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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)

FURTHER ANNOUNCEMENT IN RELATION TO THE DISCLOSEABLE TRANSACTION CONCERNING THE SUPPLEMENTAL AGREEMENT TO THE INVESTMENT AGREEMENT

Reference is made to the announcements of Forgame Holdings Limited (the “**Company**”) dated 3 August 2016 and 27 September 2016 in respect of, inter alia, the Company’s subscription of the Convertible Bonds issued by the Vendor and the announcements of the Company dated 28 April 2017, 25 June 2017 and 16 August 2017 (the “**Announcements**”) in respect of, among other things, the restructuring of the transactions under the Investment Agreement. Capitalised terms used herein shall have the same meanings as those defined in the Announcements unless stated otherwise.

VALUATION

According to a valuation report prepared by the professional valuer, AVISTA Valuation Advisory Limited (the “**Valuer**”), the fair market value of 100% equity interest of JLC (VIE) and its subsidiaries as at 31 March 2017 was approximately RMB636,806,000. The value implied by the Investment Payment is comparable to the valuation estimated by the Valuer and the valuation would justify that the Investment Payment is fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

The fair value under the said valuation report was determined using the income approach based on the discounted cash flow method. Accordingly, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules (the “**Profit Forecast**”).

For the purpose of complying with Rules 14.60A and 14.62 the Listing Rules, the principal assumptions upon which the Profit Forecast is based are as follows:

General assumptions:

- (i) the information provided and the estimations / representations made by the management of JLC (VIE) with regard to the valuation are complete, accurate and reliable;
- (ii) the public and statistical information were obtained from sources for the valuation which are deemed to be reputable, accurate and reliable;
- (iii) the financial projection adopted for the valuation has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the management of JLC (VIE);
- (iv) there will be no major changes in the existing political, legal, fiscal and economic conditions in the country or district(s) where the business of the Domestic Companies are in operation;
- (v) there will be no material changes in the relevant corporate tax rate, interest rate, long-term borrowing rate, and exchange rate from that currently prevailing in the country or district(s) that the Domestic Companies are operating which may significantly impact their businesses;
- (vi) the availability of finance will not be a constraint on the forecast growth of the Domestic Companies' operation in accordance with the financial projection;
- (vii) there will be no substantial fluctuation in the economic outlook and specific industry outlook affecting the continuity of the business of the Domestic Companies;
- (viii) the book values of any non-operating assets/liabilities identified by the management of JLC (VIE) reflect their fair values;
- (ix) there will be no material changes as to the management and business strategies and operational structure, which will continue to be operated under the current existing and expected business model; and
- (x) the Domestic Companies will retain and have competent management, key personnel and technical staff to support their ongoing operation and will continue to operate as a going concern and have sufficient liquidity and capability to achieve the financial forecasts.

Specific assumptions:

- (i) the revenue of the Domestic Companies for the year ending 31 December 2017 is estimated to be approximately RMB229,524,000. From 2018 to 2024, the Compound Annual Growth Rate (“**CAGR**”) of the Domestic Companies’ revenue is estimated to be approximately 20.1%. The adoption of the growth rates has been made with reference to a number of factors, including but not limited to (i) historical growth rate of the Domestic Companies; (ii) future prospects of the industry; and (iii) discussion with the management of JLC (VIE) on the future business plans of the Domestic Companies;
- (ii) the net profit of the Domestic Companies for the year ending 31 December 2017 is estimated to be approximately RMB61,960,000. From 2018 to 2024, the CAGR of the Domestic Companies’ net profit is estimated to be approximately 20.5%;
- (iii) the net cash flow of the Domestic Companies for the year ending 31 December 2017 is estimated to be approximately RMB65,325,000. From 2018 to 2024, the CAGR of the Domestic Companies’ net cash flow is estimated to be approximately 19.6%;
- (iv) the discount rate adopted for the Domestic Companies is 25.1%, determined using the Capital Assets Pricing Model (“**CAPM**”) to derive the weighted average cost of capital (WACC) as the discount rate. A number of factors have been considered in CAPM based on market data and the Valuer’s experience for similar valuations, including but not limited to (i) risk free rate; (ii) equity risk premium; (iii) small size risk premium; (iv) company specific risk premium; (v) beta, a measure of non-diversifiable risk, of a number of comparable companies; and (vi) applicable cost of debt of the Domestic Companies; and
- (v) the marketability discount adopted for the Domestic Companies is 30.0%, with the adoption of Black-Scholes Option Pricing Model. Under option-pricing method, the cost of put option, which can hedge the price change before the privately held shares can be sold, was considered as a basis to determine the lack of marketability discount.

The Board has reviewed the principal assumptions upon which the Profit Forecast was based on and is of the view that the Profit Forecast was made after due care and enquiry.

BDO Limited (“**BDO**”) has been engaged by the Company to review the calculations of the discounted cash flow approach upon which the valuation report prepared by the Valuer was based on.

A letter from the Board and a report from BDO are included in the appendices to this announcement for the purpose of Rules 14.60A and 14.62 of the Listing Rules.

The following are the qualifications of the Valuer and BDO:

Name	Qualification
AVISTA Valuation Advisory Limited	Professional valuer
BDO Limited	Certified Public Accountants

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, each of the Valuer and BDO is a third party independent of the Group and is not a connected person of the Group. As at the date of this announcement, neither the Valuer nor BDO has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group.

Each of the Valuer and BDO has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its opinion and advice and all references to its name in the form and context in which it appears in this announcement.

FURTHER INFORMATION ON THE STRUCTURED CONTRACTS

The Company confirms that appropriate provisions have been incorporated in the Structured Contracts to protect JLC (WFOE)'s interests in the event of death, bankruptcy or divorce of the VIE Controlled Entities' registered shareholder(s) to avoid any practical difficulties in enforcing the Structured Contracts.

By order of the Board
Forgame Holdings Limited
WANG Dongfeng
Chairman

Hong Kong, 1 September 2017

As at the date of this announcement, the executive Directors are Mr. WANG Dongfeng, Ms. LIANG Na and Mr. ZHANG Yang; the non-executive Director is Mr. ZHANG Qiang; the independent non-executive Directors are Mr. HOW Sze Ming, Ms. POON Philana Wai Yin and Mr. ZHAO Cong Richard.

APPENDIX I — LETTER FROM THE BOARD

1 September 2017
Listing Division
The Stock Exchange of Hong Kong Limited
11th Floor, One International Finance Centre
1 Harbour View Street
Hong Kong

Dear Sirs,

Discloseable Transaction — Supplemental Agreement to the Investment Agreement

We refer to the announcement of the Forgame Holdings Limited (the “**Company**”) dated 25 June 2017 concerning the captioned transaction (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the valuation report dated 23 June 2017 issued by the Valuer regarding the valuation of 100% equity interests in JLC (VIE) and its subsidiaries as at 31 March 2017 (the “**Valuation**”), which constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the Valuer about different aspects including the bases and assumptions based upon which the Valuation has been prepared, and reviewed the Valuation for which the Valuer is responsible. We have also considered the report from BDO regarding whether the Profit Forecast, so far as the accounting policies and calculations are concerned, have been properly complied with the bases and assumptions as set out in the valuation report. We have noted that the Profit Forecast in the Valuation is mathematically accurate and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

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

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

APPENDIX II — INDEPENDENT ASSURANCE REPORT ON THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE 北京金未來金融信息服務有限公司 AND ITS SUBSIDIARIES

To the Board of Directors of Forgame Holdings Limited

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by AVISTA Valuation Advisory Limited dated 23 June 2017, in respect of the 100% equity interest in 北京金未來金融信息服務有限公司 (“**JLC (VIE)**”) and its subsidiaries as at 31 March 2017 (the “**Valuation**”) is based. Details of JLC (VIE) are set out in the announcement dated 25 June 2017 which was issued by Forgame Holdings Limited (the “**Company**”) in connection with the proposed acquisition by the Company of 55% equity interest in Jlc Inc., which indirectly wholly-owns JLC (VIE). The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company (the “**Directors**”) are solely responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions adopted by the Directors and set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibility

It is our responsibility to form a conclusion, based on our work on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based, and to report our conclusion to you solely for the purpose of reporting under Rule 14.62(2) of the Listing Rules. The discounted future estimated cash flows do not involve the adoption of accounting policies.

We conducted our work in accordance with the terms of our engagement and Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future estimated cash flows in accordance with the bases and assumptions as set out in the Valuation. We performed procedures on the arithmetical accuracy and compilation of the discounted future estimated cash flows in accordance with the bases and assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Conclusion

In our opinion, so far as the calculations are concerned, the discounted future estimated cash flows have been properly compiled in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other Matters

Without qualifying our opinion, we draw your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of JLC (VIE) and its subsidiaries or an expression of an audit or review opinion on the Valuation.

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

BDO Limited
Certified Public Accountants
Hong Kong, 1 September 2017