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**Forgame Holdings Limited**

**雲遊控股有限公司**

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

**(Stock Code: 00484)**

**SUPPLEMENTAL ANNOUNCEMENT  
IN RELATION TO THE 2019 ANNUAL REPORT  
AND SUPPLEMENTAL ANNOUNCEMENT THEREOF**

References are made to the announcements of the Company dated 24 April 2019 in relation to the Xigua Acquisition, 26 April 2019 in relation to the JLC Disposal, 10 March 2020 in relation to the non-fulfilment of the Profit Guarantee relating to the Xigua Acquisition and the non-payment of the Second Instalment relating to the JLC Disposal, 7 May 2020 in relation to the Investigation Results on the internet micro-credit business of the Group, 8 May 2020 in relation to the Investigation Results on the VR game business of the Group, the supplemental announcement of the Company dated 22 October 2020 in relation to the 2019 Annual Report (the “**Supplemental Announcement**”) (collectively, the “**Announcements**”), and the 2019 Annual Report. Unless as defined in this announcement or the context otherwise requires, the capitalised terms used herein shall have the same meanings as those defined in the 2019 Annual Report and the Announcements.

This announcement serves to provide the Shareholders and potential investors with an update on internal control review of the Company.

**INTERNAL CONTROL**

As disclosed in the Company’s corporate governance report as included in the 2019 Annual Report, the Company was considering to engage an internal control consultant to conduct a complete review on certain scope of the internal control system in respect of, among others, its internet micro-credit business and VR game business. Subsequent to the publication of the 2019 Annual Report, the Company has engaged an external internal control consultant Cheng & Cheng Risk Advisory Services Limited (“**C&C**”) to perform an internal control review for the Company (the “**Internal Control Review**”).

**A. Scope and Status of the Internal Control Review**

The scope of the Internal Control Review is divided into two phases, namely the “**Phase One Review**” and “**Phase Two Review**”. In essence, the Phase One Review focused on the internal control issues relating to the Audit Qualifications of the Group

and the Investigation Results, while the Phase Two Review mainly focused on the overall corporate governance of the Group, with a follow-up review on certain issues found in the Phase One Review. For further details of the scope of the Internal Control Review, please refer to the Supplemental Announcement.

C&C has completed the Internal Control Review and issued written reports regarding the Phase One Review (the “**Phase One Report**”) and the Phase Two Review (the “**Phase Two Report**”) (collectively, the “**IC Reports**”), respectively.

## **B. Summary of the IC Reports**

### **1. Phase One Report**

#### *(i) Audit Qualifications*

##### *Keeping of financial accounting records and the supporting documents of books and records*

According to the Phase One Report, certain financial records of the Group and the supporting documents thereof were not properly kept. To remedy the issues, the Group has updated its financial management system, including the procedures and measures for keeping financial documents as well as the archive of information and financial data of its subsidiaries. C&C reviewed the updated financial management system and confirmed that all relevant personnel has been made aware of the implementation of the said system.

##### *Disposal of subsidiary(ies)*

According to the Phase One Report, no specific management system for disposal of subsidiary(ies) was found in place. Therefore, the Group has updated its financial management system to include regular review of procedures for selling assets and proper keeping of the review records. C&C reviewed the updated financial management system and confirmed that all relevant personnel has been made aware of the implementation thereof.

##### *Lack of adequate due diligence on potential purchasers*

According to the Phase One Report, no adequate due diligence work on potential purchaser(s) was performed by the Group. The Group has hence formulated written policies regulating the procedures of assessment on potential purchasers, covering, among others, the review of financial position and financial statements of potential purchasers. C&C reviewed the relevant written policies and confirmed that the Management has been made aware of the arrangement.

**(ii) Investigation Results**

*In relation to the Group's VR game business*

According to the Phase One Report, no material finding relating to the Group's VR game business was found, while there were certain areas that could be improved, namely, among others, the Group's (i) recognition of revenue and accounting management, (ii) recording and keeping of transaction records, (iii) risk control of errors in account entries, (iv) procedures and measures to comply with the connected transaction requirements under the Listing Rules, and (v) identification mechanism for suspicious transactions.

As disclosed in various announcements of the Company and the circular of the Company dated 2 December 2020 (the "**Circular**"), due to the Epidemic, substantially all VR game stores of Beijing Xigua have either been closed down or suspended from operations since early 2020 upon the request of relevant government departments in the PRC as part of the preventive and control measures to protect the public from risk of viral infection, and the Group is currently in the course of disposing of its equity interests in Beijing Xigua (the "**Equity Disposal**"). The relevant registration procedures for change (工商變更登記) with respect to the Equity Disposal are expected to be completed within five (5) days upon satisfaction of all the relevant conditions precedent, including but not limited to the approval of the Equity Disposal by the independent Shareholders during the extraordinary general meeting to be held on 24 December 2020. It is expected that the relevant internal control issues relating to the operations of Beijing Xigua will be resolved upon completion of the Equity Disposal.

*In relation to the Group's internet micro-credit business*

According to the Phase One Report, in respect of the Group's risk management over its internet micro-credit business, (i) the independence between the business and credit risk management departments of the Group in performing their responsibilities needs to be improved; and (ii) certain loan records and relevant supporting documents were incomplete and/or not sufficiently reviewed.

To remedy the issues, the Group has temporarily suspended the registration of new loans and reinforced its risk management arrangements, including the implementation of an anti-fraud management policy and strengthened relevant staff trainings. The Group is also committed to closely monitoring the status of loans and conducting annual assessments of potential bad debts. C&C confirmed that the Group has taken and notified all relevant personnel of the remedial measures to address the relevant issues.

*In relation to compliance with connected transaction requirements under the Listing Rules*

According to the Phase One Report, certain transactions of the Group with counter parties suggested to be related to Ms. Li according to the Investigation Results, and such transactions which might amount to connected transactions were not reported to the Company and the employees' training provided by the Group relating to connected transactions shall be improved. The Group has put its anti-fraud management policy in place and will reinforce and implement such policy in addition to its connected transaction management policy and conflict of interest management policy. C&C also confirmed that the relevant management members have been apprised of the relevant policies.

## **2. Phase Two Report**

### ***(i) Follow-up review of certain issues identified in the Phase One Review***

During the Phase Two Review, C&C followed up on certain issues identified in the Phase One Review. In particular, such issues concern the keeping of financial accounting records and supporting documents of books and records, risk control of errors in account entries and disposal of subsidiary(ies).

C&C confirmed that the Group has unified its documentation management, strengthened the security measures for keeping and review of documents and financial data, set up an investment committee to evaluate investment projects, and imposed effective checks and balances in approving and recording transactions. The Group would also continue to monitor the implementation of the measures.

### ***(ii) Overall corporate governance of the Group***

C&C reported that currently there is neither high-risk issue nor material irregularity regarding the overall corporate governance of the Group. Nevertheless, C&C identified certain areas that the Group could further improve, including the Group's (i) operating strategies and models, (ii) risk assessment and management, (iii) corporate ethics and conduct, and (iv) succession planning for directors and senior management, for which C&C has also provided recommendations to the Group in the Phase Two Report. The Group is in the process of devising and implementing relevant procedures and measures which are expected to be completed on or before 31 March 2021.

## **C. The Board's view on the effectiveness of the Company's internal control system**

As pointed out in the Phase One Report, prior to the Internal Control Review, the Group has already taken certain remedial measures in response to the issues identified relating to the Group's Audit Qualifications and Investigation Results, as well as other internal control issues as set out above. Those measures and the implementation thereof have been reviewed and assessed by C&C during the Phase Two Review, for which C&C has provided its conclusions and valuable recommendations in the IC Reports. In addressing the issues identified, the Group is in the course of taking remedial measures with

reference to the recommendations provided by C&C and aims to complete the process as soon as practicable and in any event on or before 31 March 2021. The Group will also endeavour to conduct annual internal control reviews on its operations and business, and continuously improve the effectiveness of its internal control system.

Furthermore, as mentioned above, upon completion of the Equity Disposal, it is expected that the relevant internal control issues relating to the operations of Beijing Xigua would also be resolved. In the meantime, the Group would strive to ensure the effective implementation and execution of its remedial measures aiming to tackle the internal control issues connected with Beijing Xigua.

Having considered the above and the content of the IC Reports, the Board believes that the Company's internal control system has been in place and improved, and the recommendations by C&C are adequate and desirable, upon implementation of which (currently expected to be completed by the Group on or before 31 March 2021), the internal control system of the Company will be further consummated.

The above additional information does not affect other information contained in the 2019 Annual Report and the Supplemental Announcement, and the contents of the 2019 Annual Report and the Supplemental Announcement remain unchanged.

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

Hong Kong, 17 December 2020

*As at the date of this announcement, 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.*