of the Company and the Shareholders as a whole.

### **TRANSFER AGREEMENT**

On 12 November 2020 (after trading hours), among others, the Company, the Investor, Beijing Xigua, Shanghai Dacheng, the KongZhong Group and Guangzhou Feidong entered into the Transfer Agreement, pursuant to which: (i) the Company shall dispose of the 69.84% equity interest in Beijing Xigua to KongZhong China (or its designated third party) (i.e. the Equity Disposal) and the Consideration Shares shall be transferred from Shanghai Dacheng through the Escrow Agent to the Company (i.e. the Share Buy-back); and (ii) the Company shall assign the Outstanding Sum to KongZhong China (or its designated third party) (i.e. the Loan Assignment).

## LETTER FROM THE BOARD

Set out below is the principal terms of the Transfer Agreement.

### **Date**

12 November 2020 (after trading hours)

### **Parties**

- (i) the Company;
- (ii) the Investor;
- (iii) the KongZhong Group;
- (iv) Shanghai Dacheng;
- (v) Beijing Xigua;
- (vi) Mr. Wang Leilei;
- (vii) Mr. Jiang;
- (viii) Mr. Sheng; and
- (ix) Guangzhou Feidong.

Shanghai Dacheng is a company incorporated in the PRC with limited liability and is owned as to 98.54% by KongZhong China by certain contractual arrangements, which is in turn wholly-owned by KongZhong.

As at the Latest Practicable Date, (a) Shanghai Dacheng is interested in 22,268,908 Consideration Shares being held in an account managed by the Escrow Agent; and (b) KongZhong is interested in 10,202,168 Shares, representing approximately 13.97% and 6.40% of the issued share capital of the Company, respectively. Further, as Shanghai Dacheng is owned as to 98.54% by KongZhong China by way of certain contractual arrangements and KongZhong China is owned as to 100% by KongZhong, the KongZhong Group is interested in 32,471,076 Shares, representing approximately 20.37% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, each of KongZhong and Shanghai Dacheng is a connected person of the Company.

### **Subject Matter**

- (i) the disposal of the 69.84% equity interest in Beijing Xigua by the Company to KongZhong China (or its designated third party) (i.e. the Equity Disposal) and the buy-back of the 22,268,908 Consideration Shares by the Company from Shanghai Dacheng (through the Escrow Agent) for share cancellation (i.e. the Share Buy-back); and

## LETTER FROM THE BOARD

- (ii) the assignment of the Outstanding Sum in the amount of RMB30,599,878 to KongZhong China (or its designated third party) originally due to Guangzhou Feidong (i.e. the Loan Assignment).

### **Implied Transfer Consideration**

As disclosed in the paragraph headed “Background” in this circular, Beijing Xigua was and is unable to fulfil the Profit Guarantee, and Beijing Xigua, Shanghai Dacheng and KongZhong Group are experiencing financial difficulties in payment of the Full Cash Compensation and the Outstanding Sum.

After rounds of negotiations and discussions between the relevant parties for the purpose of resolving all outstanding issues amicably which have eventuated to the Transfer Agreement:

- (a) KongZhong China has agreed to pay the Company in cash in the amount of RMB20,000,000, equivalent to the amount of consideration that the Company paid to subscribe for 9.30% equity interest in Beijing Xigua in the form of new registered capital under the Investment Agreement;
- (b) KongZhong China has agreed to pay the Company in cash in the amount of RMB5,519,280 for the Loan Assignment; and
- (c) Shanghai Dacheng shall through the Escrow Agent deliver 22,268,908 Consideration Shares to the Company for cancellation.

((a) and (b) collectively, the Cash Consideration)

As the Transfer Agreement aims to unwind the Acquisition, the implied Buy-back Price for transfer of the Consideration Shares is HK\$6.876, which is equivalent to the issue price per Consideration Share under the Investment Agreement.

The Implied Transfer Consideration is RMB155,672,137, which is equivalent to the sum of consideration for the Acquisition (i.e. RMB150,152,857) and consideration for the Loan Assignment (i.e. RMB5,519,280).

With respect to the consideration for the Loan Assignment, the Board has considered the following:

- (a) Beijing Xigua 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;
- (b) as explained by Beijing Xigua that due to the Epidemic, the operations of the physical stores abovementioned have been suspended since early 2020 upon request of the relevant government departments in the PRC as part of the prevention and control measures to protect the public from the risk of viral infection;

## LETTER FROM THE BOARD

- (c) as such, the Company was given to understand that Beijing Xigua has been facing financial difficulties and was unable to repay the Outstanding Sum despite repeated requests from the Company through different approaches. The Company was also provided with the recent financial statements and other relevant documents of Beijing Xigua which confirmed the financial difficulties of the latter;
- (d) it is possible that the Company could commence legal proceedings against Beijing Xigua to recover the Outstanding Sum. However, the Board, after careful deliberations, analysis and calculations, is of the view that such legal proceedings may not be in the interests of the Company and the Shareholders as a whole due to the following reasons:
  - (i) the legal proceedings would likely last for a substantial period of time which would add additional burden in terms of legal costs and expenses on the Company. In addition, the management of the Company would likely need to spend a considerable amount of time and resources for such legal proceedings including but not limited to preparing and reviewing the legal documents and complying with the necessary legal procedures;
  - (ii) the outcome of the legal proceedings would be uncertain and unpredictable;
  - (iii) even if the Company obtained a favourable judgment out of the Outstanding Sum legal proceedings against Beijing Xigua, the Company would likely need to face the problem of and difficulties in judgment enforcement;
  - (iv) considering the financial difficulties that Beijing Xigua is facing, if Beijing Xigua is unable to repay the Outstanding Sum, the Company considers that Beijing Xigua would be unable to pay the judgment sum either. As such, it is likely that a winding up legal proceedings against Beijing Xigua would be instituted in order for the Company to obtain as much as it could out of the remaining assets of Beijing Xigua, which would be another additional burden in terms of time, costs and expenses as well as resources on the Company;
  - (v) in the event that the Company could obtain the judgment to wind up Beijing Xigua, it is possible that there would be other creditors of Beijing Xigua coming forward to claim and realise the remaining assets of Beijing Xigua;
  - (vi) considering that the date of the Loan Agreement, being 21 November 2019, is comparatively recent, it is further possible that those other creditors may have priority over the Company when claiming the assets of the Beijing Xigua;

## LETTER FROM THE BOARD

- (vii) to conclude, it is likely that the Company would need to bear a substantial amount of legal costs and expenses as well as spend a lot of time and resources for different kind of legal proceedings, but may lose the priority to other creditors when claiming and realising the remaining assets of Beijing Xigua, not to mention that it is unlikely that there will be much assets left in Beijing Xigua;
- (e) in light of the above and given the circumstances, the Board is of the view that a better approach to recover the Outstanding Sum as much as it could is to negotiate and discuss with Beijing Xigua and the relevant parties and to come up with an arrangement (i.e. the Loan Assignment) to resolve the issues smoothly and amicably;
- (f) after further discussions and negotiations with Beijing Xigua and the relevant parties, during which the Company had the opportunity to request and review the financial statements and other relevant documents of the KongZhong Group, it was revealed that the current consideration for the Loan Assignment is already the highest amount that can be offered by the KongZhong Group in order for the KongZhong Group at the same time to maintain their usual business operation, solvency and sufficient operating cashflow;
- (g) the consideration for the Loan Assignment, the amount of which despite being comparatively low to the Outstanding Sum, could allow the Company to obtain general working capital early which is beneficial to the operation of the Group;
- (h) the Loan Assignment can serve to lower the asset losses of the Company which will lead to a healthier financial position of the Company;
- (i) despite repeated attempts to recover the Outstanding Sum, Beijing Xigua has failed to fulfil its repayment obligation. The Loan Assignment, which involves a party not originally involved in the Loan Agreement, provides for an one-off solution to the Group to recover the Outstanding Sum to the largest extent possible given the financial position of the Beijing Xigua and the KongZhong Group; and
- (j) in view of the uncertainty in recovering the Outstanding Sum from Beijing Xigua, the Board opines that the Loan Assignment represents an opportunity for the Group to recover the Outstanding Sum as much as the Company could possibly recover, which will make a positive contribution to the cashflow of the Group.

Considering the above, the Board is of the view that the Loan Assignment, the amount of which despite being relatively lower than the Outstanding Sum, is the optimal solution that the Company could achieve out of various rounds of negotiations and discussions with Beijing Xigua and the relevant parties after considering (i) the adverse impact of the Epidemic on almost every industry in the PRC; (ii) the nature of the business that Beijing Xigua operates which suffers hard during the Epidemic; (iii) the difficult environment and market conditions for Beijing Xigua to operate in the PRC; and

## LETTER FROM THE BOARD

(iv) the operation and financial difficulties that Beijing Xigua and the KongZhong Group are facing, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The implied Buy-back Price represents:

- (i) a premium of approximately 207% over the closing price of HK\$2.24 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 202% over the closing price of HK\$2.28 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 198% over the closing price of HK\$2.31 per Share as quoted on the Stock Exchange on 12 November 2020, being the date of the Transfer Agreement and the relevant announcement;
- (iv) a premium of approximately 179% over the average closing price of approximately HK\$2.47 per Share for the last five trading days up to and including the Last Trading Day;
- (v) a premium of approximately 177% over the average closing price of approximately HK\$2.48 per Share for the last ten trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 165% over the average closing price of approximately HK\$2.59 per Share for the last 30 trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 134% over the average closing price of approximately HK\$2.94 per Share for the last 90 trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 119% over the average closing price of approximately HK\$3.14 per Share for the last 180 trading days up to and including the Last Trading Day; and
- (ix) a premium of approximately 52.8% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$4.5 per Share (based on the unaudited consolidated net assets attributable to the Shareholders as at 30 June 2020 of approximately RMB632,916,000 (equivalent to approximately HK\$719,223,000 based on an exchange rate of RMB0.88: HK\$1) and 159,379,238 Shares in issue as at the Latest Practicable Date.

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The Cash Consideration of RMB25,519,280 shall be paid by KongZhong China (or its designated third party) in the following manner:

- (i) a sum of RMB1,000,000 in cash shall be paid within 10 days of the date where all the conditions precedent under the Transfer Agreement have been satisfied or waived (if applicable), or by the end of 31 December 2020, whichever is earlier;
- (ii) a sum of RMB2,519,280 in cash shall be paid by the end of 31 March 2021; and
- (iii) thereafter, a sum of RMB2,000,000 in cash shall be paid at least quarterly by the end of June, September, December and March per year starting from 2021 until the balance of RMB22,000,000 has been paid in full.

Among the 10,202,168 Shares that KongZhong is interested in as at the Latest Practicable Date, 1,851,568 Shares (equivalent to approximately HK\$4,221,575 and HK\$4,147,512 calculated by using the closing prices of HK\$2.28 and HK\$2.24 per Share as quoted on the Stock Exchange on the Last Trading Day and on the Latest Practicable Date, respectively) have been agreed by the KongZhong Group to be delivered to a third party escrow agent jointly appointed by the KongZhong Group and the Company for security purpose that in the event of default in the payment of the Cash Consideration, such third party escrow agent is allowed to dispose of such 1,851,568 Shares and apply the sale proceeds to pay the relevant amount due.

With respect to the 1,851,568 Shares that have been agreed by the KongZhong Group to deliver to a third party escrow agent, the Board has considered the following:

- (a) as disclosed in the paragraph headed “Background” in this circular and in the Announcements, the Company was given to understand that Shanghai Dacheng and the KongZhong Group have been facing financial difficulties to make the Full Cash Compensation with respect to the non-fulfilment of the Profit Guarantee and the repayment of the Outstanding Sum;
- (b) further, as disclosed in the Announcement dated 10 March 2020, the Company has instructed its PRC legal adviser to issue a demand letter to Shanghai Dacheng, the KongZhong Group and Beijing Xigua demanding for the Full Cash Compensation;
- (c) given the reason of the financial difficulties, the Company was given to understand that the KongZhong Group are only able to pay the Cash Compensation by instalments. In order to protect the interests of the Company and the Shareholders as a whole, the Company requested securities with respect to the payment of the Cash Compensation by instalments, and the KongZhong Group agreed to deliver the 1,851,568 Shares to a third party escrow agent for security purpose;

## LETTER FROM THE BOARD

- (d) apart from the 1,851,568 Shares, the Company also requested other additional securities with an attempt to secure the total amount of the Cash Consideration as much as it could. However, after further discussions and negotiations with the KongZhong Group, during which the Company had the opportunity to conduct a comprehensive review on the KongZhong Group and by obtaining its financial statements and other relevant documents, it was revealed that KongZhong Group did not have sufficient assets to provide the other additional securities per the Company's request;
- (e) the KongZhong Group also explained that except the 1,851,568 Shares, other securities that the KongZhong Group are interested in have already been pledged to other third parties;
- (f) despite that no additional securities could be provided, during the comprehensive review on the KongZhong Group abovementioned, the Board has also assessed KongZhong China's payment capability and is of the view that KongZong China would not have concerns on its solvency in respect of the payment of the Cash Consideration by instalments;
- (g) the Company further requested certain documents in relation to the cashflow and business operations and proposals of the KongZhong Group for the coming future, and based on these documents, the Company believes that the KongZhong Group will have sufficient cash resources to satisfy its future working capital and other financing requirements in order to allow them to operate their business as planned and pay the Cash Consideration by installment as disclosed above;
- (h) the Company is not aware of any recent history of default in payment by the KongZhong Group with respect to any amount payable by the KongZhong Group to other parties, and therefore the Company considers that the KongZhong Group, despite having financial difficulties, are operating their business feasibly and are capable of making repayment to the Company;
- (i) as at the Latest Practicable Date, the Company believes that there has not been a significant change in credit quality of the KongZhong Group and the Cash Consideration is considered fully recoverable; and
- (j) the 1,851,568 Shares (equivalent to approximately HK\$4,221,575 and HK\$4,147,512 calculated by using the closing prices of HK\$2.28 and HK\$2.24 per Share as quoted on the Stock Exchange on the Last Trading Day and on the Latest Practicable Date, respectively), the value of which albeit being comparatively lower than the Cash Consideration, could still serve as security to a certain degree with respect to the payment by instalment of the Cash Compensation offered by the KongZhong with an attempt to resolve the issues amicably.

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In light of the above, after considering that (i) the KongZhong Group will have sufficient working capital to operate their business; (ii) the risk of default in payment of the Cash Consideration by KongZhong Group is low given no significant change in credit quality of the KongZhong Group; (iii) the KongZhong Group's attempt to resolve the matter amicably by revealing the underlying financial statements to the Company and offering the only available securities to the Company to secure the payment of the Cash Consideration; (iv) the relationship between the Group, Beijing Xigua and the KongZhong Group have been amicable; and (v) the KongZhong Group's lack of additional assets for security purpose for the Cash Consideration, the Board is of the view that the 1,851,568 Shares to be delivered to an escrow agent by the KongZhong Group is the most favourable solution that the Company could obtain with respect to the security for the payment of the Cash Consideration by instalment out of numerous rounds of negotiations and discussions with the KongZhong Group in order to protect the interests of the Shareholders as a whole, and is fair and reasonable given the difficult circumstances.

### **Conditions precedent**

The Transfer is conditional upon the satisfaction of each of the following conditions precedent:

- (i) the parties to the Transfer Agreement having completed all necessary internal procedures to agree to the terms and conditions and approve the signing and execution of the Transfer Agreement;
- (ii) the Executive having approved the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code (and such approval not having been withdrawn) and the condition(s) of such approval, if any, having been satisfied;
- (iii) the Executive having approved the Loan Assignment, which constitutes a special deal in accordance with Rule 25 of the Takeovers Code (and such approval not having been withdrawn) and the condition(s) of such approval, if any, having been satisfied;
- (iv) the parties to the Transfer Agreement having obtained all necessary consent, approval or waivers from any government or regulatory authority, including the Stock Exchange and the SFC, or third parties in connection with the execution and performance of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment), where required;
- (v) the approval of (a) each of the Equity Disposal and the Loan Assignment by a simple majority of the Independent Shareholders present at the EGM by poll in accordance with the Listing Rules; (b) the Loan Assignment by a simple majority of the Independent Shareholders present at the EGM by poll in accordance with the Takeovers Code; and (c) the Share Buy-back by at least three-fourths of the Independent Shareholders present at the EGM by poll, in accordance with the applicable requirements of the Listing Rules, Share Buy-back Code, Takeovers Code and other applicable laws and regulations;

## LETTER FROM THE BOARD

- (vi) the Company having sufficient reserves in the form of capital and/or share premium in its accounts to effect the Share Buy-back;
- (vii) each of the warranties provided in the Transfer Agreement remaining true and accurate in all respects up to the Completion;
- (viii) the due performance and observance by Shanghai Dacheng, Beijing Xigua, the KongZhong Group, Mr. Wang Leilei, Mr. Jiang and Mr. Sheng of all their undertakings and obligations under the Transfer Agreement; and
- (ix) no challenge or threat to challenge with respect to nor litigation or investigation instituted in respect of the transactions contemplated under the Transfer Agreement.

Shanghai Dacheng, Beijing Xigua, the KongZhong Group, Mr. Wang Leilei, Mr. Jiang, and Mr. Sheng shall use their best endeavours to satisfy the above conditions precedent as soon as possible. Save and except for conditions (vii) and (viii) which can be waived unilaterally by the Company, none of the conditions precedent set out above is capable of being waived by the parties to the Transfer Agreement.

If any of the above conditions precedent cannot be fulfilled or waived by the Long Stop Date, and without affecting the liabilities of any party to another party to the Transfer Agreement for any antecedent breach of any terms thereof, the Transfer Agreement and any matters contained therein and the rights and obligations of the parties thereto shall be of no effect from the date following the Long Stop Date.

With reference to condition (iv), as at the Latest Practicable Date and to the best knowledge of the Company, save for the requirements under conditions (ii), (iii) and (v), the Company is not aware of any necessary consents, authorisations, licences and/or approvals required to be obtained from any relevant government authorities or other relevant regulatory bodies for entering into and the implementation of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

In relation to condition (vi), as at the Latest Practicable Date, the Company confirms that it has sufficient reserves in the form of capital and/or share premium in its accounts to effect the Share Buy-back and expects to continue to be so satisfied until Completion.

As at the Latest Practicable Date, save as conditions (i) and (vi), none of the above conditions precedent has been fulfilled.

## LETTER FROM THE BOARD

### Completion

Upon the satisfaction (or waiver, if applicable) of all of the conditions precedents as set out in the paragraph headed “Conditions precedent” above in this circular:

- (a) the Loan Assignment shall take place immediately;
- (b) within two (2) days, Shanghai Dacheng shall deliver through the Escrow Agent the Consideration Shares to the Company for cancellation;
- (c) within five (5) days, the parties to the Transfer Agreement shall complete the relevant registration procedures for change (工商變更登記) with respect to the Equity Disposal (i.e. the Completion); and
- (d) within ten (10) business days (or a later day to be agreed between the Company and the KongZhong Group), the escrow arrangement with respect to the 1,851,568 Shares shall be completed.

Upon Completion, the parties to the Investment Agreement (including Shanghai Wangyu) and the Loan Agreement shall not be entitled to the rights given and be discharged from their respective obligations under the Investment Agreement and the Loan Agreement. KongZhong China (or its designated third party) shall continue to make payment for the Cash Consideration in accordance with the manner disclosed in the paragraph headed “Implied Transfer Consideration” above in this circular until full payment.

### EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the Company’s shareholding structure (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Share Buy-back, assuming there will be no other change in the issued share capital and the shareholding structure of the Company between the Latest Practicable Date and the date on which the Share Buy-back is completed.

<b>Name of Shareholder</b>	<b>As at the Latest Practicable Date</b>		<b>Immediately after the completion of the Share Buy-back</b>	
	<i>Number of Shares held</i>	<i>Approximate %</i>	<i>Number of Shares held</i>	<i>Approximate %</i>
Foga Group Ltd. <sup>(1)(7)</sup>	21,673,338	13.60%	21,673,338	15.81%
WANG Dongfeng <sup>(2)</sup>	1,650,800	1.04%	1,650,800	1.20%
Foga Holdings Ltd. <sup>(1)</sup>	7,763,997	4.87%	7,763,997	5.66%
Subtotal — Foga Group Ltd. and its concert parties	31,088,135	19.51%	31,088,135	22.67%

## LETTER FROM THE BOARD

Name of Shareholder	As at the Latest Practicable Date		Immediately after the completion of the Share Buy-back	
	Number of Shares held	Approximate %	Number of Shares held	Approximate %
Foga Internet Development Ltd. <sup>(4)</sup>	7,785,700	4.89%	7,785,700	5.68%
YANG Tao <sup>(5)(7)</sup>	<u>1,340,000</u>	<u>0.84%</u>	<u>1,340,000</u>	<u>0.98%</u>
Subtotal — Foga Internet Development Ltd. and its concert party	9,125,700	5.73%	9,125,700	6.66%
KongZhong <sup>(3)</sup>	10,202,168	6.40%	10,202,168	7.44%
Shanghai Dacheng <sup>(3)</sup>	<u>22,268,908</u>	<u>13.97%</u>	<u>0</u>	<u>0%</u>
Subtotal — KongZhong and its concert party	32,471,076	20.37%	10,202,168	7.44%
China Create Capital Limited <sup>(6)</sup>	9,584,000	6.01%	9,854,000	6.99%
ZHANG Qiang <sup>(8)</sup>	93,333	0.06%	93,333	0.07%
Other Shareholders	<u>77,016,994</u>	<u>48.32%</u>	<u>77,016,994</u>	<u>56.17%</u>
<b>Total</b>	<b><u>159,379,238</u></b>	<b><u>100%</u></b>	<b><u>137,110,330</u></b>	<b><u>100%</u></b>

*Notes:*

- (1) Foga Group Ltd. is wholly-owned by Managecorp Limited as the trustee of Wang Trust. Wang Trust is a discretionary trust set up by Mr. WANG Dongfeng, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary objects of Wang Trust include Mr. WANG Dongfeng and certain of his family members. Mr. WANG Dongfeng and Managecorp Limited are taken to be interested in 21,673,338 Shares held by Foga Group Ltd.. In addition, Foga Holdings Ltd. is wholly-owned by Managecorp Limited as the trustee of Hao Dong Trust. Hao Dong Trust is a discretionary trust set up by Mr. LIAO Dong, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary object of Hao Dong Trust is Mr. LIAO Dong himself. Mr. LIAO Dong and Managecorp Limited are taken to be interested in 7,763,997 Shares held by Foga Holdings Ltd.
- (2) Mr. WANG Dongfeng was granted 500,000 RSUs under the RSU Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018. Mr. WANG Dongfeng bought an aggregate of 850,800 Shares during the period from 26 June to 13 July 2017. He was further granted 300,000 RSUs under the RSU Scheme in 2018, 50,000 of which vested on 1 December 2018 and 250,000 of which were cancelled on 30 June 2019. The Company further granted 250,000 RSUs to Mr. WANG Dongfeng under the RSU Scheme in 2019, 50,000 of which vested on 1 July 2019 and 50,000 vested on 1 January 2020. Mr. WANG Dongfeng resigned from executive Director with effect from 30 September 2019. Given that 1 RSU represents 1 Share upon vesting, the figure of 1,650,800 comprising 1,500,800 Shares and 150,000 uncancelled RSUs as well is considered as a prudent and complete disclosure by the Company of Mr. WANG Dongfeng's interests in the Company.

## LETTER FROM THE BOARD

- (3) Shanghai Dacheng is owned as to 98.54% by KongZhong China by way of certain contractual arrangements, which is in turn 100% owned by KongZhong. By virtue of the SFO, the KongZhong Group are taken to be interested in the 22,268,908 Shares held by Shanghai Dacheng.
- (4) Foga Internet Development Ltd. is wholly-owned by Mr. YANG Tao. Mr. YANG Tao is taken to be interested in the 7,785,700 Shares held by Foga Internet Development Ltd.
- (5) Mr. YANG Tao was granted 1,340,000 RSUs under the RSU Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018.
- (6) China Create Capital Limited is a company incorporated in the BVI and interested in 9,584,000 Shares in the capacity of a beneficial owner. To the best of the knowledge of the Company, none of the Directors is holding any shares in China Create Capital Limited and China Create Capital Limited is not related to other Shareholders.
- (7) Mr. WANG Dongfeng, Mr. LIAO Dong and Mr. YANG Tao are co-founders of the Group. For further details of their relationship, please refer to the sections headed “Our History, Reorganization and Corporate Structure” and “Directors and Senior Management” of the prospectus of the Company dated 19 September 2013.
- (8) As at the Latest Practicable Date, Mr. ZHANG Qiang, a non-executive Director, is holding 93,333 Shares in the capacity as a beneficial owner, representing approximately 0.06% of the issued share capital of the Company. Mr. ZHANG Qiang was granted 100,000 RSUs, all of which vested during the period from 1 December 2016 to 1 June 2018. He was further granted 50,000 RSUs, 8,333 of which vested on 1 December 2018 and 41,667 of which were cancelled on 30 June 2019. Mr. ZHANG Qiang sold 75,000 Shares on 17 January 2019. The Company further granted 60,000 RSUs to Mr. ZHANG Qiang, of which 12,000 vested on 1 July 2019, 12,000 vested on 1 January 2020 and 12,000 vested on 1 July 2020. Given that 1 RSU represents 1 Share upon vesting, the figure of 93,333 comprising 69,333 Shares and 24,000 uncancelled RSUs as well is considered as a prudent and complete disclosure by the Company of Mr. ZHANG Qiang’s interests in the Company.

The Company has adopted the Pre-IPO Share Option Scheme by a resolution of the Shareholders on 31 October 2012, which was amended on 1 September 2013. The Pre-IPO Share Option Scheme is not subject to the provision of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme does not involve the grant of options by the Company to subscribe for Shares once the Company is a listed issuer. No further options will be granted under the Pre-IPO Share Option Scheme.

Pursuant to the Pre-IPO Share Option Scheme, the Company had granted options to subscribe for 6,440,911 Shares to the Directors and employees/former employees of the Group. The following persons are holders of the outstanding share options:

<b>Name of share option holders</b>	<b>Outstanding as at the Latest Practicable Date</b>
Four former Directors and 361 employees/former employees	452,370
<b>Total</b>	<b>452,370</b>

The 452,370 share options outstanding as at 30 June 2020 represent 452,370 Shares in the event that the former are exercised in full.

## LETTER FROM THE BOARD

In addition, the Company has approved and adopted the RSU Scheme. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares. The following persons are holders of the outstanding RSUs:

<b>Name of RSU holders</b>	<b>Unvested as at the Latest Practicable Date</b>
ZHANG Qiang	24,000 <i>(Note)</i>
Five former Director and 16 employees	<u>602,000</u> <i>(Note)</i>
<b>Total</b>	<u><u>626,000</u></u> <i>(Note)</i>

*Note:* The RSUs which have vested shall be satisfied at the Company's absolute discretion within a reasonable period from the vesting date of such RSUs by directing and procuring the professional trustee of the RSU Scheme to transfer the Shares underlying the award to the relevant grantees which such trustee has acquired by making on-market purchases of the Shares in accordance with the relevant terms and conditions of the RSU Scheme.

Save as disclosed above, the Group has no outstanding warrants, options, convertible securities or other derivatives convertible into Shares, and no share or loan capital of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no other conversion right affecting the Shares or other derivatives in respect of securities which are being offered for or which carry voting rights have been issued or granted or agreed conditionally or unconditionally to be issued or granted.

Upon Completion, pursuant to the Share Buy-back, the Consideration Shares will be cancelled and the number of Shares in issue following the Share Buy-back will be reduced from 159,379,238 (being the number of issued Shares as at the Latest Practicable Date) to 137,110,330 and the shareholding interest of the Shareholders will be increased proportionally. The percentage interest in the issued Shares of all other Shareholders, including KongZhong (whose percentage interest in the issued Shares will increase from approximately 6.40% to 7.44%), will be proportionally increased following the cancellation of the Consideration Shares and as a result of the reduction in the number of issued Shares. Shanghai Dacheng will no longer hold any Shares upon the Completion.

### 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 direct 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 software and design of game software.

Guangzhou Feidong is an indirectly wholly-owned subsidiary of the Company. It is principally engaged in the business of webgames development.

## LETTER FROM THE BOARD

### INFORMATION ABOUT THE KONGZHONG GROUP AND SHANGHAI DACHENG

KongZhong is a company incorporated under the laws of the Cayman Islands with limited liability and is an investment holding company. To the best of the knowledge, information and belief of the Company after making reasonable enquiries:

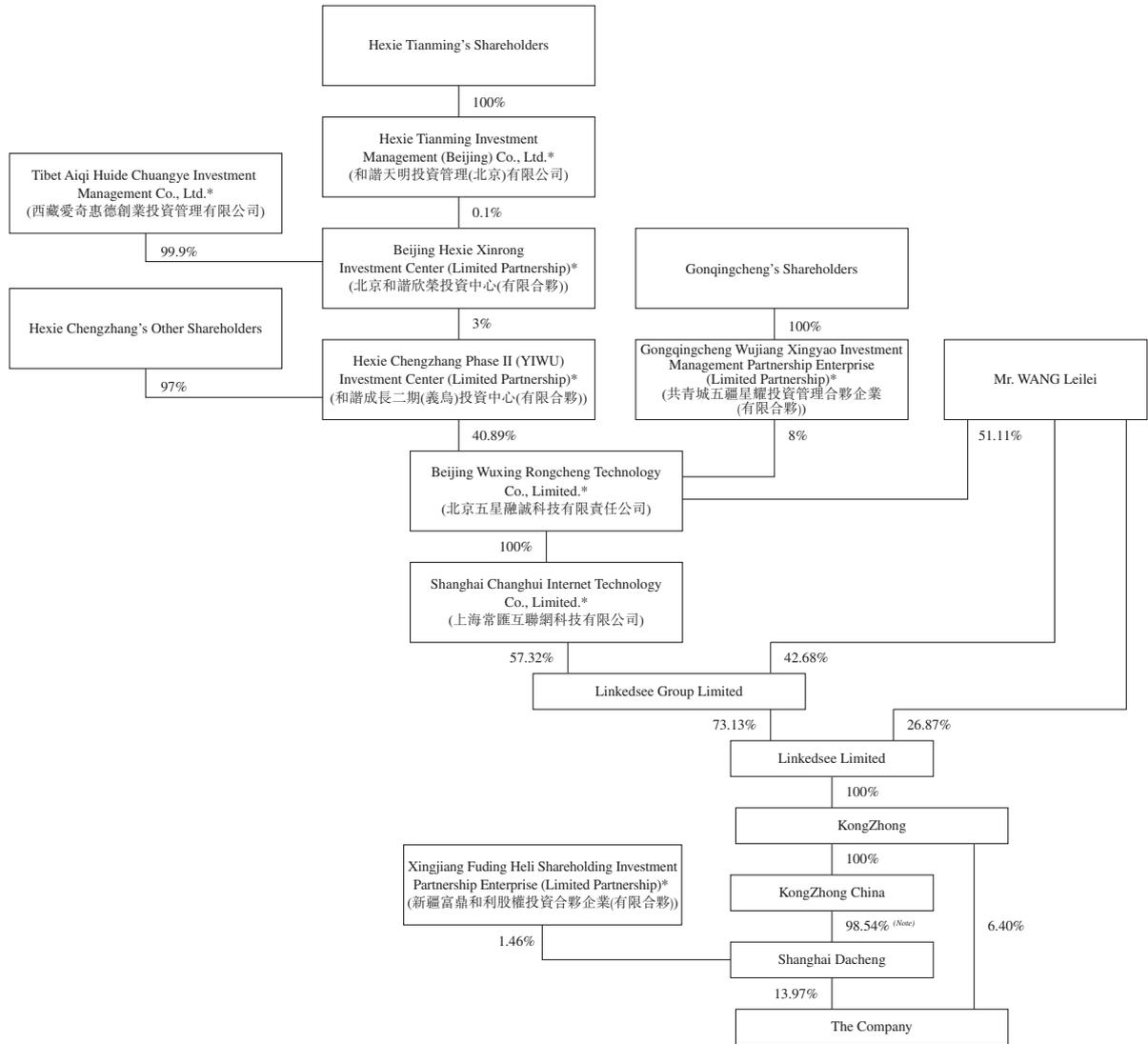
- (1) KongZhong is 100% owned by Linkedsee Limited, which in turn is 73.13% owned by Linkedsee Group Limited and 26.87% owned by Mr. WANG Leilei;
- (2) Shanghai Changhui Internet Technology Co., Limited\* (上海常匯互聯網科技有限公司) and Mr. WANG Leilei hold 57.32% and 42.68% of equity interest of Linkedsee Group Limited, respectively;
- (3) Beijing Wuxing Rongcheng Technology Co., Limited\* (北京五星融誠科技有限責任公司) holds 100% equity interest of Shanghai Changhui Internet Technology Co., Limited\* (上海常匯互聯網科技有限公司);
- (4) Beijing Wuxing Rongcheng Technology Co., Limited\* (北京五星融誠科技有限責任公司) is 51.11% owned by Mr. WANG Leilei, 40.89% owned by Hexie Chengzhang Phase II (YIWU) Investment Center (Limited Partnership)\* (和諧成長二期(義烏)投資中心(有限合夥)) and 8.0% owned by Gongqingcheng Wujiang Xingyao Investment Management Partnership Enterprise (Limited Partnership)\* (共青城五疆星耀投資管理合夥企業(有限合夥)); and
- (5) Hexie Chengzhang Phase II (YIWU) Investment Center (Limited Partnership)\* (和諧成長二期(義烏)投資中心(有限合夥)) is 3% held by Beijing Hexie Xinrong Investment Center (Limited Partnership)\* (北京和諧欣榮投資中心(有限合夥)), Beijing Hexie Xinrong Investment Center (Limited Partnership)\* (北京和諧欣榮投資中心(有限合夥)) is 0.1% owned by Hexie Tianming Investment Management (Beijing) Co., Ltd.\* (和諧天明投資管理(北京)有限公司).

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

Shanghai Dacheng is a company established under the laws of the PRC with limited liability. It is principally engaged in publication of internet games and owned as to 98.54% by KongZhong by way of certain contractual arrangements.

## LETTER FROM THE BOARD

To the best of the knowledge, information and belief of the Company after making reasonable enquiries, set out below is a chart in respect of the shareholding structure of Shanghai Dacheng as at the Latest Practicable Date:



*Note: Shanghai Dacheng is owned as to 98.54% by KongZhong by way of certain contractual arrangements.*

## LETTER FROM THE BOARD

### INFORMATION ABOUT BEIJING XIGUA

Beijing Xigua is a company established under the laws of the PRC with limited liability. Beijing Xigua 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 Latest Practicable Date, Beijing Xigua is owned as to 69.84% by the Investor, 4.54% by Shanghai Wangyu, 18.14% by Mr. Jiang, 6.12% by Mr. Sheng and 1.36% by Shanghai Dacheng.

Set out below is a summary of the unaudited consolidated financial information of Beijing Xigua as prepared in accordance with IFRS for the years ended 31 December 2018 and 2019:

	<b>For the year ended 31 December 2018 (RMB) (unaudited)</b>	<b>For the year ended 31 December 2019 (RMB) (unaudited)</b>
Loss before tax	5,402,953	87,238,980
Loss after tax	5,402,953	87,238,980

As at 31 December 2019, Beijing Xigua has audited consolidated net liabilities of approximately RMB73,702,000<sup>1</sup>. As at 30 June 2020, Beijing Xigua has unaudited consolidated net liabilities of approximately RMB89,522,000.

Pursuant to Rule 14.58 of the Listing Rules, the Company is required to disclose the net profits and book value of Beijing Xigua set out above (the “**Unaudited Beijing Xigua Financial Information**”). **However, in light of the qualified opinion issued by the Auditor in the 2019 Annual Report set out below, the Directors are of the view that the Unaudited Beijing Xigua Financial Information may not be true and accurate.**

Meanwhile, pursuant to Rule 10 of the Takeovers Code, the Unaudited Beijing Xigua Financial Information constitutes a profit forecast and must be reported on by the Auditor and the Company’s financial adviser(s) in accordance with the Takeovers Code and such report must be lodged with the Executive in accordance with Rule 10.4 of the Takeovers Code. However, as discussed above, **the Auditor has issued a qualified opinion in relation to the financial information of Beijing Xigua for the period from 26 June 2019, being the date of the completion of the Acquisition, to 31 December 2019, in the 2019 Annual Report, and hence the Auditor would not be able to provide an assurance on the compilation of the Unaudited Beijing Xigua Financial Information. Accordingly, the Unaudited Beijing Xigua Financial Information would not be reported on by the Auditor and financial adviser of the Company in accordance with Rule 10.4 of the Takeovers Code.**

<sup>1</sup> As the consolidated statement of financial position of Beijing Xigua only concerns a given point in time (i.e. 31 December 2019), it was audited by the Auditor together the consolidated statement of financial position of the Group. On the other hand, the consolidated statement of profit or loss and other comprehensive income of Beijing Xigua for the year ended 31 December 2019 is unaudited as Beijing Xigua only entered the Group in June 2019 and its accounts prior to that are not audited by the Auditor.

## LETTER FROM THE BOARD

**Shareholders and potential investors of the Company should note that the Unaudited Beijing Xigua Financial Information does not meet the standard required by Rule 10 of the Takeovers Code and has not been reported on in accordance with the Takeovers Code. In addition, Shareholders and potential investors of the Company should not rely on the Unaudited Beijing Xigua Financial Information when they deal or contemplate dealing in the Shares or other securities (if any) of the Company. Shareholders and potential investors of the Company should also exercise caution in placing reliance on the Unaudited Beijing Xigua Financial Information in assessing the merits and demerits of the Transfer Agreement and the transactions contemplated thereunder (including the Equity Disposal, the Share Buy-back and the Loan Assignment).**

As disclosed in the 2019 Annual Report, the Auditor issued a qualified opinion in relation to Beijing Xigua, which is as set out below:

*“As disclosed in note 38(a) to the consolidated financial statements, the Group acquired a 69.84% equity interest in Beijing Xigua Huyu Technology Co., Ltd. (“Beijing Xigua”) on 26 June 2019. 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. 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 acquisition of Beijing Xigua and the following income and expenses for the year ended 31 December 2019 and the assets and liabilities as at 31 December 2019, 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 ...”*

For further details of the above qualified opinion, please refer to the 2019 Annual Report and the supplemental Announcement dated 22 October 2020.

Beijing Xigua has been held by the Company for less than 12 months prior to date of the Transfer Agreement. The original acquisition cost of Beijing Xigua to the Group was RMB150,152,857 (composed of a cash consideration RMB20,000,000 and a consideration of RMB130,152,857 in the form of 22,268,908 Consideration Shares), which was determined taking into account a number of factors including but not limited to: (i) the previous assessment on the prospects of the virtual reality game industry by the Company’s management; (ii) the Thresholds as guaranteed profits pursuant to the terms and conditions of the Investment Agreement; (iii) a valuation of the 100% equity value of Beijing Xigua 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.\*) prepared by an independent valuer adopting market approach; (iv) the expected future development of Beijing Xigua, in particular its potential of being one of the largest VR game brands in the PRC; and (v) the expected benefits to be derived by the Group from the transaction as described under the paragraph headed “Reasons for and benefits of the Transaction” in the Announcement dated 24 April 2019.

## LETTER FROM THE BOARD

### **PUBLIC FLOAT**

The Company intends to maintain its listing on the Stock Exchange and to continue to meet the public float requirements under Rule 8.08 of the Listing Rules. It is expected that the Company will meet the said public float requirement after completion of the Share Buy-back.

### **FINANCIAL EFFECTS OF THE TRANSFER**

Upon completion of the Equity Disposal, Beijing Xigua will cease to be a subsidiary of the Company and the Company will not be holding any issued shares of Beijing Xigua.

Set out below are the impact of the Transfer Agreement and the transactions contemplated thereunder on the financial performance and financial position of the Group. It should be noted that they are for illustrative purpose only.

#### **Earnings**

Upon completion of the Equity Disposal, the Group expects to record a gain or loss on the Equity Disposal which will be reflected in the consolidated statement of profit or loss after taking into account the fair value of the Consideration Shares as at the date of the Completion less the net assets value of Beijing Xigua attributable to the Company as at the date of the Completion and the transaction costs to be incurred for the Equity Disposal.

Based on the net liabilities of Beijing Xigua attributable to the Company of approximately RMB89,522,000 as at 30 June 2020, the Company currently expects to recognise a gain of approximately RMB74,707,000 (by using the then closing price as the deemed fair value of the Consideration Shares of approximately HK\$69,702,000 (calculated by using the closing price of the Shares on 30 June 2020 of HK\$3.13 per Share times the number of Consideration Shares of 22,268,908) less the net liabilities of Beijing Xigua attributable to the Company of approximately RMB89,522,000 as at 30 June 2020). It is contemplated that the reserves of the Remaining Group will be increased upon the recognition of the disposal gain and the transaction costs in the consolidated statement of profit or loss.

It should be noted that the disposal gain calculated above is only for illustrative purpose which assumes the completion of the Equity Disposal had taken place on 30 June 2020. The actual profit or loss on the Equity Disposal will depend on the fair value of the Consideration Shares and the net assets value of Beijing Xigua as at the completion date of the Equity Disposal.

#### **Working Capital**

According to the estimations of the Company, the working capital of the Remaining Group is expected to increase slightly by approximately RMB22,302,000 from approximately RMB512,478,000 to approximately RMB534,780,000, mainly due to the receipt of the Cash Consideration of RMB25,519,280 and the exclusion of the fair value of Profit Guarantee of RMB74,000,000 and the negative working capital of Beijing Xigua of approximately RMB70,783,000.

## **LETTER FROM THE BOARD**

Since there is no cash outflow required by the Company in order to effect the Share Buy-back, the Directors consider that the Share Buy-back will not have a material adverse effect on the working capital sufficiency of the Company upon completion of the Share Buy-back.

### **Asset and liabilities**

As at 30 June 2020, the assets and liabilities of the Group amounted to approximately RMB756,598,000 and RMB123,682,000 respectively. Upon completion of the Transfer, the assets and liabilities of the Remaining Group will decrease by 7.66% and 56.03% to approximately RMB698,640,000 and RMB54,382,000 respectively after exclusion of the assets and liabilities of Beijing Xigua.

### **Net assets**

Assuming that the Loan Assignment had taken place on 30 June 2020, the Group would have incurred loss in the amount of approximately RMB24,180,000 for the Loan Assignment due to the net effect of (a) approximately RMB28,078,000 being the outstanding principal under the Loan Agreement; (b) approximately RMB1,621,000 being the accumulated interest as at 30 June 2020; and (c) RMB5,519,000 being the consideration of the Loan Assignment received under the Transfer Agreement.

It is expected that the net asset value of the Remaining Group attributable to the owners of the Company will increase by approximately RMB11,342,000 from approximately RMB632,916,000 to RMB644,258,000, due to the net effect of (a) the exclusion of (i) the net liabilities of Beijing Xigua attributable to the Company of approximately RMB89,522,000 as at 30 June 2020; (ii) the outstanding principal of approximately RMB28,078,000 and the accumulated interest of approximately RMB1,621,000 under the Loan Agreement as at 30 June 2020; and (iii) the fair value of Profit Guarantee of RMB74,000,000; and (b) the receipt of the Cash Consideration of RMB25,519,280. Accordingly, the Group's net assets attributable to the owners of the Company per Share as at 30 June 2020 would increase from approximately RMB4.06 to approximately RMB4.82.

### **Loss per Share**

For the period ended 31 December 2019, the loss per share was RMB1.48. Based on the estimated gain of approximately RMB74,707,000 to be recognised, a loss per Share of RMB0.97 will be recorded.

In view of the above, the Company is of the view that the Share Buy-back will not have material adverse effect on the Group's earnings per Share, liabilities, net assets per Share and working capital.

### **REASONS FOR AND BENEFITS OF THE TRANSFER**

Given that starting from September 2019, the results of Beijing Xigua have fallen short of expectation, the Company has been considering different solutions and taking up certain actions to deal with the deteriorating business and operations of Beijing Xigua in order to protect the interests of the Company and the Shareholders as a whole. Such actions include but

## LETTER FROM THE BOARD

not limited to actively communicating with Beijing Xigua with the hope to improve its performance, instructing the Company's PRC legal advisers to issue a demand letter to each of the KongZhong Group and Shanghai Dacheng stating the Company's decision to opt for the Full Cash Compensation and demanding a compensation payment from the KongZhong Group and Shanghai Dacheng, as disclosed in the Announcements.

However, the Company is given to understand that the KongZhong Group, Beijing Xigua and Shanghai Dacheng had serious difficulties in arranging the Full Cash Compensation. In light of the circumstances, the Company considers that the Transfer involving the Equity Disposal and the Share Buy-back would be an optimal solution for the KongZhong Group and Shanghai Dacheng to compensate the loss that the Company suffers as it does not extensively call on the funding resources of the KongZhong Group and Shanghai Dacheng.

The terms of the Transfer Agreement are also generally in line with the original terms under the Investment Agreement to the extent that:

- (i) under the Investment Agreement, should Beijing Xigua be unable to meet the Profit Guarantee, the Company is entitled to elect the Full Cash Compensation;
- (ii) the number of Consideration Shares issued under the Investment Agreement and to be cancelled under the Transfer Agreement is the same without any adjustment;
- (iii) the Investment Agreement allows the Company to take actions to seek compensation and according to the dispute resolution clause of the Investment Agreement, to resolve any disputes between the parties, the parties have to first resolve through discussions and negotiations. During discussions and negotiations, the parties have explored various settlement proposals and finally agreed on the Transfer arrangement under the Transfer Agreement; and
- (iv) except Guangzhou Feidong which is a party to the Loan Agreement and Shanghai Wangyu, the existing parties involved in the Investment Agreement continue to be the parties to the Transfer Agreement. Despite not being a party to the Transfer Agreement, Shanghai Wangyu has confirmed that it has no objection to the terms and conditions of the Transfer Agreement and the transactions contemplated thereunder, and waives the pre-emptive right (if any) that it may be entitled to being an existing shareholder of Beijing Xigua.

In addition, considering that the net asset value of the Company shall be increased from approximately RMB632,916,000 to RMB644,258,000, representing an increase in total net asset value of RMB11,342,000, the Transfer Agreement and the transactions contemplated thereunder (including the Share Buy-back) are expected to bring about positive effects on the net asset value per Share which is in the interests of the Company and the Shareholders as a whole. The Company also believes that it is in the interest of the Shareholders to be compensated by way of the Transfer instead of protracted arbitration and legal proceedings which, although could have been taken on or around 9 April 2020, being the cut-off date on which the KongZhong Group and Shanghai Dacheng should have repaid the Full Cash Compensation, as the latter potentially last for an uncertain period of time with unforeseeable cost implications and enforcement outcome.

## LETTER FROM THE BOARD

In considering proceeding with the Share Buy-back, the Company has taken into consideration that:

- (i) the Share Buy-back is part and parcel of the Transfer, which is considered an optimal solution for the KongZhong Group and Shanghai Dacheng to compensate the loss that the Company suffers which does not extensively call on the funding resources of Shanghai Dacheng and create excessive funding burden;
- (ii) the Transfer Agreement and the transactions contemplated thereunder (including the Share Buy-back) are expected to enhance consolidated net asset value attributable to the Shareholders per Share and bring about other positive financial effects as discussed in the paragraph headed “Financial effects of the Transfer” above in this circular; and
- (iii) it is a good opportunity for the Company to buy-back and cancel a significant block of Shares in a single transaction without significantly affecting the normal trading of the Shares in terms of price and volume as opposed to conducting a large number of daily on-market buy-back transactions under a general buy-back mandate over a period of time.

Further, in addition to the fact that the KongZhong Group and Shanghai Dacheng had serious difficulties arranging the Full Cash Compensation as disclosed above, based on the existing financial conditions and operational performance of Beijing Xigua, it is anticipated that the latter may not be able to repay the Outstanding Sum to Guangzhou Feidong, at least not within a short period of time. If Beijing Xigua fails to repay the Outstanding Sum, Guangzhou Feidong is entitled to commence legal proceedings to recover the same. The Company is of the view that it is not in the interests of the Company and the Shareholders as a whole to commence such legal proceedings given that:

- (i) the Company intends to discontinue its investment in the VR game business;
- (ii) it is anticipated that Beijing Xigua will continue to be loss making in the near future;
- (iii) legal proceedings could potentially last for long time with unforeseeable and unpredictable cost implications and enforcement outcome; and
- (iv) the Company intends to focus its resources on its other existing businesses.

Considering the above, the Company is of the view that the Loan Assignment is able to lower the asset losses of the Company, reduce unhealthy assets of the Company, improve the quality of the Company’s assets and recoup its investment in Beijing Xigua, which will improve the overall financial position of the Company.

## LETTER FROM THE BOARD

### REGULATORY IMPLICATIONS

#### Share Buy-back Code

The Share Buy-back constitutes an off-market share buy-back by the Company. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code. The Executive's approval, if granted, will normally be conditional upon, among other things, the approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders present in person or by proxy at the EGM.

As disclosed in the paragraph headed "Conditions Precedents" above in this circular, the Completion is subject to the condition precedent that the Share Buy-back having been approved by the Executive. Therefore, the Company will not proceed with the Share Buy-back unless the Executive approves the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code. However, there is no assurance that such approval will be granted or that all other conditions precedent to the Transfer Agreement will be fulfilled.

#### Takeovers Code

As at the Latest Practicable Date, other than (a) approximately 6.40% interest in the existing total issued share capital of the Company owned by KongZhong; and (b) the Consideration Shares representing approximately 13.97% interest in the existing total issued share capital of the Company which were originally to be released to Shanghai Dacheng pursuant to the Investment Agreement but would be subject to the Share Buy-back contemplated under the Transfer Agreement as disclosed in this circular, none of Shanghai Dacheng or parties acting in concert with it and the Company and parties acting in concert with it:

- (i) holds, owns, controls or directs any Shares, convertible securities, warrants, options or derivatives in respect of the Shares;
- (ii) has secured an irrevocable commitment to vote in favour of or against the Transfer Agreement and the transactions contemplated thereunder;
- (iii) holds outstanding warrants, options or securities convertible into Shares or derivatives in respect of the Shares;
- (iv) save for the Investment Agreement, has any arrangement (whether by way of option, indemnity or otherwise) or contracts under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares which might be material to the Transfer Agreement and/or the Share Buy-back;
- (v) save for the Transfer Agreement, has any agreement or arrangement to which Shanghai Dacheng and parties acting in concert with it is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Transfer Agreement and/or the Share Buy-back; or

## LETTER FROM THE BOARD

- (vi) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

In addition, the Company and KongZhong China confirm that as at the Latest Practicable Date:

- (i) apart from the consideration as provided in the paragraph headed “Implied Transfer Consideration” in this circular, there is no other consideration, compensation or benefit in whatever form paid or to be paid by the KongZhong China or any parties acting in concert with it to the Company or any party acting in concert with it in connection with the Transfer;
- (ii) apart from the Investment Agreement, the Loan Agreement and the Transfer Agreement, there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the KongZhong China or any party acting in concert with it on the one hand, and Company and any party acting in concert with it on the other hand; and
- (iii) there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (I) any Shareholders; and (II)(a) KongZhong China and any party acting in concert with it; or (b) the Company, its subsidiaries or associated companies.

### Special Deal

As the amount of the Outstanding Sum is higher than the consideration for the Loan Assignment, and the relevant proposed settlement is not extended to all other Shareholders, the Loan Assignment constitutes a special deal under Rule 25 of the Takeovers Code, and will be conditional upon obtaining the prior consent of the Executive under Rule 25 of the Takeovers Code. An application has been made to the Executive for consent under Rule 25 of the Takeovers Code for the Loan Assignment. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly states that in its opinion the terms of the Loan Assignment are fair and reasonable; and (ii) the Loan Assignment is approved by the Independent Shareholders by way of poll at the EGM, in which the KongZhong Group, Shanghai Dacheng and parties acting in concert with any of them who are Shareholders, will be required to abstain from voting in the EGM.

### Listing Rules

As one or more of the applicable percentage ratios in respect of the Transfer exceed 25% but is less than 75%, the Transfer constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, (i) Beijing Xigua is a non-wholly owned subsidiary of the Company; (ii) Shanghai Dacheng is interested in 22,268,908 Consideration Shares being held in an account managed by the Escrow Agent, representing approximately 13.97% of the issued share capital of the Company; and (iii) the KongZhong Group is interested in 10,202,168 Shares, representing approximately 6.40% of the issued share capital of the Company. Accordingly, each of Beijing Xigua, Shanghai Dacheng and the KongZhong Group is a connected person of the Company, and the Transfer therefore

## LETTER FROM THE BOARD

constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

### **Closure of Register of Members**

The register of members of the Company will be closed from Monday, 21 December 2020 to Thursday, 24 December 2020 (both dates inclusive) during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the EGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 18 December 2020 for registration.

### **Voting**

The voting in respect of the Transfer Agreement and the transactions contemplated thereunder at the EGM will be conducted by way of poll. As at the Latest Practicable Date, the KongZhong Group is interested in 32,471,076 Shares, representing approximately 20.37% of the issued share capital of the Company, of which KongZhong is interested in 10,202,168 Shares and Shanghai Dacheng is interested in 22,268,908 Consideration Shares, representing approximately 6.40% and 13.97% of the issued share capital of the Company, respectively. Save for these holdings, none of the members of the KongZhong Group or Shanghai Dacheng or parties acting in concert with any of them held any Shares as at the Latest Practicable Date. By reason of the requirements of the Share Buy-back Code, the Takeovers Code and the Listing Rules, the KongZhong Group and Shanghai Dacheng will abstain from voting in the EGM. Save for these parties, to the best of the knowledge, information and belief of the Directors after making all reasonable enquiries, no other Shareholder is required to abstain from voting on the resolutions approving the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment).

### **GENERAL**

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the Transfer Agreement and the transactions contemplated thereunder.

The Independent Board Committee (comprising the Listing Rules IBC and the Takeovers Code IBC) has been established to consider the Transfer Agreement and the transactions contemplated thereunder and to give recommendation to the Independent Shareholders as to how to vote on the resolutions to be proposed at the EGM in relation thereof.

### **EGM**

A notice convening the EGM to be held at Room 1106 Block A Phase I, Innovation Technology Plaza, Tianan Digital City, Chegongmiao, Futian District, Shenzhen, China on Thursday, 24 December 2020 at 14:00 is set out on pages EGM-1 to EGM-4 of this circular.

## **LETTER FROM THE BOARD**

The purpose of the EGM is to consider and, if thought fit, approve the resolution approving the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment).

A form of proxy for use at the EGM is enclosed with this circular. Such form is also available at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

All votes at the EGM will be taken by poll pursuant to Rule 2 of the Share Buy-back Code.

### **RECOMMENDATIONS**

The Directors (including members of the Independent Board Committee whose views are set out in their respective letters after having considered the advice and recommendation of the Independent Financial Adviser) are of the opinion that the terms of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

Having taken into account the advice of the Independent Financial Adviser, the Listing Rules IBC recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Transfer Agreement and the transactions contemplated thereunder (including the Equity Disposal, the Share Buy-back and the Loan Assignment). Your attention is drawn to the letter from the Listing Rules IBC as set out on pages 44 to 45 of this circular and the letter from the Independent Financial Adviser as set out on pages 48 to 71 of this circular which contain their recommendations to the Independent Shareholders regarding the Transfer Agreement and the transactions contemplated thereunder (including the Equity Disposal, the Share Buy-back and the Loan Assignment). The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the relevant resolution to be proposed at the EGM.

Having taken into account the advice of the Independent Financial Adviser, the Takeovers Code IBC recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Transfer Agreement and the transactions contemplated thereunder (including the Equity Disposal, the Share Buy-back and the Loan Assignment). Your attention is drawn to the letter from the Takeovers Code IBC as set out on pages 46 to 47 of this circular and the letter from the Independent Financial Adviser as set out on pages 48 to 71 of this circular which contain their recommendations to the Independent Shareholders regarding the Transfer Agreement and the transactions contemplated thereunder

## LETTER FROM THE BOARD

(including the Share Buyback and the Loan Assignment). The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the relevant resolution to be proposed at the EGM.

### **FURTHER INFORMATION**

Your attention is also drawn to the additional information set out in the appendices to this circular.

### **MISCELLANEOUS**

The English text of this circular shall prevail over the Chinese text for the purpose of its interpretation.

Yours faithfully,  
By order of the Board  
**Forgame Holdings Limited**  
**ZHANG Qiang**  
*Chairman*



**Forgame Holdings Limited**

**雲遊控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00484)**

2 December 2020

*To the Independent Shareholders,*

Dear Sir or Madam,

**(I) MAJOR AND CONNECTED TRANSACTION  
INVOLVING OFF-MARKET SHARE BUY-BACK;  
(II) SPECIAL DEAL RELATING TO LOAN ASSIGNMENT;  
AND  
(III) NOTICE OF EGM**

We have been appointed to form the Listing Rules IBC to consider and advise the Independent Shareholders as to our opinion on the terms of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment) in accordance with the Listing Rules, the details of which are set out in the circular issued by the Company to the Shareholders dated 2 December 2020 (the “**Circular**”), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We wish to draw the attention of the Independent Shareholders to the letter from the Board and the letter of advice from the Independent Financial Adviser.

Pelican Financial Limited has been appointed as the Independent Financial Adviser to advise us on this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 48 to 71 of the Circular.

Having taken into account the principal factors and reasons considered by the Independent Financial Adviser, its conclusion and advice, we concur with the view of the Independent Financial Adviser and consider that the terms of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment), although not conducted in the ordinary and usual course of business of the Group, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

**LETTER FROM THE LISTING RULES IBC**

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment).

Yours faithfully,  
Listing Rules IBC  
**Forgame Holdings Limited**

**Mr. WANG Dong**  
*Independent non-  
executive Director*

**Mr. WONG Chi Kin**  
*Independent non-  
executive Director*

**Mr. CUI Yuzhi**  
*Independent non-  
executive Director*

**Mr. LU Xiaoma**  
*Independent non-  
executive Director*



**Forgame Holdings Limited**

**雲遊控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00484)**

2 December 2020

*To the Independent Shareholders,*

Dear Sir or Madam,

**(I) MAJOR AND CONNECTED TRANSACTION  
INVOLVING OFF-MARKET SHARE BUY-BACK;  
(II) SPECIAL DEAL RELATING TO LOAN ASSIGNMENT;  
AND  
(III) NOTICE OF EGM**

We have been appointed to form the Takeovers Code IBC to consider and advise the Independent Shareholders as to our opinion on the terms of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Share Buy-back), the details of which are set out in the circular issued by the Company to the Shareholders dated 2 December 2020 (the “**Circular**”), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We wish to draw the attention of the Independent Shareholders to the letter from the Board and the letter of advice from the Independent Financial Adviser.

Pelican Financial Limited has been appointed as the Independent Financial Adviser to advise us on this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 48 to 71 of the Circular.

Having taken into account the principal factors and reasons considered by the Independent Financial Adviser, its conclusion and advice, we concur with the view of the Independent Financial Adviser and consider that the terms of the Transfer Agreement and the transactions contemplated thereunder (including the Equity Disposal, the Share Buy-back and the Loan Assignment) are fair and reasonable so far as the Independent Shareholders are concerned.

**LETTER FROM THE TAKEOVERS CODE IBC**

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transfer Agreement and the transactions contemplated thereunder (including the Equity Disposal, the Share Buy-back and the Loan Assignment).

Yours faithfully,  
Takeovers Code IBC  
**Forgame Holdings Limited**

**Mr. ZHANG Qiang**  
*Non-executive  
Director*

**Mr. WANG Dong**  
*Independent non-  
executive Director*

**Mr. WONG Chi Kin**  
*Independent non-  
executive Director*

**Mr. CUI Yuzhi**  
*Independent non-  
executive Director*

**Mr. LU Xiaoma**  
*Independent non-  
executive Director*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the text of a letter of advice from Pelican Financial Limited setting out its advice to Independent Board Committee and the Independent Shareholders in respect of the Transfer Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.*



### PELICAN FINANCIAL LIMITED

15/F, East Exchange Tower, 38-40 Leighton Road, Causeway Bay, Hong Kong

2 December 2020

*To the Independent Board Committee and the Independent Shareholders of  
Forgame Holdings Limited*

Dear Sirs,

### **(I) MAJOR AND CONNECTED TRANSACTION INVOLVING OFF-MARKET SHARE BUY-BACK AND (II) SPECIAL DEAL RELATING TO LOAN ASSIGNMENT**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment, with the Loan Assignment constituting a special deal in accordance with Rule 25 of the Takeovers Code), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 2 December 2020 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, on 12 November 2020 (after trading hours), among others, the Company, the Investor, Beijing Xigua, Shanghai Dacheng, the KongZhong Group and Guangzhou Feidong entered into the Transfer Agreement, pursuant to which: (i) the Company shall dispose of the 69.84% equity interest in Beijing Xigua to KongZhong China (or its designated third party) (i.e. the Equity Disposal) and the Consideration Shares shall be transferred from Shanghai Dacheng through the Escrow Agent to the Company (i.e. the Share Buy-back); and (ii) the Company shall assign the Outstanding Sum to KongZhong China (or its designated third party) originally due to Guangzhou Feidong (i.e. the Loan Assignment).

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon Completion, pursuant to the Share Buy-back, the Consideration Shares will be cancelled and the number of Shares in issue following the Share Buy-back will be reduced from 159,379,238 (being the number of issued Shares as at the Latest Practicable Date) to 137,110,330 and the shareholding interest of the Shareholders will be increased proportionally. The percentage interest in the issued Shares of all other Shareholders including KongZhong (whose percentage interest in the issued Shares will increase from approximately 6.40% to 7.44%), will be proportionally increased following the Share Buy-back as a result of the reduction in the number of issued Shares. Meanwhile, Shanghai Dacheng will no longer hold any Shares upon the Completion.

As one or more of the applicable percentage ratios in respect of the Transfer exceed 25% but is less than 75%, the Transfer constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, (i) Beijing Xigua is a non-wholly owned subsidiary of the Company; (ii) Shanghai Dacheng is interested in 22,268,908 Consideration Shares being held in an account managed by the Escrow Agent, representing approximately 13.97% of the issued share capital of the Company; and (iii) the KongZhong Group is interested in 10,202,168 Shares, representing approximately 6.40% of the issued share capital of the Company. Accordingly, each of Beijing Xigua, Shanghai Dacheng and the KongZhong Group is a connected person of the Company, and the Transfer therefore constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The Share Buy-back constitutes an off-market share buy-back by the Company under the Share Buy-back Code. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code. The Executive's approval, if granted, will normally be conditional upon, among other things, the approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders present in person or by proxy at the EGM.

The Board currently comprises three executive Directors, one non-executive Director and four independent non-executive Directors. The Listing Rules IBC, which currently comprises all the independent non-executive Directors, Mr. WANG Dong, Mr. WONG Chi Kin, Mr. CUI Yuzhi and Mr. LU Xiaoma, and the Takeovers Code IBC, which currently comprises all the aforementioned independent non-executive Directors and the non-executive Director Mr. ZHANG Qiang, have been established to advise the Independent Shareholders as to the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment). We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

We are not connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates and also there is no relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence to act as independent financial adviser to the Company and therefore we considered that we are suitable to give independent advice to the Independent Board

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Committee and the Independent Shareholders. In the last two years, there was no other engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment, with the Loan Assignment constituting a special deal in accordance with Rule 25 of the Takeovers Code) are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the resolution to be proposed at the EGM to approve the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment).

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions. Our procedures include, among other things, review of relevant agreements, documents as well as information provided by the Company and verification of such information, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Investment Agreement, the Transfer Agreement, the 2019 Annual Report, the 2020 Interim Report, the Announcements and the Circular. We have assumed that all statements of belief, opinion, expectation, and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of an in-depth investigation into the business and affairs or the future prospects of the Group.

## **PRINCIPAL FACTORS TAKEN INTO CONSIDERATION**

In formulating our opinion in respect of the terms of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment, with the Loan Assignment constituting a special deal in accordance with Rule 25 of the Takeovers Code), we have considered the following principal factors and reasons:

### **1. Background information of the Group, Beijing Xigua, the KongZhong Group and Shanghai Dacheng**

#### *(a) 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 offering virtual reality game in physical stores (the “**Game Business**”) and providing internet micro-credit service (the “**Internet Micro-credit Business**”) in the PRC.

The Investor, the subscriber of the 69.84% equity interest in Beijing Xigua under the Investment Agreement, is a direct 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 software and design of game software.

Guangzhou Feidong, the lender of a loan to Beijing Xigua under the Loan Agreement, is an indirectly wholly-owned subsidiary of the Company. It is principally engaged in the development of webgames.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the financial information of the Group for the two financial years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, as extracted from the 2019 Annual Report and the 2020 Interim Report, respectively.

	For the six months ended 30 June		For the financial year ended 31 December	
	2020	2019	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited) (Restated)
<i>Revenue</i>				
The Game Business	22,294	37,358	83,578	90,886
The Internet Micro-credit Business	6,633	16,084	40,701	38,554
<b>Total Revenue</b>	<b>28,927</b>	<b>53,442</b>	<b>124,279</b>	<b>129,440</b>
<b>Gross Profit</b>	<b>9,402</b>	<b>35,444</b>	<b>30,417</b>	<b>81,749</b>
<b>(Loss)/profit for the year/period</b>	<b>(28,361)</b>	<b>9,856</b>	<b>(260,260)</b>	<b>(320,022)</b>

The total revenue of the Group for the financial years ended 31 December 2018 and 2019 amounted to approximately RMB129.4 million and RMB124.3 million respectively, representing a slight decrease of approximately 4.0%. For the financial year ended 31 December 2019, revenue generated from the Game Business decreased by approximately 8.0% as compared to the previous financial year, which was mainly due to the decrease in revenue generated from the legacy online game business and the revenue generated from the new VR game business operated by offline stores of Beijing Xigua under the Group. As a result of the Group's venture into the VR game business, its cost of revenue increased significantly by approximately 96.8% as compared to the previous financial year, leading to the significant decrease in the Group's gross profit by approximately 62.8% from approximately RMB81.7 million to RMB30.4 million between the two financial years ended 31 December 2018 and 2019. According to the 2019 Annual Report, the Group recognised a net loss of approximately RMB320.0 million and RMB260.3 million for the two years ended 31 December 2019, respectively. Despite the positive gross profit and revenue for the year ended 31 December 2019, the Group recorded a net loss for the year primarily due to the impairment of goodwill and identifiable intangible assets arising from the Acquisition, the allowance for impairment for outstanding loan receivables of the Internet Micro-credit Business and that for the receivables from the disposal of the equity interest in the JLC Group, which was acquired partially as to approximately 55% by the Company in 2017 and disposed by the Company in 2019. On the other hand, the net loss for the year ended 31 December 2018 as compared to the positive gross profit and revenue was primarily attributable to the operational difficulties in JLC Group, which resulted in an after-tax impairment on the goodwill and identifiable intangible assets of approximately RMB320.5 million.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the 2020 Interim Report, the revenue of the Group decreased by approximately 45.9% from approximately RMB53.4 million for the six months ended 30 June 2019 to approximately RMB28.9 million for the six months ended 30 June 2020, which was mainly attributable to (i) the decrease in online game business revenue as the Group continued to shift its business focus from online web game to offline VR games and reduced its resources in developing and promoting its online web games, some of which had already entered into the mature stage of their lifecycles; and (ii) the decrease in the average balance of loan of the Internet Micro-credit Business in the first half of 2020, as the Group maintained a controllable size of outstanding loans and took cautious measures in originating new loans given the increased market risks triggered by the Epidemic. As a result of the decrease in its revenue and its cost of revenue which had remained a high level, the Group recorded a gross profit of approximately RMB9.4 million, representing a decrease of approximately 73.5% compared to the corresponding period of the previous year. In view of the above, the Group recorded a loss for the period of approximately RMB28.4 million as compared to a profit for the period of approximately RMB9.9 million for the period ended 30 June 2019.

Set out below is a summary of the consolidated assets and liabilities of the Group as at 31 December 2019 and 30 June 2020, as extracted from the 2019 Annual Report and the 2020 Interim Report, respectively.

	<b>As at 30 June 2020</b>	<b>As at 31 December 2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Total assets		
— non-current assets	129,224	149,788
— current assets	627,374	663,570
 Total liabilities		
— non-current liabilities	8,786	22,614
— current liabilities	114,896	126,781
 <b>Net current assets</b>	<b>512,478</b>	<b>536,789</b>
 <b>Net assets</b>	<b>632,916</b>	<b>663,963</b>
 <b>Equity attributable to owners of the Company</b>	<b>660,926</b>	<b>687,359</b>

As at 31 December 2019, the non-current assets of the Group amounted to approximately RMB149.8 million, of which approximately RMB136.4 million comprised right-of-use assets, investments in associates and equity investments at fair value through other comprehensive income. The current assets of the Group amounted to RMB663.6 million, of which approximately RMB318.0 million were

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

cash and cash equivalents and approximately RMB155.4 million were loan receivables. Meanwhile, as at 30 June 2020, the non-current assets of the Group amounted to approximately RMB129.2 million, more than 90% of which were right-of-use assets, investments in associates and equity investments at fair value through other comprehensive income. The current assets of the Group amounted to approximately RMB627.4 million, of which approximately RMB451.6 million were cash and cash equivalents.

As at 31 December 2019, the non-current liabilities of the Group amounted to approximately RMB22.6 million, nearly all of which were lease liabilities. The current liabilities of the Group amounted to approximately RMB126.8 million, of which approximately RMB76.1 million were other payables and accruals, approximately RMB28.2 million were lease liabilities and the remaining balance of approximately RMB22.5 million were trade payables, contract liabilities and income tax liabilities. Meanwhile, as at 30 June 2020, the non-current liabilities of the Group amounted to approximately RMB8.8 million, all of which were lease liabilities. The current liabilities of the Group amounted to approximately RMB114.9 million, of which approximately RMB78.3 million were other payables and accruals, approximately RMB14.5 million were lease liabilities, and the remaining balance of approximately RMB22.1 million were trade payables, contract liabilities and income tax liabilities.

Finally, as at 31 December 2019, the net current assets and net assets of the Group were approximately RMB536.8 million and RMB664.0 million respectively. The current ratio, which is calculated as current assets over current liabilities, was approximately 5.2 times as at 31 December 2019, while the gearing ratio was nil, which means the group didn't have any borrowing balance as at 31 December 2019. Meanwhile, as at 30 June 2020, the net current assets and net assets of the Group were approximately RMB512.5 million and RMB632.9 million respectively. The current ratio was therefore approximately 5.5 times as at 30 June 2020, while the gearing ratio remained to be nil as at 30 June 2020.

### *(b) Beijing Xigua*

Beijing Xigua is a company established under the laws of the PRC with limited liability. Beijing Xigua 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 Latest Practicable Date, Beijing Xigua is owned as to 69.84% by the Investor, 4.54% by Shanghai Wangyu, 18.14% by Mr. Jiang, 6.12% by Mr. Sheng and 1.36% by the Shanghai Dacheng.

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Set out below is a summary of the unaudited consolidated financial information of Beijing Xigua as prepared in accordance with IFRS for the years ended 31 December 2018 and 2019:

	<b>For the year ended 31 December 2018 RMB (unaudited)</b>	<b>For the year ended 31 December 2019 RMB (unaudited)</b>
<b>Net loss before taxation</b>	5,402,953	87,238,980
<b>Net loss after taxation</b>	5,402,953	87,238,980

As at 31 December 2019, Beijing Xigua has audited consolidated net liabilities of approximately RMB73,702,000 (*Note*). *As at 30 June 2020, Beijing Xigua has unaudited consolidated net liabilities of approximately RMB89,522,000.*

Pursuant to Rule 14.58 of the Listing Rules, the Company is required to disclose the net profits and book value of Beijing Xigua set out above (the “**Unaudited Beijing Xigua Financial Information**”). **However, in light of the qualified opinion issued by the Auditor in the 2019 Annual Report set out below, the Directors are of the view that the Unaudited Beijing Xigua Financial Information may not be true and accurate.**

Meanwhile, pursuant to Rule 10 of the Takeovers Code, the Unaudited Beijing Xigua Financial Information constitutes a profit forecast and must be reported on by the Auditor and the Company’s financial adviser(s) in accordance with the Takeovers Code and such report must be lodged with the Executive in accordance with Rule 10.4 of the Takeovers Code. However, as discussed above, **the Auditor has issued a qualified opinion in relation to the financial information of Beijing Xigua for the period from 26 June 2019, being the date of the completion of the Acquisition, to 31 December 2019, in the 2019 Annual Report, and hence the Auditor would not be able to provide an assurance on the compilation of the Unaudited Beijing Xigua Financial Information. Accordingly, the Unaudited Beijing Xigua Financial Information would not be reported on by the Auditor and financial adviser of the Company in accordance with Rule 10.4 of the Takeovers Code.**

**Shareholders and potential investors of the Company should note that the Unaudited Beijing Xigua Financial Information does not meet the standard required by Rule 10 of the Takeovers Code and has not been reported on in accordance with the Takeovers Code. In addition, Shareholders and potential investors of the Company should not rely on the Unaudited Beijing Xigua**

*Note:* As the consolidated statement of financial position of Beijing Xigua only concerns a given point in time (i.e. 31 December 2019), it was audited by the Auditor together the consolidated statement of financial position of the Group. On the other hand, the consolidated statement of profit or loss and other comprehensive income of Beijing Xigua for the year ended 31 December 2019 is unaudited as Beijing Xigua only entered the Group in June 2019 and its accounts prior to that are not audited by the Auditor.

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**Financial Information when they deal or contemplate dealing in the Shares or other securities (if any) of the Company. Shareholders and potential investors of the Company should also exercise caution in placing reliance on the Unaudited Beijing Xigua Financial Information in assessing the merits and demerits of the Transfer Agreement and the transactions contemplated thereunder (including the Equity Disposal, the Share Buy-back and the Loan Assignment, with the Loan Assignment constituting a special deal in accordance with Rule 25 of the Takeovers Code).**

Please refer to the section headed “Information about Beijing Xigua” in the Board Letter for more details in this regard.

*(c) The KongZhong Group and Shanghai Dacheng*

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 and is wholly-owned by KongZhong. It is principally engaged in the development of computer software and the provision of integrated technical advisory services relating to the use of computer systems.

Shanghai Dacheng is a company established under the laws of the PRC with limited liability. It is principally engaged in the publication of internet games and is owned as to 98.54% by KongZhong by way of certain contractual arrangements. Regarding the shareholding structure of the KongZhong Group and Shanghai Dacheng, please refer to the section headed “Information about the KongZhong Group and Shanghai Dacheng” in the Board Letter.

## **2. Background of, reasons for and benefits of entering into the Transfer Agreement**

As set out in the Board Letter, the purpose of entering into the Transfer Agreement is to unwind the Acquisition and resolve the issues therefrom which associate with (a) the non-fulfilment of the Profit Guarantee; (b) the deteriorating operational performance of Beijing Xigua; (c) the qualified opinion in relation to the financial information of Beijing Xigua issued by the Auditor in the 2019 Annual Report; and (d) the protection of the interests of the Company and the Shareholders as a whole.

Pursuant to the Investment Agreement dated 24 April 2019, the relevant actual net profits of Beijing Xigua, being the target under the Investment Agreement, for the period from 1 June 2019 to 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 should not be less than the Threshold, otherwise Shanghai Dacheng, being the previous vendor under the Investment Agreement, the KongZhong Group, of which KongZhong is the 98.54% shareholder of the Shanghai Dacheng by way of certain contractual arrangements and KongZhong China is wholly-owned by KongZhong, and Beijing Xigua on a joint and several basis shall compensate for the shortfall either by (a) a compensation in a combination by way of cash and reduction in

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the actual number of Consideration Shares to be released to Shanghai Dacheng, or (ii) Full Cash Compensation in the amount of RMB150,152,857. The two compensation options are disclosed in details in the section headed “Background” in the Board Letter.

Meanwhile, subsequent to the completion of the Investment Agreement on 26 June 2019, as Beijing Xigua needed financing to open more stores for its business expansion, the Loan Agreement was entered into, among others, Beijing Xigua and Guangzhou Feidong (a wholly-owned subsidiary of the Company), pursuant to which Guangzhou Feidong agreed to grant the loan in the amount of no more than RMB53,000,000 to Beijing Xigua. As a result, the loan in the total amount of RMB32,300,000 was granted by Guangzhou Feidong to Beijing Xigua, among which RMB14,000,000 was granted on 21 November 2019, RMB10,000,000 was granted on 31 December 2019, and RMB8,300,000 was granted on 7 March 2020. As at the Latest Practicable Date, a sum of RMB4,222,400 has been repaid by Mr. Jiang and Mr. Sheng, the shareholders of Beijing Xigua who are jointly liable to certain extent for the repayment under the Loan Agreement, and Beijing Xigua is still indebted to Guangzhou Feidong the Outstanding Sum of RMB30,599,878, being the outstanding principal and accumulated interest prior to the parties’ entering into of the Transfer Agreement.

As disclosed in the 2019 Annual Report, based on the management accounts of Beijing Xigua, Beijing Xigua recorded a loss for the period from 1 June 2019 to 31 December 2019, falling short of over RMB43,000,000 as compared to the relevant Actual Net Profit for such period of RMB43,000,000 as originally contemplated and guaranteed pursuant to the Investment Agreement. As a result of such non-fulfilment of the Profit Guarantee, the Company has elected to request Shanghai Dacheng, the KongZhong Group and Beijing Xigua for the Full Cash Compensation. As disclosed in the announcement dated 10 March 2020, the Company has instructed its PRC legal adviser to issue a demand letter to each of Shanghai Dacheng and the KongZhong Group demanding for the Full Cash Compensation. However, as disclosed in the announcement dated 23 October 2020, the Company was given to understand that the aforementioned two parties have difficulties in raising capital to settle the Full Cash Compensation.

In view of the above situation, the Board considered that the best way to protect the interests of the Company and the Shareholders as a whole was to unwind the Acquisition and recover the consideration with respect to the Acquisition as well as the Outstanding Sum. Accordingly, upon various rounds of negotiations and discussions, the parties to the Investment Agreement eventually agreed to enter into the Transfer Agreement, which involves (a) the unwinding of the Acquisition (by way of the Equity Disposal and the Share Buy-back); and (b) the Loan Assignment.

As discussed further in the below section of this letter, the Implied Transfer Consideration under the Transfer Agreement would only allow the Group to recover in full the consideration for the Acquisition of RMB150,152,857, but not the Outstanding Sum of RMB30,599,878 given that the consideration for the Loan Assignment of RMB5,519,280 only accounts for about 18.0% of the Outstanding Sum. As discussed in the Board Letter, such settlement term was arrived at because despite the Company’s repeated attempts to recover the Outstanding Sum, Beijing Xigua has failed to fulfil its

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repayment obligation given its financial difficulties. The Company had considered commencing legal proceedings against Beijing Xigua in order to recover the Outstanding Sum, yet given that a substantial amount of legal expenses as well as time and resources would likely be involved, and that the Company may lose the priority to other creditors when claiming and realising the remaining assets of Beijing Xigua, which likely would not be much, the Board is of the view that commencing legal proceedings against Beijing Xigua may not be in the interests of the Company and the Shareholders as a whole, and that a better approach would be to recover the Outstanding Sum as much as it could and to resolve the issues quickly and amicably. The Group had also discussed with the KongZhong Group the possibility of the latter repaying the Outstanding Sum in instalments over a longer period time. However, given the KongZhong Group's financial difficulties as further discussed below, the KongZhong Group had not been open to such arrangement. Given that the Board is of the view that it is more prudent for the parties to enter into a mutually agreeable and viable settlement promptly so that the Group can allocate its time and resources to other more fulfilling ventures, after having reviewed the latest financial statements of the KongZhong Group, the Company and the KongZhong Group arrived at the consideration for the Loan assignment, which despite being comparatively lower than the Outstanding Sum, is understood by the Company to be already the highest amount that can be offered by the KongZhong Group for it to ensure its fulfilment of such repayment obligation.

We have reviewed the consolidated financial results of the KongZhong Group and noted that it was in a net liability position both as at 31 December 2019 and 30 June 2020. The KongZhong Group also had been making losses for the year ended 31 December 2019 and for the six months ended 30 June 2020. In respect of the assets of the KongZhong Group, as at the Latest Practicable Date, the KongZhong Group owned (i) 36,235,351 shares of Ourgame International Holdings Limited (stock code: 6899), all of which have been pledged to other third parties; and (ii) 32,471,076 Shares of the Company, of which only 1,851,568 Shares have not been pledged to other third parties. Accordingly, the KongZhong Group has agreed to deliver such 1,851,568 Shares (equivalent to approximately HK\$4,221,575 and HK\$4,147,512 calculated by using the closing prices of HK\$2.28 and HK\$2.24 per Share as quoted on the Stock Exchange on the Last Trading Day and on the Latest Practicable Date, respectively) to a third party escrow agent jointly appointed by itself and the Company for security purpose that in the event of default in the repayment of the Cash Consideration, such third party escrow agent is allowed to dispose of such 1,851,568 Shares and apply the sale proceeds to pay the relevant amount due. Given that instant repayment of either the Outstanding Sum or the Cash Consideration is not realistic due to the financial difficulties faced by Shanghai Dacheng, the KongZhong Group and Beijing Xigua, and that the KongZhong Group did not have sufficient assets to provide additional securities per the Company's request, we are of the view that the current arrangement under the Transfer Agreement is already the optimal solution in resolving the issues amicably and that despite the value of the pledged Shares is lower than the Cash Consideration, it could still serve as security to a certain degree with respect to the repayment by instalment of the Cash Compensation offered by the KongZhong.

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Given the above, we concur with the Directors that the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment, with the Loan Assignment constituting a special deal in accordance with Rule 25 of the Takeovers Code) are in the interest of the Company and the Shareholders as a whole given that (i) Shanghai Dacheng, the KongZhong Group and Beijing Xigua have difficulties in raising capital to settle the Full Cash Compensation and the Outstanding Sum; (ii) the terms of the Transfer Agreement are generally in line with the original terms under the Investment Agreement; (iii) it is a good opportunity for the Company to buy-back and cancel a significant block of Shares in a single transaction without significantly affecting the normal trading of the Shares in terms of price and volume as opposed to conducting a large number of daily on-market buy-back transactions under a general buy-back mandate over a period of time; (iv) the Share Buy-back is expected to improve the net asset value per Share; (v) time to be spent by the management of the Group, as well as the cost implications and enforcement outcome in the event of litigation among the Company, the KongZhong Group and Beijing Xigua, may have a negative impact on the operation and financial performance of the Group; (vi) the Company expects to recognise a disposal gain of approximately RMB74.7 million (before tax and transaction costs) upon Completion; and (vii) the cessation of Beijing Xigua being a subsidiary of the Company upon Completion will not only improve the financial position of the Group, but will also remove the qualified opinion issued by the Auditor in relation to the financial information of Beijing Xigua in the future.

### **3. Principal terms of the Transfer Agreement**

#### *(a) Principal terms*

On 12 November 2020 (after trading hours), among others, the Company, the Investor, Beijing Xigua, Shanghai Dacheng, the KongZhong Group and Guangzhou Feidong entered into the Transfer Agreement, pursuant to which (i) the Company shall dispose of the 69.84% equity interest in Beijing Xigua to KongZhong China (or its designated third party) (i.e. the Equity Disposal) and the Consideration Shares shall be transferred from Shanghai Dacheng through the Escrow Agent to the Company (i.e. the Share Buy-back); and (ii) the Company shall assign the Outstanding Sum in the amount of RMB30,599,878 to KongZhong China (or its designated third party) originally due to Guangzhou Feidong (i.e. the Loan Assignment).

For details on the principal terms of the Transfer Agreement, please refer to the section headed “Transfer Agreement” in the Board Letter.

Meanwhile, Completion is conditional upon the satisfaction of conditions precedent as set out in the sub-section headed “Conditions precedent” of the section headed “Transfer Agreement” in the Board Letter. As at the Latest Practicable Date, save for conditions (i) and (vi), none of these conditions precedent has been fulfilled.

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### *(b) Consideration*

As set out in the Board Letter, after rounds of negotiations and discussions between the relevant parties for the purpose of resolving all outstanding issues amicably which have eventuated to the Transfer Agreement:

- (i) KongZhong China has agreed to pay the Company in cash in the amount of RMB20,000,000, equivalent to the amount of consideration that the Company paid to subscribe for 9.30% equity interest in Beijing Xigua in the form of new registered capital under the Investment Agreement;
- (ii) KongZhong China has agreed to pay the Company in cash in the amount of RMB5,519,280 for the Loan Assignment; and
- (iii) Shanghai Dacheng shall through the Escrow Agent deliver 22,268,908 Consideration Shares to the Company for cancellation.

The aggregate Cash Consideration of RMB25,519,280 (including item (i) and item (ii) above) shall be paid by KongZhong China (or its designated third party) in the following manner:

- (i) a sum of RMB1,000,000 in cash shall be paid within 10 days of the date where all the conditions precedent under the Transfer Agreement have been satisfied or waived (if applicable), or by the end of 31 December 2020, whichever is earlier;
- (ii) a sum of RMB2,519,280 in cash shall be paid by the end of 31 March 2021; and
- (iii) thereafter, a sum of RMB2,000,000 in cash shall be paid at least quarterly by the end of June, September, December and March per year starting from 2021 until the balance of RMB22,000,000 has been paid in full.

Among the 10,202,168 Shares that KongZhong is interested in as at the Latest Practicable Date, 1,851,568 Shares (equivalent to approximately HK\$4,221,575 calculated by using the closing price of HK\$2.28 per Share as quoted on the Stock Exchange on the Last Trading Day) has been agreed by the KongZhong Group to be delivered to a third party escrow agent jointly appointed by the KongZhong Group and the Company for security purpose that in the event of default in the payment of the Cash Consideration, such third party escrow agent is allowed to dispose of such 1,851,568 Shares and apply the sale proceeds to pay the relevant amount due.

The Implied Transfer Consideration is RMB155,672,137 (i.e. Cash Consideration of RMB25,519,280 and a consideration of RMB130,152,857 in the form of 22,268,908 Consideration Shares to be returned to the Company for cancellation), which is equivalent to the sum of consideration for the Acquisition (i.e. RMB150,152,857) and consideration for the Loan Assignment (i.e. RMB5,519,280).

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As the Transfer Agreement aims to unwind the Acquisition, the implied Buy-back Price for transfer of the Consideration Shares is HK\$6.876, which is equivalent to the issue price per Consideration Share under the Investment Agreement. For illustrative purpose, the Buy-back Price represents:

- (i) a premium of approximately 201.6% over the closing price of HK\$2.280 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 178.8% over the average of the closing prices of approximately HK\$2.466 per Share for the last five trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 177.3% over the average of the closing prices of approximately HK\$2.480 per Share for the last ten trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 164.6% over the average of the closing prices of approximately HK\$2.599 per Share for the last thirty trading days up to and including the Last Trading Day;
- (v) a premium of approximately 134.4% over the average of the closing prices of approximately HK\$2.934 per Share for the last ninety trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 119.5% over the average of the closing prices of approximately HK\$3.133 per Share for the last 180 trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 197.7% over the closing price of HK\$2.310 per Share as quoted on the Stock Exchange on 12 November 2020, being the date of the Transfer Agreement and the relevant announcement;
- (viii) a premium of approximately 207.0% over the closing price of HK\$2.24 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (ix) a premium of approximately 52.5% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$4.51 per Share (based on the unaudited consolidated net assets attributable to the Shareholders as at 30 June 2020 of approximately RMB632,916,000 (equivalent to approximately HK\$719,223,000 based on an exchange rate of RMB0.88: HK\$1) and 159,379,238 Shares in issue as at the Latest Practicable Date.

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### 4. Evaluation of the principal terms of Transfer Agreement

#### (a) Equity Disposal

Pursuant to the Transfer Agreement, the parties to the Investment Agreement shall unwind the Acquisition by way of the Equity Disposal and the Share Buy-back. Given that under the Equity Disposal arrangement, the Group shall dispose of 69.84% equity interest in Beijing Xigua (i.e. the same amount of equity interest in Beijing Xigua the Group previously acquired pursuant to the Investment Agreement) to KongZhong China (or its designated third party), we are of the view that the Equity Disposal is fair and reasonable so far as the Independent Shareholders are concerned.

#### (b) Share Buy-back

As the Share Buy-back is part and parcel to the Equity Disposal, we have evaluated the fairness and reasonableness of Share Buy-back through conducting the following market comparable analyses on the Buy-back Price. We have made reference to the announcements of listed issuers on the Stock Exchange which have proposed off-market share buy-back transactions of their shares listed on the Stock Exchange (the “**Comparable Transaction(s)**”) during the period from 1 November 2018 up to and including the Latest Practicable Date (the “**Review Period**”). We consider the two-year Review Period a sufficient period of time to reflect the recent market practice in respect of such transactions, and on a best-effort basis, we have identified an exhaustive list of eight Comparable Transactions, details of which are summarised in the table below.

Company Name	Stock code	Date of announcement	Premium/ (discount) of the share buy- back price over/(to) the share price as at the respective last trading day	Premium/ (discount) of the share buy- back price over/(to) the respective original issue/ subscription share price	Reason(s) for the transaction	Basis of determination of the consideration
Medicskin Holdings Limited	8307	2020/3/19	13.64%	(80.71%)	To minimise the downward pressure on the share price as a substantial shareholder revealed the intention to dispose its shares	(i) The recent closing price of the share; and (ii) the previous subscription price for the shares paid by the vendor

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Company Name	Stock code	Date of announcement	Premium/ (discount) of the share buy- back price over/(to) the share price as at the respective last trading day	Premium/ (discount) of the share buy- back price over/(to) the respective original issue/ subscription share price	Reason(s) for the transaction	Basis of determination of the consideration
Huan Yue Interactive Holdings Limited (formerly named Xingye Alloy Materials Group Limited (“Huan Yue”))	505	2020/1/23	25.00%	(11.11%)	To unwind a previous acquisition transaction	(i) The volume-weighted average share price; (ii) the issue price of the consideration shares; (iii) the unaudited consolidated net asset value attributable to the shareholders; and (iv) the comparable companies’ price-to-book ratios
China Development Bank Financial Leasing Co., Ltd.	1606	26/9/2019	60.31%	12.22%	To fulfill regulatory requirements of the PRC authorities	The commercial and arm’s length negotiations between the parties, taking into consideration the potential financial impacts on both parties
Alpha Professional Holdings Limited (“Alpha”)	948	18/9/2019	13.93%	0	To unwind a previous acquisition transaction	The original issue price of consideration shares
Tern Properties Company Limited	277	16/5/2019	28.46%	Not disclosed	To restore the public float of the company	(i) The prevailing market conditions; (ii) the low liquidity of the shares; (iii) the current market prices of the shares; (iv) the net asset value per share; and (v) the opportunity to restore the public float of the company
New Silkroad Culturaltainment Limited (“New Silkroad”)	472	2/5/2019	188.89%	0	To unwind a previous acquisition transaction	The original issue price of consideration shares
The Sincere Company, Limited	244	22/3/2019	0	Not disclosed	To unwind the cross shareholdings between the company and its connected persons, simplify the group structure and improve the capital efficiency of the group	(i) The prevailing closing prices of the shares; and (ii) the capital required for carrying out the share buy-back and for the group’s daily operation

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Company Name	Stock code	Date of announcement	Premium/ (discount) of the share buy- back price over/(to) the share price as at the respective last trading day	Premium/ (discount) of the share buy- back price over/(to) the respective original issue/ subscription share price	Reason(s) for the transaction	Basis of determination of the consideration
Dah Sing Financial Holdings Limited	440	23/1/2019	(1.50%)	76.06%	To enhance the company's earnings per share, rate of return on capital and net asset value per share	The prevailing market conditions
<b>The Company</b>	<b>484</b>	<b>2020/11/12</b>	<b>201.6%</b>	<b>0</b>	<b>To unwind the Acquisition</b>	<b>The issue price of the Consideration Shares</b>

*Source: the website of the Stock Exchange*

As shown in the above table, the premium represented by the share buy-back price over the share price as at the respective last trading day in all of the Comparable Transactions were both much lower than that represented by the Buy-back Price. While this observation may suggest that the Share Buy-back is not favourable to the Company, we are of the view that recent closing share prices are only for reference only and that they need not be the basis for determining the share buy-back prices in all occasions. In evaluating the fairness and reasonableness of the Share Buy-back and Buy-Back Price, one should also take into consideration the purpose of the Share Buy-back, which is to unwind the Acquisition.

In this regard, we are of the view that the Comparable Transactions which were conducted for the purpose of unwinding a previous acquisition transaction, namely those of Huan Yue, Alpha, and New Silkroad, are similar to the Share Buy-back of the Company and hence are more appropriate references for a comparative analysis, whereas the other Comparable Transactions, which were all stand-alone transactions, are rather different from the Company's Share Buy-back and hence are not considered by us to be proper references for a meaningful comparison. Accordingly, we have focused on reviewing the Comparable Transactions of Huan Yue, Alpha, and New Silkroad, and noted that their respective share buy-back price of the consideration shares were all determined with reference to the consideration shares' original issue prices. Except for the share buy-back price in the Comparable Transaction of Huan Yue, which was lower than the original issue price per consideration share, the buy-back prices in the two other Comparable Transactions of Alpha and New Silkroad were both equivalent to their respective original issue price per consideration share, as in the case of the Company's Share Buy-back.

Upon our further review, we noted that in the case of Huan Yue, the directors of Huan Yue were able to negotiate a discount to the original issue price of the consideration shares, making the buy-back price on terms more favourable to the

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company. However, as discussed in the above section headed “Background of, reasons for and benefits of entering into the Transfer Agreement” in this letter, Shanghai Dacheng, the KongZhong Group and Beijing Xigua have been facing financial difficulties in raising capital to settle the Full Cash Compensation and the Outstanding Sum. Hence, it has been futile for the Directors to further negotiate a discount to the original issue price of the Consideration Shares, when the aforementioned three parties already fail to meet their existing repayment obligations. Nonetheless, given that the share buy-back prices in the Comparable Transactions of Huan Yue, Alpha, and New Silkroad were all determined with reference to the consideration shares’ original issue prices, we are of the view that such practice is common in unwinding a previous acquisition transaction and buying back previous consideration shares, and that the above analysis is a fair demonstration that the Company’s determination of the Buy-back Price is in line with market practice. Accordingly, we consider the Buy-Back Price to be fair and reasonable so far as the Independent Shareholders are concerned.

*(c) Loan Assignment (which constitutes a special deal in accordance with Rule 25 of the Takeovers Code)*

As set out in the section headed “Regulatory Implications” in the Board Letter, the amount of the Outstanding Sum is higher than the consideration for the Loan Assignment, and the relevant proposed settlement is not extended to all other Shareholders, the Loan Assignment constitutes a special deal under Rule 25 of the Takeovers Code, and will be conditional upon obtaining the prior consent of the Executive under Rule 25 of the Takeovers Code. An application has been to the Executive for consent under Rule 25 of the Takeovers Code for the Loan Assignment. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly states that in its opinion the terms of the Loan Assignment are fair and reasonable; and (ii) the Loan Assignment is approved by the Independent Shareholders by way of poll at the EGM, in which the KongZhong Group, Shanghai Dacheng and parties acting in concert with any of them who are Shareholders, will be required to abstain from voting in the EGM. If the Executive does not consent to the Loan Assignment, and/or the approval of the Independent Shareholders is not obtained, the Loan Assignment will not proceed.

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As discussed in the above section headed “Background of, reasons for and benefits of entering into the Transfer Agreement” in this letter, the Implied Transfer Consideration under the Transfer Agreement would not allow the Group to recover in full the Outstanding Sum of RMB30,599,878, given that the consideration for the Loan Assignment was only RMB5,519,280. In considering the fairness and reasonableness of the Loan Assignment, we have therefore also considered the fact that (i) Beijing Xigua has difficulties in raising capital to settle the Outstanding Sum, despite the Company’s repeated requests; (ii) the consideration for the Loan assignment is understood by the Company to be already the highest amount that can be offered by the KongZhong Group for it to ensure its fulfilment of such repayment obligation; (iii) the KongZhong Group and Beijing Xigua have been recording losses and in a net liability position and the existing operational performance of Beijing Xigua has been unsatisfactory; (iv) not only that the Group is not optimistic about the KongZhong Group’s ability of repaying the Outstanding Sum in instalments over a longer period, but that such arrangement had not been accepted by the KongZhong Group during its rounds of negotiations and discussions with the Group because of the KongZhong Group’s financial difficulties; (v) the KongZhong Group did not have sufficient assets other than the pledged 1,851,568 Shares to provide additional securities per the Company’s request with respect to its repayment of the Cash Compensation; (vi) if the Group commences legal proceedings against Shanghai Dacheng, the KongZhong Group and Beijing Xigua, the operation and financial position of the Group may be affected as a result of the unforeseeable time and cost implications and enforcement outcome; and (vii) given the time and resources already spent on revolving the issues arising from the Acquisition, the Board is of the view that it is more prudent for the parties to enter into a mutually agreeable and viable settlement promptly so that the Group can allocate its time and resources to other more fulfilling ventures. Accordingly, we are of the view that the consideration for the Loan Assignment, despite being lower than the Outstanding Sum, is a last resort of the Company that would help reduce a part of its asset losses and recoup part of its investment in Beijing Xigua, and hence we consider that the Loan Assignment is fair and reasonable so far as the Independent Shareholders are concerned.

### *(d) Section conclusion*

Having considered our evaluation of the Equity Disposal, the Share Buy-back and the Loan Assignment as discussed above, we consider the entering into of the Transfer Agreement to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

## **5. Effects on the shareholding structure of the Company**

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the completion of the Share Buy-back, assuming there will be no other change in the issued share capital and the shareholding structure of the Company between the Latest Practicable Date and the date on which the Share Buy-back is completed.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Name of Shareholder	As at the Latest Practicable Date		Immediately after the completion of the Share Buy-back	
	No. of Shares	Approximate % of total issued Shares	No. of Shares	Approximate % of total issued Shares
Foga Group Ltd. (Note 1&7)	21,673,338	13.6	21,673,338	15.8
WANG Dongfeng (Note 2)	1,650,800	1.0	1,650,800	1.2
Foga Holdings Ltd. (Note 1)	7,763,997	4.9	7,763,997	5.7
Foga Internet Development Ltd. (Note 4)	7,785,700	4.9	7,785,700	5.7
YANG Tao (Note 5&7)	1,340,000	0.8	1,340,000	1.0
KongZhong (Note 3)	10,202,168	6.4	10,202,168	7.4
Shanghai Dacheng (Note 3)	22,268,908	14.0	—	—
China Create Capital Limited (Note 6)	9,584,000	6.0	9,584,000	7.0
ZHANG Qiang (Note 8)	93,333	0.1	93,333	0.1
Other Shareholders	<u>77,016,994</u>	<u>48.3</u>	<u>77,016,994</u>	<u>56.2</u>
<b>Total</b>	<b><u>159,379,238</u></b>	<b><u>100.0</u></b>	<b><u>137,110,330</u></b>	<b><u>100.0</u></b>

*Note 1: Foga Group Ltd. is wholly-owned by Managecorp Limited as the trustee of Wang Trust. Wang Trust is a discretionary trust set up by Mr. WANG Dongfeng, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary objects of Wang Trust include Mr. WANG Dongfeng and certain of his family members. Mr. WANG Dongfeng and Managecorp Limited are taken to be interested in 21,673,338 Shares held by Foga Group Ltd.. In addition, Foga Holdings Ltd. is wholly-owned by Managecorp Limited as the trustee of Hao Dong Trust. Hao Dong Trust is a discretionary trust set up by Mr. LIAO Dong, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary object of Hao Dong Trust is Mr. LIAO Dong himself. Mr. LIAO Dong and Managecorp Limited are taken to be interested in 7,763,997 Shares held by Foga Holdings Ltd.*

*Note 2: Mr. WANG Dongfeng was granted 500,000 RSUs under the RSU Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018. Mr. WANG Dongfeng bought an aggregate of 850,800 Shares during the period from 26 June to 13 July 2017. He was further granted 300,000 RSUs under the RSU Scheme in 2018, 50,000 of which vested on 1 December 2018 and 250,000 of which were cancelled on 30 June 2019. The Company further granted 250,000 RSUs to Mr. WANG Dongfeng under the RSU Scheme in 2019, 50,000 of which vested on 1 July 2019 and 50,000 vested on 1 January 2020. Mr. WANG Dongfeng resigned from executive Director with effect from 30 September 2019. Given that 1 RSU represents 1 Share upon vesting, the figure of 1,650,800 comprising 1,500,800 Shares and 150,000 uncancelled RSUs as well is considered as a prudent and complete disclosure by the Company of Mr. WANG Dongfeng's interests in the Company.*

*Note 3: Shanghai Dacheng is owned as to 98.54% by KongZhong China by way of certain contractual arrangements, which is in turn 100% owned by KongZhong. By virtue of the SFO, the KongZhong Group are taken to be interested in the 22,268,908 Shares held by Shanghai Dacheng.*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Note 4: Foga Internet Development Ltd. is wholly-owned by Mr. YANG Tao. Mr. YANG Tao is taken to be interested in the 7,785,700 Shares held by Foga Internet Development Ltd.*

*Note 5: Mr. YANG Tao was granted 1,340,000 RSUs under the RSU Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018.*

*Note 6: China Create Capital Limited is a company incorporated in the BVI and interested in 9,584,000 Shares in the capacity of a beneficial owner. To the best of the knowledge of the Company, none of the Directors is holding any shares in China Create Capital Limited and China Create Capital Limited is not related to other Shareholders.*

*Note 7: Mr. WANG Dongfeng, Mr. LIAO Dong and Mr. YANG Tao are co-founders of the Group. For further details of their relationship, please refer to the sections headed "Our History, Reorganization and Corporate Structure" and "Directors and Senior Management" of the prospectus of the Company dated 19 September 2013.*

*Note 8: As at the Latest Practicable Date, Mr. ZHANG Qiang, a non-executive Director, is holding 93,333 Shares in the capacity as a beneficial owner, representing approximately 0.06% of the issued share capital of the Company. Mr. ZHANG Qiang was granted 100,000 RSUs, all of which vested during the period from 1 December 2016 to 1 June 2018. He was further granted 50,000 RSUs, 8,333 of which vested on 1 December 2018 and 41,667 of which were cancelled on 30 June 2019. Mr. ZHANG Qiang sold 75,000 Shares on 17 January 2019. The Company further granted 60,000 RSUs to Mr. ZHANG Qiang, of which 12,000 vested on 1 July 2019, 12,000 vested on 1 January 2020 and 12,000 vested on 1 July 2020. Given that 1 RSU represents 1 Share upon vesting, the figure of 93,333 comprising 69,333 Shares and 24,000 uncancelled RSUs as well is considered as a prudent and complete disclosure by the Company of Mr. ZHANG Qiang's interests in the Company.*

Assuming there will be no changes to the shareholding interest of the public Shareholders and the total number of issued Shares of the Company from the Latest Practicable Date to the date of Completion, upon Completion and cancellation of the Consideration Shares, the shareholding interest of the public Shareholders will increase from approximately 48.3% to approximately 56.2%. As such, the Completion, which will involve the cancellation of the Consideration Shares, would result in an increase in the public float of the Company.

### **6. Potential financial effects of the Transfer**

Upon Completion, Beijing Xigua will cease to be a subsidiary of the Company and the accounts of the Beijing Xigua would be excluded from those of the Group.

As set out in the Board Letter, it is expected that the Transfer will have the below financial effects on the Group's earnings, working capital and net assets upon Completion. It should be noted that they are for illustrative purpose only.

#### *(a) Earnings*

Upon completion of the Equity Disposal, the Group expects to record a gain or loss on the Equity Disposal which will be reflected in the consolidated statement of profit or loss after taking into account the fair value of the Consideration Shares as at the date of the Completion less the net assets value of Beijing Xigua attributable to the Company as at the date of the Completion and the transaction costs to be incurred for the Equity Disposal.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the net liabilities of Beijing Xigua attributable to the Company of approximately RMB89,522,000 as at 30 June 2020, the Company currently expects to recognise a gain of approximately RMB74,707,000. It is contemplated that the reserves of the Remaining Group will be increased upon the recognition of the disposal gain and the transaction costs in the consolidated statement of profit or loss.

It should be noted that the expected gain is only an estimate which assumes the completion of the Equity Disposal had taken place on 30 June 2020. The actual gain or loss of the Equity Disposal will depend on the fair value of the Consideration Shares and the net assets value of Beijing Xigua as at the completion date of the Equity Disposal.

### *(b) Working capital*

According to the estimations of the Company, the working capital of the Remaining Group is expected to increase slightly by approximately RMB22,302,000 from approximately RMB512,478,000 to approximately RMB534,780,000, mainly due to the receipt of the Cash Consideration of RMB25,519,280 and the exclusion of the fair value of Profit Guarantee of RMB74,000,000 and the negative working capital of Beijing Xigua of approximately RMB70,783,000. Since there is no cash outflow required by the Company in order to effect the Share Buy-back, we agree with the Directors that the Share Buy-back will not have an adverse effect on the working capital sufficiency of the Company upon the completion of the Share Buy-back.

### *(c) Net assets*

Assuming that the Loan Assignment had taken place on 30 June 2020, the Group would have incurred a loss in the amount of approximately RMB24,180,000 for the Loan Assignment due to the net effect of (a) approximately RMB28,078,000 being the outstanding principal under the Loan Agreement; (b) approximately RMB1,621,000 being the accumulated interest as at 30 June 2020; and (c) RMB5,519,000 being the consideration of the Loan Assignment received under the Transfer Agreement.

It is expected that the net asset value of the Remaining Group attributable to the owners of the Company will increase by approximately RMB11,342,000 from approximately RMB632,916,000 to RMB644,258,000, due to the net effect of (a) the exclusion of (i) the net liabilities of Beijing Xigua attributable to the Company of approximately RMB89,522,000 as at 30 June 2020; (ii) the outstanding principal of approximately RMB28,078,000 and the accumulated interest of approximately RMB1,621,000 under the Loan Agreement as at 30 June 2020; and (iii) the fair value of Profit Guarantee of RMB74,000,000; and (b) the receipt of the Cash Consideration of RMB25,519,280. Accordingly, the Group's net assets attributable to the owners of the Company per Share as at 30 June 2020 would increase from approximately RMB4.06 per Share to approximately RMB4.82 per Share.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the above potential financial effects, considering (i) the Transfer would have a positive effect on the earnings, working capital and net asset value of the Group; (ii) the Share Buy-back will not incur any cash outflow and hence there will be no adverse effect on the operating cash flow but a positive effect on the working capital position of the Remaining Group; and (iii) the reasons for the entering into of the Transfer Agreement as set out in the above section headed “Background of, reasons for and benefits of entering into the Transfer Agreement” in this letter, we consider that the overall financial effects on the Group as a result of the Transfer are justifiable.

### RECOMMENDATION

Having considered the principal factors and reasons referred to above, our views are summarised below:

- (i) Shanghai Dacheng, the KongZhong Group and Beijing Xigua have difficulties in raising capital to settle the Full Cash Compensation and the Outstanding Sum;
- (ii) the terms of the Transfer Agreement are generally in line with the original terms under the Investment Agreement;
- (iii) the Share Buy-back is expected to improve the net asset value per Share;
- (iv) it is a good opportunity for the Company to buy-back and cancel a significant block of Shares in a single transaction without significantly affecting the normal trading of the Shares in terms of price and volume as opposed to conducting a large number of daily on-market buy-back transactions under a general buy-back mandate over a period of time;
- (v) time to be spent by the management of the Group, as well as the cost implications and enforcement outcome in the event of litigation among the Company, the KongZhong Group, Shanghai Dacheng and Beijing Xigua, may have a negative impact on the operation and financial performance of the Group;
- (vi) the Company expects to recognise a disposal gain of approximately RMB74.7 million (before tax and transaction costs) upon Completion;
- (vii) the cessation of Beijing Xigua being a subsidiary of the Company upon Completion will not only improve the financial position of the Group, but will also remove the qualified opinion issued by the Auditor in relation to the financial information of Beijing Xigua in the future;
- (viii) it is common to unwind a previous acquisition transaction and buy back previous consideration shares in the original issue prices as indicated by the Comparable Transactions of Huan Yue, Alpha and New Silkroad; and
- (ix) the Loan Assignment, despite being lower than the Outstanding Sum, is a last resort of the Company that would help reduce a part of its asset losses and recoup part of its investment in Beijing Xigua, considering that:

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- a. the consideration for the Loan assignment is understood by the Company to be already the highest amount that can be offered by the KongZhong Group for it to ensure its fulfilment of such repayment obligation;
  - b. the KongZhong Group and Beijing Xigua have been recording losses and in a net liability position and the existing operational performance of Beijing Xigua has been unsatisfactory;
  - c. not only that the Group is not optimistic about the KongZhong Group's ability of repaying the Outstanding Sum in instalments over a longer period, but that such arrangement had not been accepted by the KongZhong Group during its rounds of negotiations and discussions with the Group because of the KongZhong Group's financial difficulties; and
  - d. the KongZhong Group did not have sufficient assets other than the pledged 1,851,568 Shares to provide additional securities per the Company's request with respect to its repayment of the Cash Compensation; and
- (x) given the time and resources already spent on revolving the issues arising from the Acquisition, the Board is of the view that it is more prudent for the parties to enter into a mutually agreeable and viable settlement amicably and promptly so that the Group can allocate its time and resources to other more fulfilling ventures.

Having taken into consideration the factors and reasons as stated above, we are of the opinion that the terms of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment, with the Loan Assignment constituting a special deal in accordance with Rule 25 of the Takeovers Code), although not conducted in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment).

Yours faithfully,  
For and on behalf of  
**Pelican Financial Limited**  
**Charles Li\***  
*Managing Director*

\* *Mr. Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*

## 1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results and assets and liabilities of the Group for each of the three years ended 31 December 2017, 2018 and 2019 audited by the auditor, respectively, as extracted from the respective published annual reports of the Company:

**Consolidated Annual Results**

	<b>For the year ended 31 December</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>124,279</u>	<u>129,440</u>	<u>346,466</u>
(Loss)/profit before income tax*	(257,588)	(3,033)	73,143
Income tax credit/(expense)	<u>13,143</u>	<u>(1,915)</u>	<u>(4,495)</u>
	(244,445)	(4,948)	(68,648)
Loss from discontinued operation	<u>(15,815)</u>	<u>(315,074)</u>	<u>—</u>
(Loss)/profit for the year	<u>(260,260)</u>	<u>(320,022)</u>	<u>68,648</u>
Attributable to			
Owners of the Company	(215,875)	(284,877)	74,035
Non-controlling interests	<u>(44,385)</u>	<u>(35,145)</u>	<u>(5,387)</u>
	<u>(260,260)</u>	<u>(320,022)</u>	<u>68,648</u>
Total comprehensive (loss)/income for the year	<u>(272,807)</u>	<u>(302,279)</u>	<u>48,763</u>
Attributable to			
Owners of the Company	(228,428)	(267,134)	54,150
Non-controlling interests	<u>(44,379)</u>	<u>(35,145)</u>	<u>(5,387)</u>
	<u>(272,807)</u>	<u>(302,279)</u>	<u>48,763</u>
Dividend	—	—	—
* (Loss)/profit before income tax has been arrived at after charging:			
Impairment of assets in connection with a newly acquired business	142,507	—	—
Impairment of financial assets measured at amortised cost	137,936	39,144	4,727

	For the year ended 31 December		
	2019	2018	2017
	RMB	RMB	RMB
Basic and diluted (loss)/earnings per share			
— Basic	(1.48)	(2.09)	0.54
— Diluted	(1.48)	(2.09)	0.53
Dividend per share	n/a	n/a	n/a

**Consolidated Assets and Liabilities**

	As at 31 December		
	2019	2018	2017
	RMB'000	RMB'000	RMB'000
Total assets	813,358	989,640	1,523,382
Total liabilities	<u>149,395</u>	<u>141,953</u>	<u>341,965</u>
Total equity	<u>663,963</u>	<u>847,687</u>	<u>1,181,417</u>
Equity attributable to owners of the Company			
Share capital	102	86	87
Reserves	687,257	809,155	1,108,614
Non-controlling interests	<u>(23,396)</u>	<u>38,446</u>	<u>72,716</u>
Total equity	<u>663,963</u>	<u>847,687</u>	<u>1,181,417</u>

According to the 2017 Annual Report and the 2018 Annual Report, in the opinion of the PricewaterhouseCoopers, the then auditor of the Group, the consolidated financial statements for the years ended 31 December 2017 and 2018 gave a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS and had been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. No qualified opinion nor modification had been given by PricewaterhouseCoopers in respect of the consolidated financial statements of the Group for the years ended 31 December 2017 and 2018.

According to the 2019 Annual Report, in the opinion of the Auditor, except for the possible effects of the matters described in the basis for qualified opinion section thereof, the consolidated financial statements gave a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS and had been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

The possible effects of the matters described in the basis for qualified opinion includes (1) limited accounting books and records of disposal subsidiaries (i.e., the JLC Disposal); (2) limited accounting books and records of acquisition of Beijing Xigua; and (3) certain corporate loan receivables.

Set out below is an extract of the independent auditor's report from the Auditor on the Group's consolidated financial statements for the year ended 31 December 2019:

***Basis for Qualified Opinion***

***1. Limited accounting books and records of disposal subsidiaries***

*As disclosed in note 12 and 38(b) to the consolidated financial statements, certain subsidiaries of the Company (the "Disposal Subsidiaries") have been disposed for the year ended 31 December 2019, of which we were unable to obtain the accounting books and records in respect of the Disposal Subsidiaries for the year ended 31 December 2019 and 2018. Due to the insufficient supporting documents and relevant explanations on the accounting books and records in respect of the Disposal Subsidiaries, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the disposal of subsidiaries and the following income and expenses 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 and the completeness of opening balances and comparative figures of the Disposal Subsidiaries:*

	<b><i>For the year ended</i></b>	
	<b><i>31 December</i></b>	
	<b><i>2019</i></b>	<b><i>2018</i></b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b><i>(a) Income and expenses:</i></b>		
<i>Loss from discontinued operation</i>	<u><u>15,815</u></u>	<u><u>315,074</u></u>
		<b><i>As at</i></b>
		<b><i>31 December</i></b>
		<b><i>2018</i></b>
		<b><i>RMB'000</i></b>
<b><i>(b) Assets and liabilities:</i></b>		
<i>Property and equipment</i>		3,567
<i>Intangible assets</i>		2,605
<i>Trade receivables</i>		13,718
<i>Prepayments and other receivables</i>		7,597
<i>Cash and cash equivalents</i>		114,273
<i>Trade payables</i>		(18,755)
<i>Other payables and accruals</i>		(34,348)
<i>Income tax liabilities</i>		<u><u>(1,655)</u></u>

- (c) *The proceeds receivable from the buyers of disposal subsidiaries (i.e., the “Proceeds Receivable”)*

*As disclosed in note 26 to the consolidated financial statements, the Proceeds Receivable of RMB33,203,000, against which full impairment loss of RMB33,203,000 had been made for the year ended 31 December 2019.*

*We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) the carrying amount of the Proceeds Receivable balance as at 31 December 2019 is fairly stated; and (ii) whether the impairment for the Proceeds Receivable of RMB33,203,000 for the year ended 31 December 2019 is properly recorded.*

## **2. Limited accounting books and records of acquisition of Beijing Xigua**

*As disclosed in note 38(a) to the consolidated financial statements, the Group acquired a 69.84% equity interest in Beijing Xigua on 26 June 2019. 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. 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 acquisition of Beijing Xigua and the following income and expenses for the year ended 31 December 2019 and the assets and liabilities as at 31 December 2019, 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:*

RMB'000

### **(a) The fair value of the identifiable assets and liabilities of Beijing Xigua acquired as at its date of acquisition:**

<i>Property and equipment</i>	<i>16,580</i>
<i>Intangible assets</i>	<i>64,827</i>
<i>Right-of-use assets</i>	<i>38,143</i>
<i>Trade receivables</i>	<i>6,398</i>
<i>Prepayments and other receivables</i>	<i>23,673</i>
<i>Other payables and accruals</i>	<i>(37,299)</i>
<i>Lease liabilities</i>	<i>(36,827)</i>
<i>Contract liabilities</i>	<i>(1,873)</i>
<i>Deferred tax liabilities</i>	<i>(8,887)</i>
<i>Goodwill</i>	<i>52,644</i>
<i>Derivative financial instrument</i>	<i>15,069</i>

	<i>For the year ended 31 December 2019 RMB'000</i>
<b>(b) <i>Income and expenses:</i></b>	
<i>Revenue</i>	25,996
<i>Cost of revenue</i>	<u>(70,024)</u>
<i>Gross profit</i>	(44,028)
<i>Selling and marketing expenses</i>	(5,029)
<i>Administrative expenses</i>	(2,991)
<i>Research and development expenses</i>	(7,860)
<i>Other income</i>	271
<i>Other losses</i>	(784)
<i>Finance cost</i>	(824)
<i>Gain on fair value change of derivative financial instrument</i>	65,131
<i>Impairment of assets in connection with a newly acquired business</i>	(142,507)
<i>Impairment of financial assets measured at amortised cost</i>	<u>(5)</u>
<i>Loss before income tax</i>	(138,626)
<i>Income tax credit</i>	<u>8,887</u>
<i>Loss for the year</i>	<u><u>(129,739)</u></u>
	<i>As at 31 December 2019 RMB'000</i>
<b>(c) <i>Assets and liabilities:</i></b>	
<i>Property and equipment</i>	835
<i>Right-of-use assets</i>	36,950
<i>Trade receivables</i>	1,126
<i>Prepayments and other receivables</i>	2,802
<i>Derivative financial instrument</i>	80,200
<i>Trade payables</i>	(95)
<i>Other payables and accruals</i>	(33,853)
<i>Contract liabilities</i>	(5,295)
<i>Lease liabilities</i>	<u><u>(46,696)</u></u>

**(d) Commitments and contingent liabilities in relation to Beijing Xigua and its operations**

*No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities in relation to Beijing Xigua and its operations as at 31 December 2019.*

**(e) 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 2019 and balances as at 31 December 2019 in relation to Beijing Xigua and its operations as required by International Accounting Standard 24 (Revised) “Related Party Disclosures”.*

**3. Certain corporate loan receivables**

*Corporate loan receivables of RMB99,700,000 in aggregate were granted in 2019 to certain corporate borrowers established in the PRC, against which full impairment loss of RMB99,700,000 had been made for the year ended 31 December 2019.*

*We were unable to obtain sufficient appropriate audit evidence and reasonable explanation to substantiate the commercial substance and nature of the relevant transactions and the relationship between the Group and these corporate borrowers.*

*Any adjustments to the figures as described from points 1 to 3 above might have a consequential effect on the Group’s result and cashflows for the years ended 31 December 2019 and 2018, and the financial positions of the Group as at 31 December 2019 and 2018, and the related disclosures thereof in the consolidated financial statements.*

After consultation with the Auditor, if the Equity Disposal is completed on or prior to 31 December 2020, the qualification which related to Beijing Xigua is expected to be removed in the Company’s financial statements for the year ending 31 December 2022, as the financial information of Beijing Xigua group would also affect the corresponding figures in its consolidated financial statements for the year ending 31 December 2021 but would not further affect its consolidated financial statements for the year ending 31 December 2022.

**Interim Results**

The following unaudited financial information is extracted from 2020 Interim Report:

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>28,927</u>	<u>53,442</u>
(Loss)/profit before income tax	(28,141)	28,079
Income tax expense	<u>(220)</u>	<u>(676)</u>
	(28,361)	27,403
Loss from discontinued operation	<u>—</u>	<u>(17,547)</u>
(Loss)/profit for the period	<u>(28,361)</u>	<u>9,856</u>
Attributable to		
Owners of the Company	(23,747)	10,387
Non-controlling interests	<u>(4,614)</u>	<u>(531)</u>
	<u>(28,361)</u>	<u>9,856</u>
Total comprehensive (loss)/income for the period	<u>(31,475)</u>	<u>(385)</u>
Attributable to		
Owners of the Company	(26,861)	141
Non-controlling interests	<u>(4,614)</u>	<u>(526)</u>
	<u>(31,475)</u>	<u>(385)</u>
Dividend	—	—

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i>RMB</i>	<i>RMB</i>
Basic and diluted (loss)/earnings per share		
— Basic	(0.15)	0.08
— Diluted	(0.15)	0.08
Dividend per share	n/a	n/a

## 2. AUDITED AND UNAUDITED FINANCIAL STATEMENTS

The financial information of the Group for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 together with the significant accounting policies and the relevant notes thereto are disclosed in the following documents which have been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company at <http://www.forgame.com>:

- (i) the 2017 Annual Report published on 18 April 2018 (pages 83 to 193), which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0418/ltn20180418503.pdf>;
- (ii) the 2018 Annual Report published on 23 April 2019 (pages 76 to 166), which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0423/ltn20190423945.pdf>;
- (iii) the 2019 Annual Report published on 28 August 2020 (pages 87 to 171), which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0828/2020082802025.pdf>, whereby:
  - (a) the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 can be referred to on pages 95 to 96;
  - (b) the consolidated statement of financial position as at 31 December 2019 can be referred to on pages 97 to 98;
  - (c) the consolidated statement of changes in equity for the year ended 31 December 2019 can be referred to on page 99;
  - (d) the consolidated statement of cash flows for the year ended 31 December 2019 can be referred to on pages 100 to 101; and
  - (e) the significant accounting policies and the relevant notes to the audited consolidated financial statements for the year ended 31 December 2019 can be referred to on pages 102 to 171.

- (iv) The 2020 Interim Report published on 25 September 2020 (pages 30 to 56), which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0925/2020092500580.pdf>.

### 3. MATERIAL CHANGE

The Directors confirm that, save for the following changes in the financial position as disclosed in the 2020 Interim Report, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date:

- (i) the Epidemic has put significant pressure on the global and local economy as well as on the Group's game business. Given that the Group had shifted its business focus from online web games to offline VR games (which were operated by offline stores of Beijing Xigua under the Group) in 2019, the Group had reduced its effort in developing and promoting its online web games, some of which have entered into the mature stage of their lifecycles and hence generated less revenue than the same period of 2019. On the other hand, offline stores of Beijing Xigua under the Group were severely affected by crowd gathering restriction and quarantine measures imposed by the PRC government, leading to the non-fulfillment of Profit Guarantee by Beijing Xigua pursuant to the terms and conditions of the Investment Agreement. The combined result is a decrease in the Group's gaming revenue by approximately 40.3%, from approximately RMB37.4 million for the six months ended 30 June 2019 to approximately RMB22.3 million for the six months ended 30 June 2020;
- (ii) as a result of the Epidemic and the resulted increasing market risks, the Group has maintained a controllable size of outstanding loans and taken cautious measures in originating new loans in the first half of 2020, leading to the decrease in the average balance of loans of the internet micro-credit business in the first half of 2020 compared to the same period of last year. As a result, the revenue generated from the Group's fintech business decreased by approximately 58.8%, from approximately RMB16.1 million for the six months ended 30 June 2019 to approximately RMB6.6 million for the six months ended 30 June 2020; and
- (iii) in view of the above, in the first half of 2020, the Group recorded a total revenue of approximately RMB28.9 million, decreasing by approximately 45.9% from the same period of last year. The Group also recorded a LBITDA (i.e. loss before interests, taxes, depreciation and amortization) of approximately RMB27.3 million for the six months ended 30 June 2020, as compared to a EBITDA (i.e. earnings before interests, taxes, depreciation and amortization) of approximately RMB27.9 million for the six months ended 30 June 2019, as well as a loss before income tax of approximately RMB28.1 million for the six months ended 30 June 2020, as compared to a profit before income tax of approximately RMB28.1 million for the six months ended 30 June 2019.

#### 4. STATEMENT OF INDEBTEDNESS

##### Lease liabilities

As at 31 October 2020, the Group recorded lease liabilities of approximately RMB528,000 for leased properties pursuant to IFRS which requires a right-of-use asset and a corresponding liability to be recognised for all leases by a lessee except for short-term leases and leases of low-value assets.

##### Disclaimers

Save as aforesaid, and apart from intra-group liabilities, and normal accounts payable, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, any authorised or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 October 2020.

The Directors confirm that there is no material change in the indebtedness and contingent liability of the Group from the close of business on 31 October 2020 to the Latest Practicable Date.

#### 5. WORKING CAPITAL

After taking into account the financial resources available to the Remaining Group, including its cash and cash equivalents on hand, the internally generated funds and the available banking facilities, the Directors, after due and careful enquiry, are of the opinion that the working capital available to the Remaining Group is sufficient for its requirements for at least 12 months from the date of this circular, in the absence of unforeseeable circumstances.

#### 6. FINANCIAL AND BUSINESS PROSPECTS OF THE REMAINING GROUP

##### (1) JLC Qualification

As disclosed in the 2019 Annual Report, the Auditor issued a qualified opinion on the Company's results for the year ended 31 December 2019 in relation to the income, expenses, assets and liabilities of the JLC Group which was disposed of in 2019, and the full impairment on the Proceeds Receivable from the JLC Disposal (i.e. the JLC Qualification).

As disclosed in the Announcement dated 22 October 2020, that as discussed with the Auditor, the Company is of the view that, as the JLC Disposal had been completed in 2019, the financial information of Jlc Inc. and its subsidiaries would not further affect the Group's annual results for the year ending 31 December 2020. However, as (a) the loss from discontinued operation (being the operating results of Jianlicai, the amount of which was RMB15.8 million for the year ended 31 December 2019); (b) the carrying amount of

the Proceeds Receivable balance; and (c) the impairment for the Proceeds Receivable will be shown as corresponding figures in the Company's consolidated financial statements for the year ending 31 December 2020, similar qualification is expected to recur in the Company's auditor's report for the year ending 31 December 2020. Therefore, the Company expects that the JLC Qualification would be removed in its consolidated financial statements for the year ending 31 December 2021.

Furthermore, the Company is currently contemplating to initiate litigation proceedings against the owners of Jlc Inc. by the end of the year 2020. As the legal actions relating to the JLC Disposal taken or to be taken by the Company escalate, there may be further available information for the Company to assess the recoverability of the Proceeds Receivable. The Company will make further announcements of the latest development of the Proceeds Receivable when and as appropriate under the Listing Rules.

## **(2) Micro-credit business**

As disclosed in the 2020 Interim Report, the Group has applied a prudent strategy in the fintech business during the first half of 2020. Due to the increasing market risks, the Group's internet micro-credit business has maintained a controllable size of outstanding loans and taken cautious measures in originating new loans in the first half of 2020. As disclosed in the announcements of the Company dated 11 December 2019, 23 December 2019, 26 February 2020 and 7 May 2020, there are some risks on the recoverability of the outstanding loan receivables. Although certain borrowers had not resumed their normal working hours due to the Epidemic in the first half of 2020, the Group had tried its best to gather information available and conduct recoverability assessment.

Further, as disclosed in the Announcement dated 22 October 2020, The Group has taken the following legal actions against the seven unreachable borrowers in respect of the relevant corporate loan receivables:

- (a) on 26 December 2019, Yunke, a wholly-owned subsidiary of one of the PRC Operational Entities, instructed its PRC legal advisers, to institute legal proceedings for the recovery of the loan receivables against the seven unreachable borrowers; and
- (b) as at 17 September 2020, arbitration proceedings have been instituted and/or completed against each of the relevant unreachable borrowers in the PRC. For the six arbitrations which have been concluded, the Company is pleased to announce that the relevant judgments handed down were all in favour of the Group.

## **(3) Outlook**

The Group has not been immune to the severe national public health crisis and faces significant challenges ahead. Although the Group has formulated contingency measures to mitigate the impact of the Epidemic, the operating environment has been clouded by uncertainties at this stage. Secondly, in relation to the internet micro-credit business, "Yunke" had to address a number of overdue loans it lent out during its rapid

development in the past. Taking into account the past experiences and lessons, the Group will operate the corporate loan business with even more prudent measures and strengthen its internal risk management in the future.

The Group is of the view that the Epidemic will inevitably have an adverse impact on the business performance of many industries in the future, and thus affecting the consumer confidence and consumer preferences for a long period of time. The business environment will become challenging for the next few years. In order to better cope with the risks to the Group's business (including internet micro-credit business) from economic downturn, the Group will make certain operating adjustments. The Group will go through the long and arduous journey with determination and perseverance.

Looking ahead, despite the uncertainties and difficult domestic and foreign environment, the Group will adhere to the principle of "striving for long-term robustness" while learning from past experience. By exploring new development model for the Group with open mindedness and innovation, the Group will evaluate potential projects or investments in a prudent manner when opportunities arise. With an aim to achieve sustainable development, the Group will aggressively explore more revenue sources, thereby delivering fruitful returns to the Shareholders.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there is no omission of other matters which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Share Buy-back Code and the Takeovers Code for the purpose of giving information with regard to the Group and Shanghai Dacheng. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and as a result of the Share Buy-back will be, as follows:

<i>Authorised share capital</i>		<i>US\$</i>
<u>500,000,000</u>	Shares as at the Latest Practicable Date	<u>50,000.00</u>
 <i>Issued and fully paid share capital or credited as fully paid</i>		
159,379,238	Shares as at the Latest Practicable Date	15,937.9238
(22,268,908)	Shares to be bought back and cancelled pursuant to the Share Buy-back	(2,226.8908)
<u>137,110,330</u>	Shares after cancellation of the Buy-back Shares	<u>13,711.0330</u>

All the Shares in issue (including the Shares under the Share Buy-back) rank *pari passu* in all respects with each other including as regards to dividends, voting rights and return of capital. The Shares in issue are listed on the Stock Exchange.

The Company has adopted the Pre-IPO Share Option Scheme by a resolution of the Shareholders on 31 October 2012, which was amended on 1 September 2013. The Pre-IPO Share Option Scheme is not subject to the provision of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme does not involve the grant of options by the Company to subscribe for Shares once the Company is a listed issuer. No further options will be granted under the Pre-IPO Share Option Scheme.

Pursuant to the Pre-IPO Share Option Scheme, the Company had granted options to subscribe for 6,440,911 Shares to the Directors and employees/former employees of the Group. The following persons are holders of the outstanding share options:

<b>Name of share option holders</b>	<b>Outstanding as at the Latest Practicable Date</b>
Four former Directors and 361 employees/former employees	<u>452,370</u>
<b>Total</b>	<u><u>452,370</u></u>

In addition, the Company has approved and adopted the RSU Scheme. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares. The following persons are holders of the outstanding RSUs:

<b>Name of RSU holders</b>	<b>Unvested as at the Latest Practicable Date</b>
ZHANG Qiang	24,000 <i>(Note)</i>
Five former Director and 16 employees	<u>602,000 <i>(Note)</i></u>
<b>Total</b>	<u><u>626,000 <i>(Note)</i></u></u>

*Note:* The RSUs which have vested shall be satisfied at the Company's absolute discretion within a reasonable period from the vesting date of such RSUs by directing and procuring the professional trustee of the RSU Scheme to transfer the Shares underlying the award to the relevant grantees which such trustee has acquired by making on-market purchases of the Shares in accordance with the relevant terms and conditions of the RSU Scheme.

Save as disclosed above, the Group has no outstanding warrants, options, convertible securities or other derivatives convertible into Shares, and no share or loan capital of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no other conversion right affecting the Shares or other derivatives in respect of securities which are being offered for or which carry voting rights have been issued or granted or agreed conditionally or unconditionally to be issued or granted.

Since 31 December 2019, being the date to which the latest audited consolidated accounts of the Company were made up, and up to the Latest Practicable Date, there had not been any new issue of Shares and buy-back of Shares.

There had been no reorganisation of capital of the Company during the two financial years preceding the date of the Announcement dated 12 November 2020.

### 3. DIVIDENDS

The Company had not declared any dividends to the Shareholders during the two years immediately preceding the date of this circular. The declaration of dividends is subject to the discretion of the Board, and the amounts of dividends actually declared and paid will also depend on, among other things, the Group's general business conditions, the Group's financial results, the Group's capital requirements; and any other factors which the Board may deem relevant. The Company has no plan or intention to alter its present dividend policy, and as at the Latest Practicable Date, the Company has no plan or intention to declare a dividend.

### 4. MARKET PRICE

The table below sets out the closing prices of the Shares on the Stock Exchange (i) at the end of each of the calendar months during the 6 months immediately preceding 12 November 2020, being the date of the Announcement dated 12 November 2020; (ii) on 11 November 2020, being the last trading day immediately preceding the Announcement dated 12 November 2020; and (iii) on the Latest Practicable Date.

Date	Closing price per Share HK\$
29 May 2020	3.45
30 June 2020	3.13
31 July 2020	3.34
31 August 2020	2.93
30 September 2020	2.65
30 October 2020	2.48
11 November 2020	2.28
12 November 2020	2.31
Latest Practicable Date	2.24

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the period commencing 6 months preceding 12 November 2020, being the date of the Announcement dated 12 November 2020 and ending on the Latest Practicable Date were HK\$3.45 on 29 May 2020 and HK\$2.24 on the Latest Practicable Date, respectively.

## 5. DISCLOSURE OF INTERESTS

### (1) Directors and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director/ Chief Executive	Capacity/ Nature of Interest	Relevant Company	Relevant Class of Shares/ Underlying Shares held	Approximate Percentage of Shareholding
ZHANG Qiang (張強)	Beneficial Owner	The Company	93,333 Ordinary Shares (long position)	0.06%

*Note:* Mr. ZHANG Qiang was granted 100,000 RSUs under the RSU Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018. He was further granted 50,000 RSUs under the RSU Scheme in 2018, 8,333 of which vested on 1 December 2018 and 41,667 of which were cancelled on 30 June 2019. Mr. ZHANG Qiang sold 75,000 Shares vested under the RSU Scheme on 17 January 2019. The Company further granted 60,000 RSUs to Mr. ZHANG Qiang under the RSU Scheme in 2019, of which 12,000 vested on 1 July 2019, 12,000 vested on 1 January 2020 and 12,000 vested on 1 July 2020. Given that 1 RSU represents 1 Share upon vesting, the figure of 93,333 comprising 69,333 Shares and 24,000 uncanceled RSUs as well is considered as a prudent and complete disclosure by the Company of Mr. ZHANG Qiang's interests in the Company.

Save as disclosed above, none of the Directors or chief executives of the Company at the relevant time had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as the Latest Practicable Date.

**(2) Substantial Shareholders' Interest and Short Positions in Shares and Underlying Shares**

As at the Latest Practicable Date, the following are the persons, other than the Directors or chief executives of the Company at the relevant time, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

<b>Name</b>	<b>Capacity/ Nature of Interest</b>	<b>Number and Class of Shares</b>	<b>Approximate Percentage of Shareholding</b>
Managecorp Limited <sup>(1)</sup>	Trustee	29,437,335 Ordinary Shares (long position)	18.47%
Foga Group Ltd. <sup>(1)</sup>	Beneficial Owner	21,673,338 Ordinary Shares (long position)	13.60%
WANG Dongfeng	Founder of the Discretionary Trust Interest of Controlled Corporation <sup>(1)</sup>	21,673,338 Ordinary Shares (long position)	13.60%
	Beneficial Owner <sup>(2)</sup>	1,650,800 Ordinary Shares (long position)	1.04%
YANG Tao	Interest of Controlled Corporation <sup>(3)</sup>	7,785,700 Ordinary Shares (long position)	4.89%
	Beneficial Owner <sup>(4)</sup>	1,340,000 Ordinary Shares (long position)	0.84%
KongZhong	Beneficial Owner <sup>(5)</sup>	10,202,168 Ordinary Shares (long position)	6.40%
	Interest of Controlled Corporation <sup>(6)</sup>	22,268,908 Ordinary Shares (long position)	13.97%
Linkedsee Group Limited <sup>(5)</sup>	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%

Name	Capacity/ Nature of Interest	Number and Class of Shares	Approximate Percentage of Shareholding
Linkedsee Limited <sup>(5)</sup>	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
WANG Leilei <sup>(5)</sup>	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
上海常匯互聯網科技有限公司 (Shanghai Changhui Internet Technology Co., Limited*) <sup>(5)</sup>	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
北京五星融誠科技有限責任公司 (Beijing Wuxing Rongcheng Technology Co., Limited*) <sup>(5)</sup>	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
北京和諧欣榮投資中心(有限 合夥) (Beijing Hexie Xinrong Investment Center (Limited Partnership)*) <sup>(5)</sup>	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
和諧天明投資管理(北京) 有限公司 (Hexie Tianming Investment Management (Beijing) Co., Ltd.*) <sup>(5)</sup>	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
和諧成長二期(義烏)投資中心 (有限合夥) (Hexie Chengzhang Phase II (YIWU) Investment Center (Limited Partnership)*) <sup>(5)</sup>	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
KongZhong China	Interest of Controlled Corporation	22,268,908 Ordinary Shares (long position)	13.97%
Shanghai Dacheng	Beneficial Owner	22,268,908 Ordinary Shares (long position)	13.97%
China Create Capital Limited	Beneficial Owner	9,584,000 Ordinary Shares (long position)	6.01%

*Notes:*

- (1) Foga Group Ltd. is wholly owned by Managecorp Limited as the trustee of Wang Trust. Wang Trust is a discretionary trust set up by Mr. WANG Dongfeng, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary objects of Wang Trust include Mr. WANG Dongfeng and certain of his family members. Mr. WANG Dongfeng and Managecorp Limited are taken to be interested in 21,673,338 Shares held by Foga Group Ltd.. In addition, Foga Holdings is wholly owned by Managecorp Limited as the trustee of Hao Dong Trust. Hao Dong Trust is a discretionary trust set up by Mr. LIAO Dong, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary object of Hao Dong Trust is Mr. LIAO Dong himself. Mr. LIAO Dong and Managecorp Limited are taken to be interested in 7,763,997 Shares held by Foga Holdings.
- (2) Mr. WANG Dongfeng was granted 500,000 RSUs under the RSU Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018. Mr. WANG Dongfeng bought an aggregate of 850,800 Shares during the period from 26 June to 13 July 2017. He was further granted 300,000 RSUs under the RSU Scheme in 2018, 50,000 of which vested on 1 December 2018 and 250,000 of which were cancelled on 30 June 2019. The Company further granted 250,000 RSUs to Mr. WANG Dongfeng under the RSU Scheme in 2019, 50,000 of which vested on 1 July 2019 and 50,000 vested on 1 January 2020. Mr. WANG Dongfeng resigned as executive Director with effect from 30 September 2019. Given that 1 RSU represents 1 Share upon vesting, the figure of 1,650,800 comprising 1,500,800 Shares and 150,000 uncanceled RSUs as well is considered as a prudent and complete disclosure by the Company of Mr. WANG Dongfeng's interests in the Company.
- (3) Foga Internet Development is wholly owned by Mr. YANG Tao. Mr. YANG Tao is taken to be interested in the 7,785,700 Shares held by Foga Internet Development Ltd.
- (4) Mr. YANG Tao was granted 1,340,000 RSUs under the RSU Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018.
- (5)
  - (i) KongZhong is 100% owned by Linkedsee Limited, which in turn is 73.13% owned by Linkedsee Group Limited and 26.87% owned by Mr. WANG Leilei;
  - (ii) Shanghai Changhui Internet Technology Co., Limited.\* (上海常匯互聯網科技有限公司) and Mr. WANG Leilei hold 57.32% and 42.68% of equity interest of Linkedsee Group Limited, respectively;
  - (iii) Beijing Wuxing Rongcheng Technology Co., Limited.\* (北京五星融誠科技有限責任公司) holds 100% equity interest of Shanghai Changhui Internet Technology Co., Limited.\* (上海常匯互聯網科技有限公司);
  - (iv) Beijing Wuxing Rongcheng Technology Co., Limited.\* (北京五星融誠科技有限責任公司) is 51.11% owned by Mr. Wang Leilei, 40.89% owned by Hexie Chengzhang Phase II (YIWU) Investment Center (Limited Partnership)\* (和諧成長二期(義烏)投資中心(有限合夥)) and 8.0% owned by Gongqingcheng Wujiang Xingyao Investment Management Partnership Enterprise (Limited Partnership)\* (共青城五疆星耀投資管理合夥企業(有限合夥)); and
  - (v) Hexie Chengzhang Phase II (YIWU) Investment Center (Limited Partnership)\* (和諧成長二期(義烏)投資中心(有限合夥)) is 3% held by Beijing Hexie Xinrong Investment Center (Limited Partnership)\* (北京和諧欣榮投資中心(有限合夥)). Beijing Hexie Xinrong Investment Center (Limited Partnership)\* (北京和諧欣榮投資中心(有限合夥)) is 0.1% owned by Hexie Tianming Investment Management (Beijing) Co., Ltd.\* (和諧天明投資管理(北京)有限公司);

- (6) Shanghai Dacheng is owned as to 98.54% by KongZhong China by way of certain contractual arrangements, which is in turn 100% owned by KongZhong. By virtue of the SFO, KongZhong China and KongZhong are taken to be interested in the 22,268,908 Shares held by Shanghai Dacheng.

Save as disclosed above, as at the Latest Practicable Date, the Company is not aware of any other person (other than the Directors or chief executives of the Company at the relevant time) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## 6. SHAREHOLDINGS AND DEALINGS

- (i) Save as disclosed in the section headed “Disclosure of Interests” in this appendix above, none of the Directors or any persons acting in concert with them were interested in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (ii) no Shareholders had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM in relation to the Transfer Agreement and the transactions contemplated thereunder as at the Latest Practicable Date;
- (iii) to the best knowledge of the Directors, none of the holders of 10% or more of the voting rights of the Company had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (iv) none of the Directors or any persons acting in concert with them had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period; and
- (v) none of the Directors or any persons acting in concert with them had borrowed or lent any Shares, warrants, options, convertible securities or derivatives of the Company during the Relevant Period.

## 7. INTERESTS IN THE GROUP’S ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired by or disposed of or leased to any member of the Group or are proposed to be acquired by or disposed of or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

In addition, as at the Latest Practicable Date, none of the Directors were materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

Further, Mr. ZHANG Qiang, the non-executive Director, interested in 69,333 Shares, representing approximately 0.04% of the issued share capital of the Company as at the Latest Practicable Date, has advised his intention to vote in favour of the resolutions to be proposed at the EGM in relation to the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the Equity Disposal, the Share Buy-back and the Loan Assignment). Save as the above, after reasonable enquiry, the Company is not aware of any voting intention of the Shareholders with respect to the resolutions to be proposed at the EGM.

## 8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group (including the PRC Operational Entities), none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group as at the Latest Practicable Date.

## 9. DIRECTORS' SERVICE CONTRACTS

- (i) Mr. HAN Jun, the executive Director, has entered into a service agreement with the Company for a term of three years commencing from 11 November 2019 unless terminated by not less than 3 months' notice. Initially Mr. HAN Jun was entitled to a monthly remuneration of RMB100,000. As Mr. HAN Jun has been redesignated as the vice president of the Company with effect from 13 October 2020, his monthly remuneration has been adjusted to RMB50,000;
- (ii) Mr. DIAO Guoxin, the executive Director, has entered into a service agreement with the Company for a term of three years commencing from 13 October 2020 unless terminated by not less than 3 months' notice. Mr. DIAO Guoxin is entitled to a monthly remuneration of RMB50,000;
- (iii) Mr. ZHU Liang, the executive Director, has entered into a service agreement with the Company for a term of three years commencing from 13 October 2020 unless terminated by not less than 3 months' notice. Mr. ZHU Liang is entitled to a monthly remuneration of RMB50,000;
- (iv) Mr. ZHANG Qiang, the non-executive Director, has entered into a service agreement with the Company for a term of three years from 24 May 2019 to 23 May 2022 unless terminated by not less than 30 days' notice in writing served by either party to the other. Mr. ZHANG Qiang is entitled to an annual remuneration of US\$80,000;
- (v) Mr. CUI Yuzhi, the independent non-executive Director, has entered into a letter of appointment with the Company for a term of three years commencing from 7 May 2020. Mr. CUI Yuzhi is entitled to a director's fee of US\$80,000 per annum;
- (vi) each of Mr. WANG Dong and Mr. WONG Chi Kin, the independent non-executive Directors, has entered into a letter of appointment with the Company for a term of three years commencing from 27 April 2020 and they will be entitled to a director's fee of US\$80,000 and US\$120,000 per annum, respectively; and

(vii) Mr. LU Xiaoma, the independent non-executive Director, has entered into a letter of appointment with the Company for a term of three years commencing from 13 October 2020. Mr. LU Xiaoma is entitled to a director's fee of US\$43,000 (or its RMB equivalent) per annum.

Save as disclosed above,

- (a) none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation) as at the Latest Practicable Date;
- (b) none of the Directors had any continuous service contracts with the Group or associated companies with a notice period of 12 months or more; and
- (c) none of the Directors had any fixed term service contracts with the Company or any of its subsidiaries or associated companies with more than 12 months to run irrespective of the notice period.

## 10. MATERIAL LITIGATION

Mutant Box received a formal summons (the “**Summons**”) and complaint (the “**Complaint**”) filed by Ms. Selena Gomez (“**Ms. Gomez**”) as plaintiff against, among others, Mutant Box, Guangzhou Feidong and the Company as defendants (the “**Defendants**”) in the Supreme Court of California 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 in the amount of US\$35 million. The Company is currently seeking legal advice on the claims in the Summons and the Complaint, and intends to vigorously defend the claims mentioned above. The Company is of the view that the above legal proceedings will not affect the normal business and operations of the Group. For further details, please refer to the announcement of the Company dated 13 October 2020.

Save as the above, the Directors confirm that, as at the Latest Practicable Date, the Group was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Group immediately preceding the Latest Practicable Date.

## 11. MATERIAL CONTRACTS

Save for and except for the transactions disclosed below, there were no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) being entered into by any member of the Group within the two years immediately preceding the announcement of the Company dated 12 November 2020 and up to the Latest Practicable Date:

- (i) the Spacevision SPA;
- (ii) the Supplemental SPA;
- (iii) the Transfer Agreement;
- (iv) the Loan Agreement;
- (v) the Supplemental Agreement;
- (vi) the Disposal Agreement;
- (vii) the Investment Agreement;
- (viii) the Decoration Services Agreement;
- (ix) the Strategic Cooperation Framework Agreement;
- (x) the Financial Assistance Loan Agreement; and
- (xi) (1) the shareholders' agreement dated 16 January 2019 and entered by (i) 廣州維動網絡科技有限公司 (Guangzhou Weidong Internet Technology Co., Ltd.\*), a subsidiary of the Company, as investor, (ii) Shanghai Dacheng as vendor, (iii) 天津聯盟電競互聯網科技有限公司 (Tianjin LMDJ Internet Technology Co., Ltd.\*) as target company, (iv) KongZhong China, (v) KongZhong, (vi) 空中信通資訊技術(北京)有限公司 (KongZhong Xintong Information Technology (Beijing) Co., Ltd.\*), (vii) 北京成熙通信息技術有限責任公司 (Beijing Chengxitong Information Technology Co., Ltd.\*) and (viii) Mr. WANG Leilei; and (2) the investment agreement dated 16 January 2019 and entered by (i) all the parties to the shareholders' agreement dated 16 January 2019 and (ii) the Company. Pursuant to the shareholders' agreement and the investment agreement both dated 16 January 2019, the investor agreed to acquire 19.99% of the equity interest in the target company at a consideration of RMB22,598,870, details of which are set out in the announcement of the Company dated 16 January 2019.

**12. EXPERT AND CONSENT**

Name	Qualification
Pelican Financial Limited	a corporation licenced by the SFC to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders (as applicable) in connection with the Transfer Agreement and the transactions contemplated thereunder

As at the Latest Practicable Date, the abovementioned expert was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up.

The abovementioned expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report and/or references to its name, in the form and context in which it is included.

**13. MISCELLANEOUS**

- (i) The registered office of the Company is located 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.
- (ii) The head office and principal place of business of the Company in Hong Kong is located at 16/F, Man Yee Building, 60-68 Des Voeux Road Central, Central, Hong Kong.
- (iii) the registered address of Shanghai Dacheng is located at Room 201-203, Block 12, No. 88 Darwin Road, the China (Shanghai) Pilot Free Trade Zone, the PRC\* (中國(上海)自由貿易試驗區達爾文路88號12幢201-203室).
- (iv) the registered address of KongZhong China is located at Room 3332, 3/F, Block 3, Yard 33, Zique Road, Haidian District, Beijing, the PRC\* (中國北京市海澱區紫雀路33號院3號樓3層3332室).
- (v) the registered address of KongZhong is located at P.O. Box 309 GT, Uglan House, South Church Street George Town, Grand Cayman, Cayman Islands.
- (vi) the registered addresses of Foga Group Ltd., Foga Holdings Ltd. and Foga Internet Development Ltd. is located at Coastal Building, Wickham's Cay II, P. O. Box 2221, Road Town, Tortola, British Virgin Islands.

- (vii) The company secretary of the Company is Ms. Lee Ka Man. Ms. Lee Ka Man is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (viii) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (ix) Pelican Financial Limited, being the Independent Financial Adviser, the registered office of which is located at 15/F, East Exchange Tower, 38–40 Leighton Road, Causeway Bay, Hong Kong.
- (x) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of any inconsistency.

#### 14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 12:30 p.m. and from 2:00 p.m. to 5:00 p.m. at 16/F, Man Yee Building, 60–68 Des Voeux Road Central, Central, Hong Kong, being the principal place of business of the Company in Hong Kong; (ii) on the website of the Company at <http://www.forgame.com>; and (iii) on the website of the SFC at [www.sfc.hk](http://www.sfc.hk) from the date of this circular up to and including the date of the EGM:

- (i) the Articles;
- (ii) the 2017 Annual Report;
- (iii) the 2018 Annual Report;
- (iv) the 2019 Annual Report;
- (v) the 2020 Interim Report;
- (vi) the letter from the Board, the text of which is set out on pages 13 to 43 of this circular;
- (vii) the letter from the Listing Rules IBC, the text of which is set out on pages 44 to 45 of this circular;
- (viii) the letter from the Takeovers Code IBC, the text of which is set out on pages 46 to 47 of this circular;
- (ix) the letter from the IFA to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 48 to 71 of this circular;
- (x) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (xi) the written consents referred to in the section headed "Expert and Consent" in this appendix; and
- (xii) this circular.

## NOTICE OF EGM



### **Forgame Holdings Limited**

### **雲遊控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00484)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Forgame Holdings Limited (the “**Company**”) will be held at Room 1106 Block A Phase I, Innovation Technology Plaza, Tianan Digital City, Chegongmiao, Futian District, Shenzhen, China on Thursday, 24 December 2020 at 14:00 for the purpose of considering and, if thought fit, by way of poll, passing (with or without modifications), the following resolutions of the Company (unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 2 December 2020):

#### **ORDINARY RESOLUTIONS**

**“THAT:**

- (i) subject to the consent of the Executive and any conditions that may be imposed thereon, the assignment of the Outstanding Sum to KongZhong China (or its designated third party) originally due to Guangzhou Feidong pursuant to the terms and conditions of the Transfer Agreement (i.e. the Loan Assignment), which constitutes a special deal pursuant to Rule 25 of the Takeovers Code, and all other matters of and incidental thereto or in connection therewith be and are hereby approved, ratified and confirmed; and
- (ii) any one Director or (if affixing of seal is required) any two Directors be and is/are hereby authorised to sign and execute such documents (including under seal where applicable) and to do all such acts and things incidental to the Loan Assignment or as he/they consider(s) necessary, desirable or expedient to implement or give effect to the Loan Assignment.”

#### **SPECIAL RESOLUTIONS**

**“THAT:**

- (i) the entering into of the Transfer Agreement dated 12 November 2020 entered into, among others, the Company, the Investor, Shanghai Dacheng, the KongZhong Group, Beijing Xigua and Guangzhou Feidong in relation to the Transfer (a copy of the Transfer Agreement is marked “A” and produced to the EGM and signed by the chairman of the EGM for identification purpose), pursuant to which the Company shall dispose of the 69.84% equity interest in Beijing Xigua to KongZhong China (or its designated third party) (i.e. the Equity Disposal) and the Consideration Shares shall be transferred from Shanghai Dacheng through the Escrow Agent to the

## NOTICE OF EGM

Company (i.e. the Share Buy-back), and all the transactions contemplated thereunder and all other matters of and incidental thereto or in connection therewith be and are hereby approved, ratified and confirmed;

- (ii) subject to the approval having been granted by the Executive and not having been withdrawn, the Share Buy-back be and is hereby approved and any one Director or (if affixing of seal is required) any two Directors be and is/are hereby authorised to sign and execute such documents (including under seal where applicable) and to do all such acts and things incidental to the Share Buy-back or as he/they consider(s) necessary, desirable or expedient to implement or give effect to the Share Buy-back; and
- (iii) that any one Director or (if affixing of seal is required) any two Directors be hereby authorised for and on behalf of the Company, among other things, to sign, execute, perfect, deliver (including under seal where applicable) and to authorise the signing, executing, perfecting, delivering (including under seal where applicable) of all such documents and deeds, and to do or authorise doing all such acts, matters and things as he/they may in his/their absolute discretion consider necessary, expedient or desirable to give effect to, implement and/or complete all matters in connection with the Transfer Agreement and the transactions contemplated thereunder and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the Transfer Agreement as he/they may in his/their absolute discretion consider to be desirable and in the interest of the Company and all of such acts of director(s) as aforesaid be and are hereby approved, ratified and confirmed.”

By order of the Board  
**Forgame Holdings Limited**  
**ZHANG Qiang**  
*Chairman*

Hong Kong, 2 December 2020

*Registered Office:*

Osiris International Cayman Limited  
Suite #4-210, Governors Square  
23 Lime Tree Bay Avenue  
P.O. Box 32311  
Grand Cayman KY1-1209  
Cayman Islands

*Corporate Headquarters:*

Room 01-02, 60/F  
International Metropolitan Plaza  
68 Huacheng Avenue  
Guangzhou  
China

## NOTICE OF EGM

### *Principal Place of Business in Hong Kong:*

16/F, Man Yee Building  
60–68 Des Voeux Road Central  
Central  
Hong Kong

### *Notes:*

1. A Shareholder entitled to attend and vote at the EGM is entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it; a proxy need not be a shareholder of the Company. A Shareholder who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her and vote on his/her/its behalf at the EGM. On a poll, votes may be given either personally or by proxy.
2. In the case of joint holders of Shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such Share as if he/she/it were solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.
3. In order to be valid, a form of proxy must be deposited at the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the above Meeting (i.e. before 2:00 p.m. on 22 December 2020) or any adjournment thereof.
4. The transfer books and register of members of the Company will be closed from Monday, 21 December 2020 to Thursday, 24 December 2020, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 18 December 2020.
5. Completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the EGM (or any adjourned meeting thereof) if they so wish.
6. The resolutions set out in this notice of the EGM will be put to the Shareholders to vote taken by way of a poll.
7. Precautionary Measures for the EGM:

The health of our shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Epidemic (COVID-19), the Company will implement the following precautionary measures at the EGM to protect attending shareholders, staff and stakeholders from the risk of infection:

- (1) compulsory body temperature checks will be conducted for every shareholder, proxy or other attendee at each entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue;
- (2) the Company requests each attendee to wear a surgical face mask throughout the EGM and inside the EGM venue, and to maintain a safe distance between seats;
- (3) no refreshment will be served, and there will be no gifts; and
- (4) each attendee may be asked whether (a) he/she travels outside of the PRC within the 14-day period immediately before the EGM; and (b) he/she is subject to any PRC Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the EGM venue or be required to leave the EGM venue.

## NOTICE OF EGM

In addition, the Company reminds all the Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. The Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM instead of attending the EGM in person, by completing and return the proxy form attached to this notice.

*As at the date of this notice, the executive Directors are Mr. HAN Jun, Mr. DIAO Guoxin and Mr. ZHU Liang; the non-executive Director is Mr. ZHANG Qiang; and the independent non-executive Directors are Mr. WANG Dong, Mr. WONG Chi Kin, Mr. CUI Yuzhi and Mr. LU Xiaoma.*