Forgame Holdings Limited
雲 遊 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00484

2014 INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. WANG Dongfeng *(Chairman)*
Mr. ZHUANG Jieguang

Non-executive Directors
Mr. TAN Hainan
Mr. TUNG Hans

Independent Non-executive Directors
Mr. LEVIN Eric Joshua
Ms. POON Philana Wai Yin
Mr. ZHAO Cong Richard

AUDIT AND COMPLIANCE COMMITTEE

Mr. LEVIN Eric Joshua *(Chairman)*
Mr. TAN Hainan
Ms. POON Philana Wai Yin

REMUNERATION COMMITTEE

Mr. ZHAO Cong Richard *(Chairman)*
Mr. LEVIN Eric Joshua
Mr. TUNG Hans

NOMINATION COMMITTEE

Mr. WANG Dongfeng *(Chairman)*
Mr. ZHAO Cong Richard
Ms. POON Philana Wai Yin

AUTHORIZED REPRESENTATIVES

Mr. WANG Dongfeng
Ms. YUNG Mei Yee

JOINT COMPANY SECRETARIES

Mr. NGAN King Leung Gary
Ms. YUNG Mei Yee

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COMPLIANCE ADVISER

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CORPORATE INFORMATION

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COMPANY'S WEBSITE

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STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

00484

DATE OF LISTING

October 3, 2013

FINANCIAL HIGHLIGHTS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Six Months Ended June 30,		
	2014	2013	Change
	(RMB'000)	(RMB'000)	%
Revenue (unaudited/audited)	**337,452**	573,748	-41.2%
Gross profit (unaudited/audited)	**250,511**	509,631	-50.8%
Operating (loss)/profit (unaudited/audited)	**(21,645)**	163,602	NM[1]
Loss for the period (unaudited/audited)	**(21,773)**	(243,347)	-91.1%
Non-IFRSs Measures[2]			
– Adjusted net (loss)/profit (unaudited)	**(3,447)**	153,588	NM[1]

Notes:

(1) NM – Not meaningful

(2) We define adjusted net (loss)/profit as (loss)/profit for the period excluding share-based compensation, fair value change of preferred shares and finance costs relating to the issuance of preferred shares. Adjusted net (loss)/profit eliminates the effect of non-cash share-based compensation and non-cash fair value change of preferred shares as well as the expenses relating to the one-time issuance of preferred shares. The use of adjusted net (loss)/profit has material limitations as an analytical tool, as adjusted (loss)/net profit does not include all items that impact our net loss or profit for the periods.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	As of June 30,	As of December 31,	
	2014	2013	Change
	(RMB'000)	(RMB'000)	%
	(Unaudited)	(Audited)	
Assets			
Non-current assets	**294,933**	170,376	73.1%
Current assets	**1,261,909**	1,421,100	-11.2%
Total assets	**1,556,842**	1,591,476	-2.2%
Equity and liabilities			
Total equity	**1,404,873**	1,388,082	1.2%
Non-current liabilities	**5,973**	8,465	-29.4%
Current liabilities	**145,996**	194,929	-25.1%
Total liabilities	**151,969**	203,394	-25.3%
Total equity and liabilities	**1,556,842**	1,591,476	-2.2%

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present our interim report for the six months ended June 30, 2014.

Overview

The landscape of the webgame and mobile game markets has been changing very rapidly during the first half of 2014. The webgame market is maturing faster than we expected in the following ways: i) the growth of new webgame users stagnated; ii) users prefer high quality games and the mid-market games have become less popular; and iii) the game distribution market has become more consolidated to the few platforms with organic traffic. In view of this challenging environment, we are adjusting our strategies in our webgame business. However, growth in the mobile game market has accelerated faster than our expectation and the market size of Chinese mobile game is likely to exceed the size of the Chinese webgame market in 2014. iResearch estimates the 2014 Chinese mobile game market size to be approximately RMB23.6 billion, and will grow to approximately RMB70.6 billion in 2017.

For the webgame business, the performance of the 5 new web RPGs that we launched were below our initial expectation, and were therefore unable to offset the natural revenue decline of our existing games that have entered the mature stage of their product life cycles. In view of such challenges, we are reviewing and fine-tuning our webgame strategies to: i) focus more on quality rather than quantity, launching games with more diversified themes; and ii) strive to optimize our cost base and spend strategically on areas that potentially generate positive returns or growth for the Group.

At the same time, we have maintained our belief in the significant opportunities presented by the mobile game market. We have and will continue to invest in areas such as restructuring our development teams to shift focus from web to mobile, building a mobile game publishing team, making investments in mobile game incubators and innovative development studios, leveraging popular TV and online literature IP rights to augment the popularity of the games that we launch, as well as marketing the mobile games we publish. We believe this is a necessary phase of investment to position us better to capture the opportunities in the mobile game market. The revenue contribution of mobile game increased to 13% of our total revenue for the six months ended June 30, 2014 from 5% for the six months ended June 30, 2013. Looking forward, we expect this percentage to increase as we further expand our mobile game business.

In view of the challenging webgame environment, we are making rapid adjustments to our strategies. This includes i) enhancing the quality and diversity of our pipeline of webgames and mobile games; ii) redeploying more resources to mobile games; and iii) making meaningful reductions to our cost structure. With more refined strategies and upcoming new game launches, we are cautiously optimistic about overcoming these challenges and capturing the mobile game opportunity, ultimately driving long term shareholder value.

CHAIRMAN'S STATEMENT

DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended June 30, 2014 (six months ended June 30, 2013: Nil).

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Group for their continued support and contribution to the Group.

WANG Dongfeng
Chairman

Hong Kong, August 26, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Webgames

The first six months of 2014 have been challenging for the Group's webgame business. We have launched 5 new webgames, most of which were Chinese fantasy, martial arts or Three-Kingdom themed RPGs, which were genres that we had historically achieved repeated success. However, the performances of the newly launched webgames turned out to be below our initial expectation. We observed that the webgame market was maturing rapidly, and players had become much more demanding in terms of diversification in themes, innovation in game-play and better graphics. At the same time, the rapid proliferation of mobile games had also caused the number of webgame users to decline. The revenue generated from these new webgames was unable to offset the natural decline in revenue of the existing webgames that entered the mature stage of their product life cycles. Further, we delayed the launches of several new webgames due to the Group's strategic decision to invest additional development time and resources to enhance the quality of its webgames. As a result, our revenue from webgame development has declined sequentially and on a year-on-year basis for the first six months of 2014.

We have been adjusting our strategies to adapt to these trends. Firstly, we have been patient in searching for a favorable market window to launch our key titles, while allowing more time for testing and optimization before launch to improve the quality of the games. In August 2014, we have launched one of our key titles "Charmed Swordsman" ("醉武俠") which has been meticulously developed with a well-balanced environment that will be fun and engaging for players regardless of whether they prefer PVE or PVP. The game has produced encouraging initial results.

Secondly, we have been diversifying the themes of our games. Another key title, "Wind of Contrail" ("風色軌跡"), is scheduled to be launched in the third quarter of 2014. This turn-based RPG is a combination of several innovative elements: Japanese-cartoon art style, 3D models for game characters, and an epic saga of the Heroes against the Dark Disciples in the magical World of Gaia. We expect this game will not only provide the webgame players in the PRC with a fun and refreshing title, but will also enable us to broaden our international reach.

Furthermore, we are developing games other than the traditional RPGs, such as action fighting and strategy games. We are also experimenting with "custom-made" games for third party webgame platforms with organic traffic, i.e. designing the games based on preferences of the users of a specific platform. As disclosed in our 2013 annual report, 12 webgames were scheduled to be launched in 2014. We have already launched 5 webgames in the first half of 2014, and 2 webgames in July and August 2014. Although we expect to launch 5 more webgames by the end of 2014, we will closely monitor the competitive landscape and market environment in order to capture the best market window possible. If the market window is not favorable, or if the initial results from beta testing are not satisfactory, we may consider delaying the launches of 1 or 2 webgames to 2015 to maximize their probability of success, and this may have a negative impact on our revenue stream. Going forward, as we will focus more on quality rather than quantity, we expect to reduce the number of webgame development teams and launch fewer but higher quality webgames in 2015.

For our webgame platform, *91wan*, given the increase in user acquisition costs, we have been focusing on controlling the advertising spending to optimize return on investment during the first half of 2014, a period in which our existing webgames entered the mature stage of their product life cycles. *91wan* continues to be a strategic asset for testing and launching our self-developed games, as well as a platform for launching high quality third party webgames.

Mobile Games

The rapid growth of the mobile game market presents a massive opportunity for us. We have implemented specific strategies to capture these market trends. Firstly, given our experience in webgame development, naturally our initial mobile games were titles adapted from webgames. The results were mixed: while popularity of the mobile version of "Soul Guardian" ("凡人修真手遊") continued to grow steadily, performance of the other two mobile RPGs we launched in the first half of 2014 turned out to be below expectation. However, this did not deter us from continuing to build a highly diversified mobile game portfolio that encompasses different genres and themes through self-development as well as obtaining exclusive licenses from third party studios. For example, we are currently beta testing two self-developed games, "In Fever of Combat" ("熱血格鬥") (planned to launch in late third quarter or early fourth quarter of 2014), a side-scrolling action fighting game and "Sword and Fire" ("劍與火之歌") (planned to launch in late third quarter or early fourth quarter of 2014), an action card game with strategy elements. In order to further differentiate our products, we have obtained authorization to develop mobile games that are based on certain popular TV series' and online literatures' IP rights. For example, we have obtained authorization to adapt "Boonie Bears" ("熊出沒") (launched in July 2014), a highly popular animated series among kids and teenagers in China, to our mobile games. "Boonie Bears" is currently one of the top 10 animations in China according to *Baidu* Index, and the original animated series has accumulated over 2.3 billion views according to *iQiyi*, a leading online video platform in China. We believe the existing fan base of these popular TV series' and online literature' IP rights could increase the probability of the game's success through reducing the user acquisition cost.

Secondly, we have built a mobile game publishing team to operate licensed games. On one hand, this team will work closely with the developers to optimize the monetization and retention rate of the games by providing constant feedback on user behavior to the developers; on the other hand, the team will work closely with the major app stores and mobile game platforms in China to distribute the games. This team will also closely monitor the trends in the mobile game market, in order to identify licensing opportunities for high quality games from third party studios. In addition, we have established an office in San Francisco during the first half of 2014 to focus on game development and to take advantage of North America's talented pool of game developers and artists with a Western cultural background, and we expect to expand our geographical reach by publishing games in North America in late 2014 or early 2015. In order to build and drive our mobile game publishing business, we expect the amount we invest in acquiring game licenses to increase in the second half of 2014. Since marketing spending has to be spent upfront when publishing a mobile game, it is possible that the mobile game publishing business will initially have a very low operating margin or be loss making. However, if the revenue scale ramps up, the return could be meaningful.

As disclosed in our 2013 annual report, 12 mobile games were scheduled to be launched in 2014. In the first half of 2014, we have launched 2 self-developed mobile games and 3 licensed mobile games out of which 1 self-developed mobile game has phased out in July. We have subsequently launched 1 self-developed mobile game in July. We expect to further launch 2 self-developed mobile games and 4 licensed mobile games by the end of 2014. Similar to webgames, we will closely monitor the competitive landscape and market environment, and adjust our launch schedule to capture the best market window possible. If the market window is not favorable, or if the initial results from beta testing are not satisfactory, we may consider delaying the launches of 1 or 2 mobile games to 2015 to maximize their probability of success, and this may have a negative impact on our revenue stream.

STRATEGIC INITIATIVES

We have also implemented a number of strategic initiatives by using the net proceeds from the IPO and/or our general working capital to position ourselves for long term growth. The Chengdu Companion Fund that we co-founded has been actively investing in innovative mobile game studios, and some of the investee studios have started to score notable successes, such as obtaining the “Golden Cube Award” from the 2014 Unity Games and App Competition. We have invested an additional RMB32 million in the Chengdu Companion Fund during the first six months of 2014. We have also made minority investments in a number of mobile game studios and incubators across multiple cities in China, in order to tap into the talent pool in different geographic locations. For example, we observed that developers in Shanghai were better positioned in developing games with international themes given the historical influence from the strong presence of overseas game companies in Shanghai; whereas the developers in Chengdu were leaders in China in the areas of creativity and attention to details. These early stage investments can be risky, as these studios and incubators do not generate immediate revenue during the development phase that can take 9 to 12 months before monetization testing. If these investments prove to be successful (for example, the games developed by the investee studios prove to be popular), they may generate substantial returns for the Group. However, if these investments prove to be unsuccessful, they may need to be written down.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING INFORMATION

As of June 30, 2014, we had 36 self-developed webgames and 9 mobile games in operation. Out of the 9 mobile games, 4 are self-developed and 5 are exclusively licensed. As of June 30, 2014, our *91wan* platform had over 220 million registered players and distributed 105 webgames in total. Out of the 105 webgames, 21 are self-developed and 84 are licensed from third party developers.

The following table sets forth certain operating statistics relating to our businesses at the dates and in the periods presented:

	Six Months Ended June 30,	
	2014	2013
Game Product(1):		
Average MPUs (in thousands) (2)	**502**	758
Monthly ARPPU (RMB) (3)	**77**	83
Game Platform(1):		
Registered players (in thousands)	**220,319**	179,088
Average MPUs (in thousands) (2)	**61**	115
Monthly ARPPU (RMB)	**287**	282

Notes:

(1) Game product segment is of the same definition as "game development" and game platform segment is of the same definition as "game publishing" as referred to in our 2013 annual report.

(2) The numbers do not eliminate the duplication in paying users of our games published on our own platforms.

(3) The numbers do not include the MPUs of console mobile games.

Game product. Our average MPUs for the game product segment has decreased from approximately 758,000 for the six months ended June 30, 2013 to approximately 502,000 for the six months ended June 30, 2014. The decline in average MPUs was because i) our existing webgames entered the mature stage of their product life cycles; ii) the performance of the webgame titles launched in the first half of 2014 was below our initial expectation; and iii) we delayed the launches of several new webgames due to the Group's strategic decision to invest additional development time and resources to enhance the quality of its webgames. Monthly ARPPU of the game product segment has decreased from RMB83 for the six months ended June 30, 2013 to RMB77 for the six months ended June 30, 2014. The decrease in monthly ARPPU was mainly due to the existing hit webgames with a higher-than-average ARPPU which have entered the mature stage of their product life cycles.

Game platform. Registered players of our webgame platform *91wan* have increased to 220 million as of June 30, 2014, representing a growth of 23% compared to that as of June 30, 2013. The average MPUs of game platform segment has declined from approximately 115,000 for the six months ended June 30, 2013 to approximately 61,000 for the six months ended June 30, 2014. The decrease in average MPUs reflected that i) our existing self-developed webgames have entered mature stage of their product life cycles; ii) the performance of our self-developed new webgames were below our initial expectation; iii) the existing licensed hit webgames on *91wan* were maturing; and iv) we delayed the launches of several new webgames due to the Group's strategic decision to invest additional development time and resources to enhance the quality of its webgames. The monthly ARPPU of game platform segment has remained stable for the six months ended June 30, 2013 and 2014 respectively.

FIRST HALF OF 2014 COMPARED TO FIRST HALF OF 2013

The following table sets forth the income statement for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

	Six Months Ended June 30,		
	2014	2013	Change
	(RMB'000)	(RMB'000)	%
	(Unaudited)	(Audited)	
Revenue	**337,452**	573,748	-41.2%
Cost of revenue	**(86,941)**	(64,117)	35.6%
Gross profit	**250,511**	509,631	-50.8%
Selling and marketing expenses	**(95,879)**	(158,945)	-39.7%
Administrative expenses	**(44,094)**	(46,854)	-5.9%
Research and development expenses	**(128,961)**	(141,252)	-8.7%
Other income	**16,372**	1,766	827.1%
Other losses	**(19,594)**	(744)	2533.6%
Operating (loss)/profit	**(21,645)**	163,602	NM
Finance income	**11,013**	1,906	477.8%
Finance costs	**(6,377)**	—	NM
Finance income-net	**4,636**	1,906	143.2%
Share of loss of associates	**(1,598)**	—	NM
Fair value loss of convertible redeemable preferred shares	**—**	(369,446)	NM
Loss before income tax	**(18,607)**	(203,938)	-90.9%
Income tax expense	**(3,166)**	(39,409)	-92.0%
Loss for the period	**(21,773)**	(243,347)	-91.1%

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue. Revenue decreased by 41.2% to RMB337.5 million for the six months ended June 30, 2014 from RMB573.7 million for the six months ended June 30, 2013. The following table sets forth our revenue by segment for the six months ended June 30, 2014 and 2013.

	Six Months Ended June 30,			
	2014		2013	
	(RMB'000) (Unaudited)	**(% of Total Revenue)**	(RMB'000) (Audited)	(% of Total Revenue)
Revenue by Segment				
– Game product	**232,212**	**68.8**	379,482	66.1
– Game platform	**105,240**	**31.2**	194,266	33.9
Total Revenue	**337,452**	**100.0**	573,748	100.0

Note:

Game product segment is of the same definition as "game development" and game platform segment is of the same definition as "game publishing" as referred to in our 2013 annual report.

– Revenue from the game product segment decreased by 38.8% to RMB232.2 million for the six months ended June 30, 2014 from RMB379.5 million for the six months ended June 30, 2013. The decrease was primarily because i) our existing webgames entered the mature stage of their product life cycles; ii) the performance of the new webgame titles we launched in the first half of 2014 were below our initial expectation; and iii) we delayed the launches of several new webgames due to the Group's strategic decision to invest additional development time and resources to enhance the quality of its webgames.

– Revenue from game platform segment decreased by 45.8% to RMB105.2 million for the six months ended June 30, 2014 from RMB194.3 million for the six months ended June 30, 2013. Such decrease was primarily due to i) the decrease in revenue of the Group's existing webgame titles on *91wan* as they entered the mature stage of their product life cycles; ii) the fact that the performance of our self-developed new webgames were below our initial expectation for the six months ended June 30, 2014; iii) the existing licensed hit webgames on *91wan* were maturing; and iv) we delayed the launches of several new webgames due to the Group's strategic decision to invest additional development time and resources to enhance the quality of its webgames.

Cost of revenue. Cost of revenue increased by 35.6% to RMB86.9 million for the six months ended June 30, 2014 from RMB64.1 million for the six months ended June 30, 2013. As a percentage of revenue, cost of revenue increased to 25.8% for the six months ended June 30, 2014 from 11.2% for the six months ended June 30, 2013. The following table sets forth our cost of revenue by segment for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30,			
	2014		2013	
	(RMB'000) (Unaudited)	**(% of Total Cost of Revenue)**	(RMB'000) (Audited)	(% of Total Cost of Revenue)
Cost of Revenue by Segment				
– Game product	**65,187**	**75.0**	42,906	66.9
– Game platform	**21,754**	**25.0**	21,211	33.1
Total Cost of Revenue	**86,941**	**100.0**	64,117	100.0

Note:

Game product segment is of the same definition as "game development" and game platform segment is of the same definition as "game publishing" as referred to in our 2013 annual report.

- Cost of revenue for game product segment increased by 51.9% to RMB65.2 million for the six months ended June 30, 2014 from RMB42.9 million for the six months ended June 30, 2013. This increase was mainly due to i) higher content costs and agency fees of self-developed mobile games for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 as the self-developed mobile games contribution increased; and ii) higher amortization of license fee as a result of the increase in the number of games we licensed.

- Cost of revenue for game platform segment increased by 2.6% to RMB21.8 million for the six months ended June 30, 2014 from RMB21.2 million for the six months ended June 30, 2013. The cost of revenue of game platform segment is stable since a significant portion of the cost of revenue is fixed cost such as salary and compensation expense of *91wan* operation team and lease rentals.

Gross profit and gross profit margin. Gross profit decreased by 50.8% to RMB250.5 million for the six months ended June 30, 2014 from RMB509.6 million for the six months ended June 30, 2013. In addition, the gross profit margin has declined to 74.2% for the six months ended June 30, 2014 from 88.8% for the six months ended June 30, 2013. It was mainly driven by the increase in self-developed mobile games contribution in the revenue mix, which would incur more content costs and agency fees paid to the platforms.

Selling and marketing expenses. Selling and marketing expenses decreased by 39.7% to RMB95.9 million for the six months ended June 30, 2014 from RMB158.9 million for the six months ended June 30, 2013. This was mainly attributable to the decrease in promotion and advertising expenses for *91wan* as we have been focusing on controlling the advertising spending in order to optimize return on investment during the first half of 2014, a period in which our existing webgames entered the mature stage of their product life cycles.

Administrative expenses. Administrative expenses decreased by 5.9% to RMB44.1 million for the six months ended June 30, 2014 from RMB46.9 million for the six months ended June 30, 2013. This was mainly attributable to the decrease in professional service expenses incurred in connection with the IPO.

Research and development expenses. Research and development expenses decreased by 8.7% to RMB129.0 million for the six months ended June 30, 2014 from RMB141.3 million for the six months ended June 30, 2013. This decrease was primarily due to our continuous effort to optimize the Group's research and development organization. This optimization is finished and the organization structure will be stable going forward.

Other income. Other income increased to RMB16.4 million for the six months ended June 30, 2014 from RMB1.8 million for the six months ended June 30, 2013. Such increase was mainly due to i) the increase in interest income of bank deposits from RMB1.8 million for the six months ended June 30, 2013 to RMB10.9 million for the six months ended June 30, 2014; and ii) the increase in the government grant from RMB0.01 million for the six months ended June 30, 2013 to RMB5.5 million for the six months ended June 30, 2014.

Other losses. Other losses for the six months ended June 30, 2014 was RMB19.6 million, as compared to other losses of RMB0.7 million for the six months ended June 30, 2013. The increase in other losses was primarily due to foreign exchange losses of RMB19.5 million for the six months ended June 30, 2014. We converted our proceeds from IPO from Hong Kong dollars into RMB and recognized exchange losses from the depreciation of the RMB in the first half of 2014.

Finance income-net. Finance income-net for the six months ended June 30, 2014 was RMB4.6 million, as compared to finance income-net of RMB1.9 million for the six months ended June 30, 2013. The increase in finance income-net was primarily attributable to the interest income from short-term bank deposits as a part of our cash management strategy.

Income tax expense. Income tax expense decreased by 92.0% to RMB3.2 million for the six months ended June 30, 2014 from RMB39.4 million for the six months ended June 30, 2013. This decrease was primarily due to the decrease in taxable profit before income tax of the PRC Operational Entities for the six months ended June 30, 2014.

Loss for the period. Loss for the six months ended June 30, 2014 was RMB21.8 million, as compared to loss of RMB243.3 million for the six months ended June 30, 2013 (including the one-off fair value loss of convertible redeemable preferred shares of approximately RMB369.4 million). The loss for the six months ended June 30, 2014 was primarily due to i) decrease in revenue of the Group's existing webgames as they reached mature stage of their product life cycles; ii) the performance of the Group's newly launched webgames were below our initial expectation; iii) delay of launches of new webgames (including key titles); and iv) labor costs (particularly in the areas of research, development, operating and publishing of games), which is a significant component of the Group's operating expenses, remained relatively stable despite of the decrease in revenue.

In view of the challenging webgame environment, we are making rapid adjustments to our strategies. This includes i) enhancing the quality and diversity of our pipeline of webgames and mobile games; ii) redeploying more resources to mobile games; and iii) making substantial adjustments to our cost structure. With more refined strategies and upcoming new game launches, we are cautiously optimistic about overcoming these challenges and capturing the mobile game opportunity, which will underpin long term shareholder value.

While we are cautious of the natural revenue decline of our existing games as they enter the mature stage of their product life cycles, such is an inherent risk of the game industry. Further, if our new games and key titles prove to be successful, revenue generated from them may exceed and offset the decline in revenue of our existing games. However, this may not be the case if our new games prove to be unsuccessful or if there are further delays in their launches.

Given the risks and uncertainties explained above, it is currently anticipated that the Group's revenue for the second half of 2014 may be substantially lower than the Group's revenue for the second half of 2013.

NON-IFRSs MEASURES-ADJUSTED NET (LOSS)/PROFIT AND ADJUSTED EBITDA

The following table sets forth the reconciliation of the Group's non-IFRSs financial measures for the six months ended June 30, 2014 and 2013, to loss for the six months ended June 30, 2014 and 2013 prepared in accordance with IFRSs:

	Six Months Ended June 30,	
	2014	2013
	(RMB'000)	(RMB'000)
Loss for the period (unaudited/audited)	**(21,773)**	(243,347)
Add:		
Share-based compensation	**18,326**	27,489
Fair value change of preferred shares	**—**	369,446
Adjusted net (loss)/profit (unaudited)	**(3,447)**	153,588
Add:		
Depreciation and amortization	**20,483**	12,261
Interest income and interest expenses	**(19,698)**	(3,661)
Income tax expense	**3,166**	39,409
Adjusted EBITDA (unaudited)	**504**	201,597

To supplement the consolidated results of the Group which are prepared in accordance with IFRSs, certain non-IFRSs measures, including adjusted net (loss)/profit and adjusted EBITDA, have been presented. These unaudited non-IFRSs financial measures should be considered in addition to, and not as a substitute for, the measures of the Group's financial performance which have been prepared in accordance with IFRSs. The Group's management believes that these non-IFRSs financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash and non-recurring items. The adjusted net (loss)/profit and adjusted EBITDA are unaudited figures.

FINANCIAL POSITION

As of June 30, 2014, total equity of the Group amounted to RMB1,404.9 million, as compared to RMB1,388.1 million as of December 31, 2013. The increase was mainly due to the increase in reserves partially offset by loss (RMB21.8 million) for the six months ended June 30, 2014. The reserves increase was mainly driven by i) currency translation differences of RMB19.6 million; and ii) the share-based compensation reserve of RMB18.3 million.

The Group's net current assets amounted to RMB1,115.9 million as of June 30, 2014, as compared to RMB1,226.2 million as of December 31, 2013. This decrease was primarily due to the utilization of our current financial resources for strategic investments which were recognized as non-current assets. These strategic investments include acquisition of equity interest in innovative game studios and game publishers, investment in game incubators, acquisition of IP rights of games, game licensing and authorization of the use of IP rights of popular TV series and internet novels.

LIQUIDITY AND FINANCIAL RESOURCES

	June 30, 2014 (RMB'000) (Unaudited)	December 31, 2013 (RMB'000) (Audited)
Cash at bank and on hand	**942,919**	943,905
Cash at other financial institutions	**1,515**	2,854
Short-term deposits	**175,907**	325,540
	1,120,341	1,272,299
Borrowings	**—**	(15,242)
Net cash	**1,120,341**	1,257,057

Our total cash, cash equivalent and short-term deposits amounted to RMB1,120.3 million as of June 30, 2014, compared to RMB1,272.3 million as of December 31, 2013. The decrease was primarily due to the utilization of our current financial resources for strategic investments. For details of strategic investments, please refer to "FINANCIAL POSITION" above.

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimize the costs of funds, the Group's treasury activities are centralized and cash is generally deposited with banks and denominated mostly in RMB and United States dollars.

As of June 30, 2014, the Group's gearing ratio (calculated by bank borrowing divided by total assets) decreased to a level of 0% (as of December 31, 2013: 1.0%), which means we do not have any bank borrowing balance as of June 30, 2014. The borrowing requirements of the Group are not subject to seasonality.

FOREIGN EXCHANGE RISK

As of June 30, 2014, RMB50.0 million of our financial resources (as of December 31, 2013: RMB33.3 million) were held in deposits denominated in non-RMB currencies. We currently do not hedge transactions undertaken in foreign currencies but manage our foreign exchange exposure through limiting our foreign currency exposure and constant monitoring of foreign exchange.

CAPITAL EXPENDITURES

	Six Months Ended June 30,	
	2014	2013
	(RMB'000)	(RMB'000)
	(Unaudited)	(Audited)
Capital expenditures		
– Purchase of property and equipment	**2,629**	22,029
– Purchase of intangible assets	**9,698**	4,712
Total	**12,327**	26,741

Capital expenditures comprised purchase of property and equipment, such as servers and computers, and purchase of intangible assets, such as IP rights of games developed by third party developers. The total capital expenditures were RMB12.3 million and RMB26.7 million for the six months ended June 30, 2014 and 2013, respectively. The decrease of RMB14.4 million in total capital expenditures was primarily due to the decrease in purchase of property and equipment and the leasehold improvement for the offices of our PRC Operational Entities. We have less property and equipment purchase requirements for the six months ended June 30, 2014 because the property and equipment purchase incurred prior to 2014 sufficiently supports our business growth. The purchase of intangible assets increased by RMB5.0 million for the six months ended June 30, 2014 from the six months ended June 30, 2013 mainly because we have incurred licensing expenditures for several third party mobile games as well as the adaptation rights of the cartoon TV series "Boonie Bears" ("熊出沒") in the six months ended June 30, 2014.

PLEDGE OF ASSET

As of June 30, 2014, we had a pledge of asset of RMB15.7 million as restricted cash deposit for a foreign currency borrowing. The foreign currency borrowing was repaid in June 2014, and the restricted cash deposit matured in July 2014.

CONTINGENT LIABILITIES

As of June 30, 2014, the Group did not have any significant unrecorded contingent liabilities.

MAJOR GAMES AND BUSINESS PARTNERS

For the six months ended June 30, 2014, the percentage of the aggregate revenue attributable to the Group's largest game and the top five largest games (including both self-developed games and licensed games developed by third party developers) accounted for approximately 11% and 40% of the Group's total revenue, respectively.

For the six months ended June 30, 2014, the percentage of the aggregate revenue attributable to the Group's largest game licensor and the top five largest game licensors accounted for approximately 7% and 14% of the Group's total revenue, respectively.

For the six months ended June 30, 2014, the percentage of the aggregate revenue attributable to the Group's largest publishing partner and the top five largest publishing partners accounted for approximately 15% and 36% of the Group's total revenue, respectively.

For the six months ended June 30, 2014, the percentage of the aggregate purchases attributable to the Group's largest supplier and the top five largest suppliers accounted for approximately 26% and 42% of the Group's cost of revenue, respectively.

HUMAN RESOURCES

As of June 30, 2014, we had 1,643 full-time employees, the vast majority of whom are based in Guangzhou. The following table sets forth the number of our employees by function as of June 30, 2014:

	Number of Employees	% of Total
Game development	1,098	67%
Publishing	241	15%
Sales and Marketing	40	2%
General and Administration (1)	264	16%
Total	**1,643**	**100%**

Note:

(1) The employees of General and Administration function include 72 interns.

As of June 30, 2014, we had 1,643 employees. The remuneration to our employees includes salaries, bonus, allowances and share-based compensation. The Group's remuneration policies are formulated according to the assessment of individual performance and are periodically reviewed. We also provide various training programs to our staff to enhance their professional development such as assigning experienced employees as mentors in relevant teams or departments to provide regular on-the-job guidance and trainings. The Group has also adopted a pre-IPO share option scheme, a post-IPO share option scheme and a restricted share units scheme as long-term incentive schemes of the Group. In order to retain existing talents and attract new talents to the Group, the Company may issue new share-based compensation in the form of share options and restricted share units to such individuals, and this may result in an increase in share-based compensation if it materializes.

POST BALANCE SHEET EVENT

On August 21, 2014, the Company and Magic Feature entered into a deed of termination and release to mutually terminate the sale and purchase agreement dated March 3, 2014 to acquire 21% of Magic Feature's equity interest having considered the legal and regulatory risks associated with such acquisition in view of the laws and regulations in Taiwan relating to prohibitions on PRC investors from operating online and mobile game publishing business in Taiwan.

On the same date, Foga Tech and Magic Feature entered into a non-binding MOU for the joint development of a mobile game to be published on a worldwide basis. Magic Feature is the producer of the game and will contribute art and design resources, Foga Tech will contribute source coding resources, and both parties will jointly provide mobile game development resources. Foge Tech and/or its affiliate(s) will have an exclusive and non-transferrable right to publish, distribute, advertise, market and publicly display the simplified Chinese version of the mobile game in the PRC, and Magic Feature and/or its affiliate(s) will have all remaining rights to publish, distribute, advertise, marketing and publicly display the mobile game irrespective of languages and geographical limit (which for the avoidance of doubts, excludes the PRC). Both Foga Tech and/or its affiliate(s) and Magic Feature and/or its affiliate(s) will share the proceeds of sale of virtual currency of the mobile game in the PRC and outside of the PRC, respectively, with each other. It is expected that beta testing of the mobile game will be conducted in 2015.

As of the latest practicable date prior to the publication of this report, the Group i) has set up a new mobile game company for a consideration of RMB21 million with a third party; and ii) is in the process of acquiring a minority interest in a mobile game company for a consideration of RMB4 million. The Group is assessing the accounting treatment for these investments. Save as disclosed above, there were no other significant events affecting the Group after June 30, 2014 which required disclosure in this report.

OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Specific enquires have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended June 30, 2014.

The Group's employees, who are likely to be in possession of inside information of the Group, are also subject to the Model Code for securities transactions. During the six months ended June 30, 2014, no incident of non-compliance of the Model Code by such employees was noted by the Company.

CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. Other than those disclosed in the Company's 2013 annual report, the Company has complied with all applicable code provisions under the CG Code as set out in Appendix 14 to the Listing Rules except for code provisions C.1.2 of the CG Code during the period from January 1, 2014 to June 30, 2014.

Code provision C.1.2 requires the Group's management to provide the Directors with monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail. The Group produces preliminary financial key performance indices and operational report on a monthly basis and these are circulated to all Executive Directors and Non-executive Directors (but not the Independent Non-executive Directors) due to the preliminary nature of this information which were not prepared according to IFRSs. Instead, the Independent Non-executive Directors receive (i) occasional verbal updates from the Company's management; and (ii) the unaudited quarterly management accounts of the Group prepared according to IFRSs when they were circulated to all Directors on a quarterly basis. Going forward, as the Company now has a system in place to create monthly IFRSs management accounts for the Group, such monthly management accounts will be circulated to all Directors from August 2014 onwards.

The Company will continue to review the current corporate governance structure from time to time and shall make necessary changes when appropriate and report to the Shareholders accordingly.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of June 30, 2014, the interests and short positions of the Directors and chief executives in the Shares, underlying shares or debentures of the Company or any of our 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 (Including Associated Corporation)	Number and Class of Shares/ underlying shares held	Approximate Percentage of Shareholding
WANG Dongfeng (汪東風)	Founder of the Discretionary Trust Interest of Controlled Corporation[1]	The Company	20,889,590 Ordinary Shares (long position)	16.45%
ZHUANG Jieguang (莊捷廣)	Founder of the Discretionary Trust Interest of Controlled Corporation[2]	The Company	19,840,828 Ordinary Shares (long position)	15.63%
LEVIN Eric Joshua[3]	Beneficial Owner	The Company	69,292 Ordinary Shares (long position)	0.05%
POON Philana Wai Yin (潘慧妍)[4]	Beneficial Owner	The Company	49,400 Ordinary Shares (long position)	0.04%
ZHAO Cong Richard (趙聰)[5]	Beneficial Owner	The Company	49,400 Ordinary Shares (long position)	0.04%

Notes:

(1) Foga Group is wholly owned by Managecorp Limited as the trustee of the Wang Trust. The Wang Trust is a discretionary trust set up by Mr. Wang as settlor and protector and Managecorp Limited as trustee on March 15, 2013. The beneficiary objects of the Wang Trust include Mr. Wang and certain of his family members. Mr. Wang and Managecorp Limited are taken to be interested in 20,889,590 Shares held by Foga Group.

(2) Foga Development is wholly-owned by Managecorp Limited as the trustee of the ZHUANGJG Trust. The ZHUANGJG Trust is a discretionary trust set up by Mr. Zhuang as settlor and protector and Managecorp Limited as trustee on March 15, 2013. The beneficiary objects of the ZHUANGJG Trust include Mr. Zhuang and certain of his family members. Mr. Zhuang and Managecorp Limited are taken to be interested in 19,840,828 Shares held by Foga Development.

(3) Mr. LEVIN Eric Joshua is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 69,292 Shares.

(4) Ms. POON Philana Wai Yin is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 49,400 Shares.

(5) Mr. ZHAO Cong Richard is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 49,400 Shares.

Save as disclosed above, none of the Directors or chief executives of the Company has or is 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 of June 30, 2014.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Interests and Short Positions of the Directors and chief executives in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above, at no time during the Reporting Period and up to the latest practicable date prior to the publication of this interim report was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at June 30, 2014, the followings are the persons, other than the Directors or chief executives of the Company, 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:

Name	Capacity/Nature of Interest	Number and Class of Shares	Approximate Percentage of Shareholding
Managecorp Limited (1) (2) (3) (4)	Trustee	63,667,440 Ordinary Shares (long position)	50.15%
Foga Group Ltd. (1)	Registered Owner	20,889,590 Ordinary Shares (long position)	16.45%
Foga Development Co. Ltd (2)	Registered Owner	19,840,828 Ordinary Shares (long position)	15.63%
Foga Holdings Ltd. (3)	Registered Owner	13,945,197 Ordinary Shares (long position)	10.98%
TA FG Acquisitions	Registered Owner	13,138,353 Ordinary Shares (long position)	10.35%
Foga Networks Development Ltd. (4)	Registered Owner	8,991,825 Ordinary Shares (long position)	7.08%

Notes:

(1) Foga Group Ltd. is wholly owned by Managecorp Limited as the trustee of the Wang Trust. The Wang Trust is a discretionary trust set up by Mr. Wang as settlor and protector and Managecorp Limited as trustee on March 15, 2013. The beneficiary objects of the Wang Trust include Mr. Wang and certain of his family members. Mr. Wang and Managecorp Limited are taken to be interested in 20,889,590 Shares held by Foga Group Ltd.

(2) Foga Development Co. Ltd. is wholly-owned by Managecorp Limited as the trustee of the ZHUANGJG Trust. The ZHUANGJG Trust is a discretionary trust set up by Mr. Zhuang as settlor and protector and Managecorp Limited as trustee on March 15, 2013. The beneficiary objects of the ZHUANGJG Trust include Mr. Zhuang and certain of his family members. Mr. Zhuang and Managecorp Limited are taken to be interested in 19,840,828 Shares held by Foga Development Co. Ltd.

(3) Foga Holdings Ltd. is wholly-owned by Managecorp Limited as the trustee of the Hao Dong Trust. The Hao Dong Trust is a discretionary trust set up by Mr. Liao as settlor and protector and Managecorp Limited as trustee on March 15, 2013. The beneficiary object of the Hao Dong Trust is Mr. Liao himself. Mr. Liao and Managecorp Limited are taken to be interested in 13,945,197 Shares held by Foga Holdings Ltd.

(4) Foga Networks Development Ltd. is wholly owned by Managecorp Limited as the trustee of the Keith Huang Trust. The Keith Huang Trust is a discretionary trust set up by Mr. Huang as settlor and protector and Managecorp Limited as trustee on March 15, 2013. The beneficiary objects or the Keith Huang Trust include Mr. Huang and certain of his family members. Mr. Huang and Managecorp Limited are taken to be interested in 8,991,825 Shares held by Foga Networks Development Ltd.

Save as disclosed above, as of June 30, 2014, the Company is not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

At the Company's annual general meeting held on May 27, 2014, the Shareholders granted a repurchase mandate to the Board to repurchase Shares (which should not exceed 10% of the issued share capital of the Company as at May 27, 2014) from time to time as the Board thinks fit until the next annual general meeting of the Company.

During the six months period ended June 30, 2014, neither the Company, its subsidiaries nor any of the PRC Operational Entities has purchased, sold or redeemed any of the Company's listed securities.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme by a resolution of its Shareholders on October 31, 2012 and amended on September 1, 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 employees and Directors of the Group.

Set out below are details of the outstanding options granted to Directors under the Pre-IPO Option Scheme:

Pre-IPO Share Option Scheme:

Name of Grantee Directors	Number and Class of Shares under the Options Granted	Date of Grant	Vesting period	Option Period	Outstanding as of January 1, 2014	Exercise Price	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as of June 30, 2014
Mr. LEVIN Eric Joshua	69,292 Ordinary Shares	January 1, 2013	October 3, 2013 to October 31, 2014	10 years from the date of grant	69,292 Ordinary Shares	Par value of the ordinary shares	—	—	—	69,292 Ordinary Shares
Ms. POON Philana Wai Yin	49,400 Ordinary Shares	September 1, 2013	October 3, 2013 to September 1, 2015	10 years from the date of grant	49,400 Ordinary Shares	Par value of the ordinary shares	—	—	—	49,400 Ordinary Shares
Mr. ZHAO Cong Richard	49,400 Ordinary Shares	September 1, 2013	October 3, 2013 to September 1, 2015	10 years from the date of grant	49,400 Ordinary Shares	Par value of the ordinary shares	—	—	—	49,400 Ordinary Shares
Sub-Total	**168,092 Ordinary Shares**	**—**	**—**	**—**	**168,092 Ordinary Shares**	**—**	**—**	**—**	**—**	**168,092 Ordinary Shares**
362 employees	6,272,819 Ordinary Shares	January 1, 2013 to September 1, 2013	October 3, 2013 to July 1, 2017	10 years from the date of grant	5,602,472 Ordinary Shares	Par value of the ordinary shares	1,013,547 Ordinary Shares (Note)	—	161,309 Ordinary Shares	4,427,616 Ordinary Shares
Total	**6,440,911 Ordinary Shares**	**—**	**—**	**—**	**5,770,564 Ordinary Shares**	**—**	**1,013,547 Ordinary Shares**	**—**	**161,309 Ordinary Shares**	**4,595,708 Ordinary Shares**

Note: The weighted average closing price of the shares immediately before the dates on which the options were exercised during the period was HK$52.97.

As a result of the exercise of the options granted under the Pre-IPO Share Option Scheme during the six months ended June 30, 2014, the Company has issued 1,013,547 Shares to the grantees for an aggregate consideration of US$101.3547. Such Shares are of the same class and are identical in all respect with other Shares in issue.

For further details of the Pre-IPO Share Option Scheme, please refer to the section headed "Statutory and General Information" of the Prospectus and note 19 to the Financial Statements. It should be noted that the calculation result of any share option value is based on certain assumptions of the used parameters and is restricted by the model adopted. Therefore, the valuation of share options might be subjective and inconclusive.

OTHER INFORMATION

THE RESTRICTED SHARE UNIT SCHEME

The Company has approved and adopted the RSU Scheme by a resolution of its Shareholders on September 1, 2013 and a resolution of the Board on September 1, 2013. The Company appointed Computershare Hong Kong Trustees Limited as professional trustee to assist the administration and vesting of the RSU. 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 RSUs do not carry any right to vote at general meetings of the Company. No RSU grantee shall enjoy any of the rights of a shareholder by virtue of the grant of an award of RSUs ("Award") pursuant to the RSU Scheme.

Notwithstanding the foregoing, if so specified by the Board in its entire discretion, the RSU may include rights to cash or non-cash income, scrip dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any shares underlying the Award.

During the Reporting Period and up to the latest practicable date prior to the publication of this interim report, no awards have been made pursuant to the RSU Scheme.

For further details of the RSU Scheme, please refer to the section headed "Statutory and General Information" of the Prospectus.

POST-IPO SHARE OPTION SCHEME

The Company has approved and adopted the Post-IPO Share Option Scheme by a resolution of its Shareholders on September 1, 2013 and a resolution of the Board on September 1, 2013. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules. No options were granted under the Post-IPO Share Option Scheme from the date of its adoption to the latest practicable date prior to the publication of this interim report.

For further details of the Post-IPO Share Option Scheme, please refer to the section headed "Statutory and General Information" of the Prospectus.

SUMMARY OF THE SHARE OPTION SCHEMES

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
1.	Purpose	For the purpose of providing incentives and rewards to eligible persons who contribute to the growth and development of the Group and the listing of the Shares on the Stock Exchange	To reward eligible participants for their past contribution to the success of the Group, and to provide incentives to them to further contribute to the Group
2.	Participants	(i) Any Director of any member of the Group from time to time; (ii) any employee or officer of any member of the Group; and (iii) any advisers, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners, service providers of any member of the Group, who the Board considers, in its sole discretion, have contributed and will contribute to the Group	(i) The full-time employees, executives or officers (including Directors) of the Company; (ii) the full-time employees of any of the subsidiaries and/or PRC Operational Entities; (iii) any suppliers, customers, consultants, agents, advisers that have contributed or will contribute to the Group; and (iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Group
3.	Maximum number of Shares	As of September 19, 2013, options to subscribe for an aggregate of 6,303,497 Shares were outstanding, representing approximately 5.02% of the issued share capital of the Company as of October 3, 2013. No further option could be granted under the Pre-IPO Share Option Scheme	As of September 19, 2013, the maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme was 6,241,497 Shares, representing approximately 4.98% and 4.92% of the issued share capital of the Company as of October 3, 2013 and June 30, 2014, respectively. No option has been granted under the Post-IPO Share Option Scheme The maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
4.	Maximum entitlement of each participant	The total number of Shares subject to the Pre-IPO Share Option Scheme shall not exceed 6% of the aggregate of the Shares in issue on October 31, 2012, the date of adoption of the Pre-IPO Share Option Scheme	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant
5.	Option period	Except as provided otherwise and subject to the terms and conditions upon which such option was granted, any option granted will vest over a total vesting period of four years commencing from the date of offer in equal proportions of 25% each on the expiry of the first, second, third and fourth anniversary of the Offer Date, respectively; provided that the period within which an option must be exercised shall not be more than ten years commencing on the date of grant	The option period is determined by the Board provided that it is no later than the 10th anniversary of the date of grant. There is no minimum period for which an option must be held before it can be exercised The Board may in its absolute discretion specify such conditions as to performance criteria to be satisfied by the participant and/or the Company and/or the Group which must be satisfied before an option can be exercised
6.	Acceptance of offer	Options granted must be accepted within 28 days of the date of grant, upon payment of HK$1.0 per grant	Options granted must be accepted within the period as stated in the notice of grant, upon payment of HK$1.0 per grant
7.	Exercise price	Exercise price shall be the par value of the Shares as amended as a result of any subdivision, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As at the date of the grant, the par value of the Shares was US$0.0001	Exercise price shall be not less than the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the grant
8.	Remaining life of the scheme	It expired on October 3, 2013	It shall be valid and effective for a period of ten years commencing on October 3, 2013

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee was established with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 as well as paragraph D.3 of the CG Code. The Audit and Compliance Committee consists of two independent non-executive Directors, being Mr. LEVIN Eric Joshua and Ms. POON Philana Wai Yin, and one non-executive Director, being Mr. TAN Hainan. The chairman of the Audit and Compliance Committee is Mr. LEVIN Eric Joshua, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The Audit and Compliance Committee, together with the Auditor, have reviewed the Group's unaudited interim financial information for the six months ended June 30, 2014.

CHANGES OF DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of information on the directors are as follows:

Mr. LIAO Dong and Mr. HUANG Weibing have retired as Executive Directors of the Company at the annual general meeting of the Company held on May 27, 2014.

DIRECTORS' UPDATED BIOGRAPHICAL DETAILS

WANG Dongfeng, aged 37, co-founded the Group in September 2009 and was appointed as our Chairman and Executive Director on July 26, 2011. Since Mr. Wang acquired interests in Feiyin and Weidong, he has been involved in our management in the capacity as a shareholder by making important management decisions. Mr. Wang has also been the Chief Executive Officer of the Company since July 2011 and was appointed as the Company's authorized representative on February 4, 2013. He is responsible for the overall corporate development and strategic management of the Group's business and participates in making the Group's key strategic and operational decisions. In addition, Mr. Wang also sits on the boards of various companies within the Group, including acting as chairman of Foga Tech since August 2011. He also has been serving as executive director of our PRC Operational Entities, namely Feiyin and Weidong since May 2011 and Jieyou since June 2012 where he is mainly responsible for overseeing the overall development of the companies and formulating corporate and business strategies.

Mr. Wang has more than 13 years of experience in technology-oriented companies. From January 2005 to October 2008, he was the chief executive officer of ZCOM (北京智通無限科技有限公司) where he was responsible for carrying out the strategies and policies established by ZCOM. Prior to that, he was also the business director of Beijing Feixing Network Music Software Development Co., Ltd from April 2000 to August 2004 where he was involved in the operations of the business.

Mr. Wang graduated from Beijing Construction University, the PRC, in July 1998 where he obtained a college diploma in international trade and global economics. Mr. Wang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years. Mr. WANG is the chairman of the Nomination Committee.

ZHUANG Jieguang, aged 32, co-founded the Group in September 2009 and was appointed as an Executive Director and co-president on June 15, 2012. He is responsible for the overall management of Jieyou. In addition, he plays a significant role in setting the strategic direction of the Group's research and development process. Mr. Zhuang has also been serving as a director of Foga Tech since June 2012 and supervisor of Weidong since May 2011. From June 2011 to June 2012, Mr. Zhuang was the consultant of Feiyin where he provided general advice on research.

He has more than six years of experience in the webgame industry. From April 2008 to June 2012, he worked in Guangzhou Jieyou Information Technology Co. Ltd, a former related-party of the Company until July 2011, where he was responsible for managing the research and development as general manager of the company.

Mr. Zhuang graduated from South China Normal University, the PRC, where he was awarded a college diploma in E-commerce in July 2004. Mr. Zhuang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

TAN Hainan, aged 36, was appointed as a Non-executive Director on June 15, 2012. Mr. Tan works for Tiger Global Management as a managing director since February 2014. He previously worked for TA Associates Asia Pacific Ltd. from May 2011 to December 2013 and became the director of the China Division since May 2012, where he focused on investments in growing companies in the PRC. Prior to joining TA Associates Asia Pacific Ltd., he was an associate consultant in Bain & Company, Inc. from August 2004 to July 2006, and was an associate in Crimson Investment SV, LLC from August 2006 to August 2007. From August 2007 to May 2011, he served as vice president of Summit Partners and became the director of Business Development in China from May 2011, where he led the firm's Asia Pacific practice and was responsible for managing transactions in the region. Prior to joining the Group from January 2008 to March 2011, he also served as the non-executive director of Announce Media, a company which provides Internet services.

From September 1999 to June 2004, Mr. Tan attended Northwestern University, Illinois, U.S., where he obtained a concurrent bachelor of arts in economics and Chinese culture and language, and master of arts in economics. Mr. Tan is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. Tan is a member of the Audit and Compliance Committee.

TUNG Hans, aged 43, was appointed as a Non-executive Director on June 15, 2012.

Mr. Tung joined GGV Capital in October 2013 as a managing director where he focuses on mobile internet, e-commerce, the internet of things, and gaming industry investments in the US and Asia. Prior to that, he was a managing partner of Qiming Venture Partner from June 2011 to August 2013 in Beijing, and a partner from September 2007 to May 2011 in Shanghai. Mr. Tung started his career at Merrill Lynch (now known as Bank of America Merrill Lynch) as an investment banking analyst from July 1993 to June 1996. He was one of the founding members of Taipei-based Crimson Asia Capital from July 1996 to March 1999; of HelloAsia, a pan-Asia focused consumer Internet start-up headquartered in Silicon Valley, from April 1999 to August 2000; and of Asia2B, a Hong Kong and Mainland China based e-marketplace backed by leading conglomerates in the region from September 2000 to May 2001. Prior to joining Qiming, Mr. Tung initiated Bessemer Venture Partners' China investment practice from January 2005 to September 2007.

Mr. Tung obtained a bachelor of science degree in industrial engineering from Stanford University, CA, U.S., in June 1995. Mr. Tung is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. Tung is a member of the Remuneration Committee.

LEVIN Eric Joshua, aged 51, was appointed as an Independent Non-executive Director on November 1, 2012.

He has been the financial director of Ecolab (China) Investment Co. Ltd from October 2012 until June 2014, responsible for providing financial advice and overseeing the financial aspects of the company. Mr. Levin also has extensive experience in financial planning of companies. From May 1988 to December 2001, he worked in the Home Box Office, Inc. ("HBO"), New York, a subsidiary of Time Warner, during which time he was responsible for financial planning of the company and was promoted to become the chief financial officer from January 2000 to December 2001 where he led the financial team of HBO. Thereafter and until 2011, he took up various roles in companies in the media and publishing industry. He was the co-founder and chief executive officer of City on Demand, LLC. From 2009 to 2011, Mr. Levin worked at the SCMP Group Limited (HKSE Stock Code: 583), a company listed on the Hong Kong Stock Exchange, as the chief financial officer, where he formulated strategies and established the corporate direction of the company to manage the financial performance of the SCMP Group, and assumed the role as a board member in the Post Publishing Public Company Limited (Stock Code: POST), a company listed on the Stock Exchange of Thailand in Bangkok, which publishes newspapers and magazines.

Mr. Levin obtained a bachelor degree in science, majoring in electrical engineering from the University of Pennsylvania, Philadelphia, U.S., in May 1984 and a master degree in business administration, majoring in finance and economics, from the University of Chicago Business School in March 1988. Save as disclosed herein, Mr. Levin is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. LEVIN Eric Joshua is the chairman of the Audit and Compliance Committee and a member of the Remuneration Committee.

POON Philana Wai Yin, aged 46, was appointed as an Independent Non-executive Director on September 1, 2013.

Ms. Poon is the Group General Counsel and Company Secretary of HKT Limited and the HKT Trust (together, "HKT") (SEHK: 06823), and the Group Company Secretary of PCCW Limited ("PCCW") (SEHK: 00008). She was the Group General Counsel of PCCW from 2004 to November 2011 and the Company Secretary of PCCW from 2007 to November 2011. Ms. Poon holds directorships in various PCCW/HKT Group companies. Ms. Poon is primarily responsible for legal and company secretarial matters of the PCCW and HKT Groups. She has about 20 years of post qualification experience both in private practice and in-house. Ms. Poon has held various senior positions since she joined Hong Kong Telecommunications Limited in 1998 as Group Legal Advisor. Prior to joining PCCW/HKT, Ms. Poon was in private practice from 1992 to 1998.

Ms. Poon earned a Bachelor of Commerce degree from the University of Toronto in November 1989 and a Doctor of Law degree from Cornell University in May 1992. Ms. Poon was an independent non-executive director of AZ Electronic Materials S.A., a company which was listed on the London Stock Exchange, from June 2012 to May 2014. Save as disclosed herein, Ms. Poon is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Ms. Poon is a member of the Audit and Compliance Committee and the Nomination Committee.

ZHAO Cong, Richard, aged 64, was appointed as an Independent Non-executive Director on September 1, 2013.

Mr. Zhao has been serving as the managing director of Yangtze Ventures Management Limited since March 2002. Mr. Zhao has over 20 years of experience in managing and investing in businesses based in Hong Kong and China. From March 2000 to February 2001, he served as a vice president of the venture capital arm of PCCW Limited (HKSE Stock Code: 0008) stationed in Beijing, PRC, where he assisted in completing a number of key investments. From October 1995 to March 2000, Mr. Zhao served as the chief adviser to the president and chief executive officer of China Investment Group Ltd, where he was responsible for providing analysis on political and economic issues and investment opportunities in China. From April 1992 to January 1995, he served as the general manager of the China Division of China Strategic Holdings Limited (HKSE Stock Code: 0235), where he assisted in the completion of numerous joint ventures in China. Prior to that, Mr. Zhao also served as a deputy general manager and a director at Power View Development Ltd. between 1988 to 1991; a trading manager and a director at Reliance Agency Ltd. between 1986 to 1988; and a trading manager and a director at High & Mighty Co. Ltd. between July 1983 to July 1986.

Mr. Zhao currently serves as a director in three management service companies, namely Viscon Limited since July 1994, the Yangtze Ventures Management (HK) Limited since March 2002, Yangtze Capital Advisory Limited since June 2007 and an investment holding company, namely Ecoplast Technologies Inc since November 2009. Mr. Zhao also served as a non-executive director of CIG Yangtze Ports PLC (HKSE Stock Code: 8233) from November 2003 to January 2007. In addition, he was admitted as a fellow by the Hong Kong Institute of Directors in July 2006. Save as disclosed herein, Mr. Zhao is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. Zhao is the chairman of the Remuneration Committee and a member of the Nomination Committee.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the IPO were approximately HK$982.8 million, after deducting the underwriting fees and commissions and related total expenses paid and payable by us in connection thereto. We have, and will continue to utilize the net proceeds from the IPO for the purposes consistent with those set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

pwc 羅兵咸永道

To the Board of Directors of Forgame Holdings Limited
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 34 to 62, which comprises the interim condensed consolidated balance sheet of Forgame Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as of June 30, 2014 and the related interim condensed consolidated statements of comprehensive loss, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board ("IAASB"). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 26, 2014

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Note	Six Months Ended June 30, 2014 RMB'000 (Unaudited)	2013 RMB'000 (Audited)
Revenue	6	**337,452**	573,748
Cost of revenue	6	**(86,941)**	(64,117)
Gross profit		**250,511**	509,631
Selling and marketing expenses		**(95,879)**	(158,945)
Administrative expenses		**(44,094)**	(46,854)
Research and development expenses		**(128,961)**	(141,252)
Other income		**16,372**	1,766
Other losses		**(19,594)**	(744)
Operating (loss)/profit	7	**(21,645)**	163,602
Finance income		**11,013**	1,906
Finance costs		**(6,377)**	—
Finance income-net		**4,636**	1,906
Share of loss of associates		**(1,598)**	—
Fair value loss of convertible redeemable preferred shares	8	**—**	(369,446)
Loss before income tax		**(18,607)**	(203,938)
Income tax expense	9	**(3,166)**	(39,409)
Loss for the period		**(21,773)**	(243,347)
Items that will not be classified subsequently to profit or loss:			
– Currency translation differences		**19,631**	10,432
Total comprehensive loss for the period		**(2,142)**	(232,915)
Attributable to:			
– Equity holders of the Company		**(2,142)**	(232,915)
– Non-controlling interests		**—**	—
		(2,142)	(232,915)
Loss per share (expressed in RMB per share)	10		
– Basic		**(0.17)**	(14.78)
– Diluted		**(0.17)**	(14.78)
Dividends	11	**—**	—

The notes on pages 40 to 62 are integral parts of the interim financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As of June 30, 2014 RMB'000 (Unaudited)	As of December 31, 2013 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property and equipment	12	**55,892**	64,209
Intangible assets	12	**39,627**	40,130
Investments in associates	13	**33,009**	—
Financial assets at fair value through profit or loss	14	**20,652**	18,291
Available-for-sale financial assets	15	**112,500**	32,000
Prepayments and other receivables		**12,511**	2,512
Deferred income tax assets		**20,742**	13,234
		294,933	170,376
Current assets			
Trade receivables	16	**74,145**	92,194
Prepayments and other receivables		**51,753**	40,937
Restricted cash		**15,670**	15,670
Short-term deposits		**175,907**	325,540
Cash and cash equivalents		**944,434**	946,759
		1,261,909	1,421,100
Total assets		**1,556,842**	1,591,476
EQUITY			
Share capital	17	**80**	80
Share premium	17	**1,934,534**	1,934,534
Reserves	18	**(121,282)**	(159,846)
Accumulated losses		**(408,459)**	(386,686)
Total equity		**1,404,873**	1,388,082

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As of June 30, 2014 RMB'000 (Unaudited)	As of December 31, 2013 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred revenue		**5,973**	8,465
		5,973	8,465
Current liabilities			
Borrowings	20	**—**	15,242
Trade payables	21	**23,624**	34,990
Other payables and accruals		**87,464**	76,675
Income tax liabilities		**1,429**	19,674
Deferred revenue		**33,479**	48,348
		145,996	194,929
Total liabilities		**151,969**	203,394
Total equity and liabilities		**1,556,842**	1,591,476
Net current assets		**1,115,913**	1,226,171
Total assets less current liabilities		**1,410,846**	1,396,547

The interim condensed consolidated financial information on pages 34 to 62 were approved for issue by the Board of Directors on August 26, 2014 and was signed on its behalf.

The notes on pages 40 to 62 are integral parts of the interim financial information.

WANG Dongfeng
Director

ZHUANG Jieguang
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT)

		Unaudited				
	Note	Share Capital RMB'000	Share Premium RMB'000	Reserves RMB'000	Accumulated Losses RMB'000	Total Equity RMB'000
Balance at January 1, 2014		**80**	**1,934,534**	**(159,846)**	**(386,686)**	**1,388,082**
Comprehensive loss						
Loss for the period		**—**	**—**	**—**	**(21,773)**	**(21,773)**
Other comprehensive income:						
– Currency translation differences	18	**—**	**—**	**19,631**	**—**	**19,631**
Total comprehensive loss		**—**	**—**	**19,631**	**(21,773)**	**(2,142)**
Total transactions with owners of the Company recognized directly in equity						
Employee share-based compensation scheme:						
– Value of employee services	18	**—**	**—**	**18,326**	**—**	**18,326**
Total transactions with owners of the Company for the period		**—**	**—**	**18,326**	**—**	**18,326**
Share of other net asset changes in associates' equity	18	**—**	**—**	**607**	**—**	**607**
Balance at June 30, 2014		**80**	**1,934,534**	**(121,282)**	**(408,459)**	**1,404,873**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT)

	Note	Audited				
		Share Capital	Share Premium	Reserves	(Accumulated Losses)/ Retained Earnings	Total Deficit
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2013		49	—	(228,351)	91,639	(136,663)
Comprehensive loss						
Loss for the period		—	—	—	(243,347)	(243,347)
Other comprehensive income:						
– Currency translation differences	18	—	—	10,432	—	10,432
Total comprehensive loss		—	—	10,432	(243,347)	(232,915)
Total transactions with owners of the Company recognized directly in equity						
Employee share-based compensation scheme:						
– Value of employee services	18	—	—	27,489	—	27,489
Total transactions with owners of the Company for the period		—	—	27,489	—	27,489
Balance at June 30, 2013		49	—	(190,430)	(151,708)	(342,089)

The notes on pages 40 to 62 are integral parts of the interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Cash flows from operating activities		
Cash generated from operations	**5,174**	169,516
Income tax paid	**(33,837)**	(38,617)
Net cash (used in)/generated from operating activities	**(28,663)**	130,899
Cash flows from investing activities		
Purchase of property and equipment	**(5,302)**	(22,029)
Proceeds from disposals of property and equipment and intangible assets	**117**	52
Purchase of intangible assets	**(6,353)**	(4,712)
Payments for investments in associates	**(12,315)**	—
Acquisitions of financial assets at fair value through profit or loss	**(2,046)**	(18,725)
Prepayments for investments	**(4,860)**	—
Purchase of available-for-sale financial assets	**(68,500)**	—
Placement for short-term deposits	**(425,907)**	—
Proceeds received upon maturity of short-term deposits	**575,540**	—
Interest received from short-term deposits	**6,894**	—
Payment for restricted cash	**(592,702)**	—
Refund of restricted cash	**592,702**	—
Payment for short-term investment	**—**	(220,000)
Proceeds received upon maturity of short-term investment	**—**	110,000
Interest received from short-term investment	**—**	1,052
Net cash generated from/(used in) investing activities	**57,268**	(154,362)
Cash flows from financing activities		
Proceed from borrowings	**555,246**	—
Repayments of borrowings	**(570,488)**	—
Cash received for issued ordinary shares	**—**	64
Payments for issuance cost relating to the IPO	**(10,062)**	(1,614)
Interest and bank facilities arrangement fee paid	**(6,438)**	—
Net cash used in financing activities	**(31,742)**	(1,550)
Net decrease in cash and cash equivalents	**(3,137)**	(25,013)
Cash and cash equivalents at beginning of period	**946,759**	312,639
Exchange gains/(losses) on cash and cash equivalents	**812**	(211)
Cash and cash equivalents at end of period	**944,434**	287,415

The notes on pages 40 to 62 are integral parts of the interim financial information.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

Forgame Holdings Limited (the "Company"), previously known as Foga Holdings Limited, was incorporated in the Cayman Islands on July 26, 2011 as an exempted company with limited liability under the Companies Law (2011 Revision) of the Cayman Islands. The address of the Company's registered office is at the offices of Corporate Filing Services Ltd., P.O. Box 613, 4th Floor Harbour Centre, George Town, Grand Cayman KY1-1107, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively the "Group") are principally engaged in developing, licensing and operating webgames and mobile games in the People's Republic of China (the "PRC").

On October 3, 2013, the Company completed the initial public offering of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "IPO").

The interim condensed consolidated balance sheet as of June 30, 2014, and the related interim condensed consolidated statements of comprehensive loss, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "Interim Financial Information") of the Group have been approved by the Board on August 26, 2014.

The Interim Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

The Interim Financial Information has been reviewed, not audited.

2 BASIS OF PREPARATION

The Interim Financial Information for the six months ended June 30, 2014 has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board. The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended December 31, 2013 as set out in the 2013 annual report of the Company (the "2013 Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the 2013 Financial Statements, which have been prepared in accordance with IFRSs under the historical cost convention, as modified by the revaluation of assets and liabilities stated at fair value, such as available-for-sale financial assets.

The Group has adopted the following new standards and amendments to existing standards and interpretations which are relevant for the Group's existed business and mandatory for the first time for the financial year beginning January 1, 2014.

– Amendments to IAS 32 "Financial instruments: presentation" on asset and liability offsetting, these amendments are to the application guidance in IAS 32, "Financial instruments: Presentation," and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

– Amendments to IAS 36 "Impairment of assets" on recoverable amount disclosures for non-financial assets, these amendments require additional disclosure of fair value information should the recoverable amount of impaired assets be based on fair value less costs of disposal. In addition, it removes the requirements of disclosing recoverable amounts in annual impairment test of goodwill and intangible assets with indefinite useful lives if not impaired.

– IFRIC 21, "Levies", addresses the accounting for a liability to pay a levy imposed by governments in accordance with legislation if that liability is within the scope of IAS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

The adoption of the policies or interpretation has no significant effect on the financial statements for earlier periods and on the Interim Financial Information for the period ended June 30, 2014.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2014 and are not relevant for the Group:

– Amendments to IFRS10, 12 and IAS 27

– Amendments to IAS 39

The Group has not early adopted any new accounting and financial reporting standard, amendments to existing standards and interpretations which have been issued but are not yet effective for the financial year beginning January 1, 2014. The Group is still in the process of assessing the impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

4 JUDGMENT AND ESTIMATE

The preparation of interim financial statements required management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgment made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2013 Financial Statements. In addition, the directors have assessed the level of influence that the Group has on new equity investments undertaken during the six months ended June 30, 2014 and concluded that the Group has significant influence in Guangzhou Zhengyou Information and Technology Co., Ltd. ("Zhengyou") and Beijing Share Times Technology Co., Ltd. ("Share Times") through the participation in the investees' operational and financial policy-making processes and board of directors representation. Consequently, these investments have been classified as associates.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial Risk Factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2013 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2014.

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Fair Value Estimation

Financial instruments are carried at fair value, by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value as of June 30, 2014.

	Level 1 RMB'000 (Unaudited)	Level 2 RMB'000 (Unaudited)	Level 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Recurring Fair Value Measurements:				
Assets:				
Financial assets at fair value through profit or loss	—	—	20,652	20,652
Available-for-sale financial assets	—	—	112,500	112,500
	—	—	133,152	133,152

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Fair Value Estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value as of December 31, 2013.

	Level 1 RMB'000 (Audited)	Level 2 RMB'000 (Audited)	Level 3 RMB'000 (Audited)	Total RMB'000 (Audited)
Recurring Fair Value Measurements:				
Assets:				
Financial assets at fair value through profit or loss	—	—	18,291	18,291
Available-for-sale financial assets	—	—	32,000	32,000
	—	—	50,291	50,291

The Group did not have any financial liabilities that are measured at fair value as of June 30, 2014 and December 31, 2013.

There were no transfer among level 1, 2 and 3 during the six months ended June 30, 2014.

There were no changes in valuation techniques during the six months ended June 30, 2014.

Except for the financial assets at fair value through profit or loss and available-for-sale financial assets, the carrying amounts of financial assets including cash and cash equivalents, short-term deposits, restricted cash, trade receivables and other receivables; and financial liabilities including borrowings, trade payables and other payables and accruals, approximate their respective fair value due to their short maturity as at the period end.

6 SEGMENT INFORMATION

The Group's activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the Chief Operating Decision Maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has two operating segments as follows:

– Game Product (previously presented as "Game Development")

– Game Platform (previously presented as "Game Publishing")

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Other income, other losses, finance income-net, share of loss of associates, fair value loss of convertible redeemable preferred shares and income tax expense are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Cost of revenue primarily comprises bandwidth and server custody fees, salary and compensation expenses, content costs and agency fees, depreciation and amortization and others.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

6 SEGMENT INFORMATION (Continued)

The segment information provided to the Group's CODM for the reportable segments for the six months ended June 30, 2014 and 2013 is as follows:

	Unaudited		
	Six Months Ended June 30, 2014		
	Game Product	**Game Platform**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Segment revenue	**232,212**	**105,240**	**337,452**
Segment cost	**(65,187)**	**(21,754)**	**(86,941)**
Gross profit	**167,025**	**83,486**	**250,511**
Depreciation and amortization included in segment cost	**14,523**	**1,442**	**15,965**

	Audited		
	Six Months Ended June 30, 2013		
	Game Product	Game Platform	Total
	RMB'000	RMB'000	RMB'000
Segment revenue	379,482	194,266	573,748
Segment cost	(42,906)	(21,211)	(64,117)
Gross profit	336,576	173,055	509,631
Depreciation and amortization included in segment cost	8,206	1,602	9,808

6 SEGMENT INFORMATION (Continued)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC. The segment revenue provided to the Group's CODM for the PRC (excluding Hong Kong) and other regions for the six months ended June 30, 2014 and 2013 is as follows:

	Unaudited Six Months Ended June 30, 2014		
	PRC (excluding Hong Kong) RMB'000	**Other Regions RMB'000**	**Total RMB'000**
Segment revenue	**307,753**	**29,699**	**337,452**

	Audited Six Months Ended June 30, 2013		
	PRC (excluding Hong Kong) RMB'000	Other Regions RMB'000	Total RMB'000
Segment revenue	534,147	39,601	573,748

The reconciliation of gross profit to loss before income tax is shown in the interim condensed consolidated statement of comprehensive loss.

There is no concentration risk as no single external customer contributed more than 10% of the Group's total revenue for the six months ended June 30, 2014 and 2013.

Turnover consists of revenues generated by the Group, which accounted for RMB337,452,000, and RMB573,748,000 for the six months ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and 2013, the majority of the non-current assets of the Group were located in the PRC.

7 OPERATING (LOSS)/PROFIT

An analysis of the amounts presented as operating items in the Interim Financial Information is given below.

	Six Months Ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Operating Items		
Employee benefit expenses	**156,866**	161,351
Promotion and advertising expenses	**88,289**	152,572
Content costs and agency fees	**33,641**	21,697
Bandwidth and server custody fees	**22,114**	22,617
Depreciation of property, plant and equipment	**10,249**	7,524
Amortization of intangible assets	**10,234**	4,737
Other income		
– Interest income arising from cash and cash equivalents	**(10,901)**	(1,755)
Exchange losses, net	**19,474**	551
Loss on disposal of property and equipment, net	**120**	193

8 FAIR VALUE LOSS OF CONVERTIBLE REDEEMABLE PREFERRED SHARES

As detailed in Note 31 to the 2013 Financial Statements, the Group has issued convertible redeemable preferred shares ("Preferred Shares") to certain institutional investors in 2012 and designated the Preferred Shares as financial liability at fair value through profit or loss. For the six months ended June 30, 2013, the movement of the Preferred Shares is set out as follows:

	Six months ended June 30, 2013
	RMB'000
	(Audited)
As of January 1, 2013	451,153
Changes in fair value	369,446
Exchange differences	(10,832)
As of June 30, 2013	809,767
Change in unrealized losses for the period included in profit or loss for liabilities held at the period end	369,446

Upon the completion of the Company's IPO on October 3, 2013, all Preferred Shares were automatically converted to ordinary shares. All preference rights entitled to the Preferred Shares holders lapsed. Consequently, there was no further fair value change charge to profit or loss after the completion of the IPO.

9 INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended June 30, 2014 and 2013 are analyzed as follows:

	Six Months Ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current income tax:		
– PRC enterprise income tax	**10,674**	33,740
Deferred income tax		
– (Origination)/reversal of temporary differences	**(7,508)**	3,670
– Impact of change in the income tax rate for Guangzhou Feidong Software Technology Co., Ltd. ("Feidong")	**—**	1,999
Income tax expense	**3,166**	39,409

(a) Cayman Islands Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) Hong Kong Profits Tax

Hong Kong profits tax rate is 16.5% for the six months ended June 30, 2014 and 2013. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the six months ended June 30, 2014 and 2013.

(c) United States Corporate Income Tax

United States Corporate Income Tax is for the entity within the Group which was incorporated in the United States of America in February 2014. No United States Corporate Income Tax was provided for as there was no estimated assessable profit that was subject to United States Corporate Income Tax for the six months ended June 30, 2014.

(d) Taiwan Business Income Tax

Forgame International Co., Ltd. ("Yunyou") is incorporated in Taiwan, and business income tax rate is 17% for the six months ended June 30, 2014. No Taiwan Business Income Tax was provided as there was no estimated assessable profit that was subject to Taiwan Business Income Tax for the six months ended June 30, 2014.

9 INCOME TAX EXPENSE (Continued)

(e) PRC Enterprise Income Tax ("EIT")

EIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC EIT Law passed by the Tenth National People's Congress on March 16, 2007, the EIT rate for all PRC entities is 25% effective from January 1, 2008.

Guangzhou Weidong Internet Technology Co., Ltd. ("Weidong") and Guangzhou Feiyin Information Technology Co., Ltd. ("Feiyin") were qualified as "High and New Technology Enterprises" ("HNTEs") under the EIT Law. Therefore, they were entitled to a preferential income tax rate of 15% on their estimated assessable profits for the six months ended June 30, 2014 and 2013.

Feidong was accredited as a "software enterprise" under the relevant PRC laws, regulations and rules. It was exempt from EIT in 2013 and will enjoy a reduced income tax rate of 12.5% from 2014 to 2016, provided that it continues to be qualified as software enterprise during such period.

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the financial year ending December 31, 2014 during the six months ended June 30, 2014.

(f) PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

As of June 30, 2014, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of June 30, 2014.

10 LOSS PER SHARE

(a) Basic

Basic loss per share for the six months ended June 30, 2014 and 2013 are calculated by dividing the loss of the Group attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during each respective period.

	Six Months Ended June 30,	
	2014	2013
	(Unaudited)	(Audited)
Loss attributable to equity holders of the Company (RMB'000)	**(21,773)**	(243,347)
Weighted average number of ordinary shares in issue (Note i)	**126,836,006**	16,466,667
Basic loss per share (in RMB/share)	**(0.17)**	(14.78)

Note:

(i) In connection with the issuance of Preferred Shares on June 15, 2012, the ordinary shares held by Mr. Wang Dongfeng, Mr. Huang Weibing, Mr. Liao Dong, Mr. Yang Tao and Mr. Zhang Jieguang (collectively as the "Founders") were put on escrow with the Company as Restricted Shares (as defined in Note 17). As these Restricted Shares were contingently returnable, they were not treated as outstanding and were excluded from the calculation of basic loss per share for the six months ended June 30, 2013. Should these shares had not been put on escrow with the Company as Restricted Shares, the weighted average number of ordinary shares in issue for the six months ended June 30, 2013 for purpose of computing the basic loss per share would be 76,000,000, and the unaudited basic loss per share would be RMB(3.20) /share. Upon the completion of the IPO on October 3, 2013, all Restricted Shares were vested and included in calculation of basic loss per share as ordinary shares in subsequent periods.

(b) Diluted

For the six months ended June 30, 2013, the Company has three categories of dilutive potential ordinary shares, the Restricted Shares, Preferred Shares and share options granted to employees under Pre-IPO Share Option Scheme. As the Group incurred loss for the six months ended June 30, 2013, the Restricted Shares and Preferred Shares are anti-dilutive and not included in the computation of diluted loss per share. Share options are not included in the computation of diluted loss per share as the options could not be exercised until the Company completes its IPO. As of June 30, 2013, such contingent event had not taken place.

10 LOSS PER SHARE (Continued)

(b) Diluted (Continued)

For the six months ended June 30, 2014, the Company had only one category of dilutive potential ordinary shares: share options granted to employees under the Pre-IPO Share Option Scheme. As the Group incurred loss for the six months ended June 30, 2014, the options are anti-dilutive and not included in the computation of diluted loss per share.

No adjustment has been made to basic loss per share to derive the diluted loss per share for the six months ended June 30, 2014 and 2013.

11 DIVIDENDS

The Board does not recommend payment of any interim dividend for the six months ended June 30, 2014 (six months ended June 30, 2013: Nil).

12 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Property and Equipment RMB'000	Intangible Assets RMB'000
(Unaudited)		
Six months ended June 30, 2014		
Opening net book amount	**64,209**	**40,130**
Additions	**2,629**	**9,698**
Disposals	**(697)**	**—**
Depreciation/amortization charge	**(10,249)**	**(10,234)**
Exchange difference	**—**	**33**
Closing net book amount	**55,892**	**39,627**
(Audited)		
Six months ended June 30, 2013		
Opening net book amount	46,700	31,349
Additions	16,379	4,200
Disposals	(245)	—
Depreciation/amortization charge	(7,524)	(4,737)
Closing net book amount	55,310	30,812

13 INVESTMENTS IN ASSOCIATES

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At beginning of period	**—**	—
Additions (Note a and b)	**34,000**	—
Share of loss of associates	**(1,598)**	—
Share of other net asset changes in associates' equity	**607**	
At end of period	**33,009**	—

(a) On February 25, 2014, the Group acquired 20% of equity interest of Share Times for an aggregate cash consideration of RMB4,000,000. The investee is principally engaged in mobile game publishing and distribution. The Group has significant influence in the investee and the directors classified the investment as an associate.

(b) On April 1, 2014, the Group acquired 19% of equity interest of Zhengyou for an aggregate cash consideration of RMB30,000,000. The entity is principally engaged in mobile games development. Although the Group holds less than 20% equity interest in the investee, the Group treats it as an associate because the Group is able to exercise its significant influence on it through participating in the investee's operational and financial policy-making processes.

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At beginning of period	**18,291**	—
Additions (Note a)	**2,046**	18,725
Exchange differences	**315**	(189)
At end of period, all non-current	**20,652**	18,536
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**—**	—

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(a) On April 18, 2013, the Group acquired certain redeemable convertible preferred shares issued by a mobile game development and publishing company for an aggregate cash consideration of US$3,000,000 (equivalent to approximately RMB18,725,000). On February 8, 2014, the Group acquired certain redeemable convertible preferred shares issued by a mobile game development company for an aggregate cash consideration of US$328,000 (equivalent to approximately RMB2,046,000).

The redeemable convertible preferred shares are host debt instruments issued by investees with conversion feature. After considering the Group's investment purpose and intentions, the Group does not bifurcate the conversion feature from those host instruments and designates these entire hybrid contracts as financial assets at fair value through profit or loss with the changes in the fair value recorded in other losses in the consolidated statement of comprehensive loss.

The directors determined the fair value as of the balance sheet date based on the expected revenue and market multiple of comparable companies. The directors consider that there was no significant change in the fair value up to June 30, 2014.

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At beginning of period	**32,000**	—
Additions (Note a and b)	**80,500**	—
At end of period, all non-current	**112,500**	—

(a) In December 2013, the Group set up Chengdu Companion Fund (the "Fund") with two independent third party partners for a cash consideration of RMB32,000,000. During the six months ended June 30, 2014, the Group acquired additional equity interests in the Fund for a cash consideration of RMB32,000,000. As a result, the Group began to hold 64% equity interest in the Fund in aggregate. This Fund is engaged in investment in mobile games and apps development business, and derives its return through investment income. The Group is a limited partner in the Fund and does not have control nor significant influence in the Fund's operational and financing decisions. The directors of the Company ("Directors") classified the investment as an available-for-sale financial asset. The Directors consider that there was no significant change in the fair value of the investment from the dates of acquisition to June 30, 2014 as the underlying investment projects are at a start-up stage.

(b) During the six months ended June 30, 2014, the Group also acquired equity interests in a few entities incorporated in the PRC at an aggregate cash consideration of RMB48,500,000. They are principally engaged in the provision of game development and other internet-related businesses. The Group does not have control nor significant influence in these entities. The Directors classified the investments as available-for-sale financial assets. The Directors consider that there were no significant changes in their respective fair values from dates of acquisitions to June 30, 2014 as these companies are still at a start-up stage.

16 TRADE RECEIVABLES

	As of June 30, 2014 RMB'000 (Unaudited)	As of December 31, 2013 RMB'000 (Audited)
Third parties	**77,290**	93,929
Less: provision for impairment	**(3,145)**	(1,735)
	74,145	92,194

(a) Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates are as follows:

	As of June 30, 2014 RMB'000 (Unaudited)	As of December 31, 2013 RMB'000 (Audited)
0-30 days	**30,703**	57,303
31-60 days	**24,169**	18,995
61-90 days	**2,996**	5,534
91-180 days	**4,078**	7,249
181-365 days	**11,514**	3,113
Over 1 year	**3,830**	1,735
	77,290	93,929

The sales of the Group are mainly made on credit terms determined on individual basis with normal credit periods of 30 to 60 days from respective invoice dates. As of June 30, 2014 and December 31, 2013, trade receivables that are past due but not impaired were RMB17,382,000 and RMB7,647,000, respectively. These receivables are due from a number of web-based platforms and a game developer which are assessed to have no financial difficulty. The Directors had assessed, based on past experience, that these overdue amounts could be recovered.

17 SHARE CAPITAL AND PREMIUM

	Number of Ordinary Shares	Nominal Value of Ordinary Shares US$	Number of Preferred Shares	Nominal Value of Preferred Shares US$
Authorized:				
As of June 30 and January 1, 2014	**500,000,000**	**50,000**	**—**	**—**
As of June 30 and January 1, 2013	470,940,560	47,094	29,059,440	2,906

	Note	Number of Ordinary Shares	Nominal Value of Ordinary Shares US$'000	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued:						
(Unaudited)						
As of January 1, 2014		**125,940,304**	**13**	**80**	**1,934,534**	**1,934,614**
Employee share option scheme:						
– new shares issued	a	**1,013,547**	**—**	**—**	**—**	**—**
As of June 30, 2014		**126,953,851**	**13**	**80**	**1,934,534**	**1,934,614**
(Audited)						
As of January 1 and June 30, 2013	b	76,000,000	8	49	—	49

Notes:

(a) During the six months ended June 30, 2014, 1,013,547 pre-IPO share options with exercise prices of US$0.0001 were exercised.

(b) As detailed in Note 23 to the 2013 Financial Statements, the ordinary shares of the Company held by the Founders of the Company were subject to certain vesting conditions and repurchase rights of the Company ("Restricted Shares") until these Restricted Shares became vested. As of June 30, 2013, 45,600,000 out of 76,000,000 ordinary shares were yet to be vested. All remaining Restricted Shares became vested upon the completion of the IPO on October 3, 2013.

18 RESERVES

Group	Capital Reserve RMB'000	Statutory Reserves RMB'000	Share-based Compensation Reserve RMB'000	Translation Differences RMB'000	Other Reserves RMB'000	Total RMB'000
(Unaudited)						
As of January 1, 2014	**30,000**	**10,828**	**162,235**	**8,980**	**(371,889)**	**(159,846)**
Value of employee service – Pre-IPO Share Option Scheme	**—**	**—**	**18,326**	**—**	**—**	**18,326**
Currency translation differences	**—**	**—**	**—**	**19,631**	**—**	**19,631**
Share of other net asset changes in associates' equity	**—**	**—**	**—**	**—**	**607**	**607**
As of June 30, 2014	**30,000**	**10,828**	**180,561**	**28,611**	**(371,282)**	**(121,282)**
(Audited)						
As of January 1, 2013	30,000	7,907	102,977	2,654	(371,889)	(228,351)
Value of employee service – Pre-IPO Share Option Scheme	—	—	27,489	—	—	27,489
Currency translation differences	—	—	—	10,432	—	10,432
As of June 30, 2013	30,000	7,907	130,466	13,086	(371,889)	(190,430)

19 SHARE-BASED PAYMENTS

On October 31, 2012, the Board of Directors of the Company approved the establishment of a Pre-IPO Share Option Scheme with the objective to recognize and reward the contribution of eligible directors, employees and other persons to the growth and development of the Group.

The exercise price of the granted options shall be the par value of the ordinary shares as amended as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

The options are conditional vested on the employee completing a certain period of service, which is mutually agreed by the employees and the Company. In addition, the options are only exercisable after the listing of the Company's shares on any internationally recognized stock exchange ("performance condition") and the grantees remained employed by the Group.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

On January 1, July 1, and September 1, 2013, 5,385,611, 898,800 and 156,500 share options were granted under the scheme, respectively.

19 SHARE-BASED PAYMENTS (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

		Pre-IPO Share Option Scheme Number of Share Options Six Months Ended June 30,	
		2014	2013
	Average Exercise Price		
At beginning of period		**5,770,564**	—
Granted	US$0.0001	**—**	5,385,611
Exercised	US$0.0001	**(1,013,547)**	—
Forfeited	US$0.0001	**(161,309)**	(106,484)
At end of period		**4,595,708**	5,279,127

As a result of the options exercised during the six months ended June 30, 2014, 1,013,547 ordinary shares were issued by the Company (Note 17). The weighted average price of the shares immediately before the dates on which the options were exercised was HK$52.97 (equivalent to approximately RMB42.40) per share.

As of June 30, 2014, all share options granted will expired in 2022 with an average exercise price of US$0.0001 per share option.

The fair value of share options was determined at the respective grant dates.

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the directors with best estimate made. The discount rate for pre-IPO share option adopted was estimated by the weighted average cost of capital, which were 23% as of the grant dates.

Based on fair value of the underlying ordinary share, the directors have used Binomial option-pricing model to determine the fair value of the share option as of the grant date. The weighted average fair value of pre-IPO options granted on January 1, July 1, and September 1, 2013 was US$3.03 (approximately equivalent to RMB19.02), US$4.88 (approximately equivalent to RMB30.26) and US$5.12 (approximately equivalent to RMB31.61) per option, respectively. Key assumptions are set as below:

	Pre-IPO Share Option Scheme January 1, 2013	**Pre-IPO Share Option Scheme** July 1 and September 1, 2013
Risk-free interest rate	1.84%	2.51%
Volatility	60.33%	56.42%
Dividend yield	—	—

19 SHARE-BASED PAYMENTS (Continued)

The directors estimated the risk-free interest rate based on the yield of US Treasury Strips with a maturity life equal to the option life of the share option. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share option. Dividend yield is based on management estimation at the grant date.

The Group had conditionally approved and adopted the post-IPO share option scheme and restricted share unit ("RSU") scheme on September 1, 2013. As of June 30, 2014, no post-IPO share option or RSU had been granted or agreed to be granted by the Group.

20 BORROWINGS

	As of June 30, 2014 RMB'000 (Unaudited)	As of December 31, 2013 RMB'000 (Audited)
Bank borrowings	**—**	15,242

Movements in borrowings for the six months ended June 30, 2014 (six months ended June 30, 2013: Nil) are analyzed as follows:

	RMB'000 (Unaudited)
Six months ended June 30, 2014	
Opening amount as of January 1, 2014 (Note a)	15,242
Proceed of new borrowings (Note b)	555,246
Repayments of borrowings	(570,488)
Closing amount as of June 30, 2014	—

(a) The Group had a term bank loan facility up to the lower of US$2,500,000 or 95% of RMB16,187,000 and the Group's outstanding borrowings were at US$2,500,000 as of December 31, 2013. The interest rate was London Inter-Bank Offered Rate ("LIBOR") plus 1.333%. The bank borrowings were secured by restricted cash of the Group amounting to RMB15,670,000, together with the related interest income derived. The bank borrowings were fully repaid during the six months ended June 30, 2014 and the interest expenses incurred for the six months ended June 30, 2014 were RMB109,000 (six months ended June 30, 2013: Nil).

20 BORROWINGS (Continued)

(b) In connection with the proposed acquisition of 21% of Magic Feature Inc.'s equity interests (details disclosed in note 25), the Group had arranged bank borrowing facilities of US$90,000,000, which were secured by the Group's restricted cash amounting to RMB592,702,000. The interest rate was levied at LIBOR plus 1.5%. The Group requested the borrowings for US$90,000,000 but made the repayment prior to its maturity having considered the risks associated with the proposed acquisition. Accordingly, the bank borrowing facilities were cancelled. As of June 30, 2014, the Group did not have any undrawn bank facilities. Interest expenses incurred for the six months ended June 30, 2014 were US$342,000 (equivalent to approximately RMB2,107,000).

21 TRADE PAYABLES

Trade payables primarily related to the purchase of services for server custody, content costs and agency fees and revenue collected by the Group's own web-based platforms which is required to be shared and be payable to game developers in cooperation with the Group according to respective cooperation agreements.

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

	As of June 30, 2014 RMB'000 (Unaudited)	As of December 31, 2013 RMB'000 (Audited)
0-30 days	**10,497**	13,666
31-60 days	**2,687**	15,093
61-90 days	**2,070**	6,038
91-180 days	**6,713**	50
181-365 days	**1,539**	55
1-2 years	**118**	88
	23,624	34,990

22 COMMITMENTS

Capital Commitments

As of June 30, 2014, the capital expenditure commitments contracted but not provided for amounted to RMB24,225,000. They were related to investment arrangements, acquisitions of property and equipment and intangible assets.

As of December 31, 2013, the capital expenditure commitments contracted but not provided for amounted to RMB1,233,000. They were related to acquisition of property and equipment.

There were no other commitments authorized but not contracted at the end of each of the reporting dates.

23 SIGNIFICANT RELATED PARTY TRANSACTIONS

Key management includes directors, chief executive officer and other senior executives. Key management compensation amounted to RMB10,021,000 for the six months ended June 30, 2014 (six months ended June 30, 2013: RMB13,163,000). See below:

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Fees, Wages, salaries and bonuses	**4,257**	3,662
Pension costs – defined contribution plans	**29**	29
Other social security costs and housing benefits	**77**	120
Share-based compensation expenses under Pre-IPO Share Option Scheme	**5,658**	9,352
	10,021	13,163

Except as disclosed elsewhere in the Interim Financial Information and the key management compensation above, the Group had no other material transactions enacted with related parties for the six months ended June 30, 2014 and 2013, and there were no other material related parties' balances as of June 30, 2014 and December 31, 2013.

24 CONTINGENCIES

As of June 30, 2014, the Group did not have any significant unrecorded contingent liabilities.

25 SUBSEQUENT EVENTS

(a) Investment in Magic Feature Inc.

On March 3, 2014, the Group entered into a Sale and Purchase Agreement to acquire 21% of Magic Feature Inc.'s equity interest with a cash consideration of US$70 million and a further total contingent consideration of US$24.2 million. Magic Feature, through its subsidiaries, develops and publishes the mobile game "Tower of Saviors" ("神魔之塔") in, among others, Hong Kong and Taiwan. The game has also been exclusively licensed to a listed company in Hong Kong to publish in the PRC through its various platforms.

On August 21, 2014, the Group terminated the Sale and Purchase Agreement with the counter party after assessing the legal and regulatory risks associated with the acquisition in view of the laws and regulations in Taiwan relating to prohibitions on PRC investors from operating online and mobile game publishing business in Taiwan.

(b) Subsequent investments

As of the date of the Interim Financial Information being approved and issued, the Group i) has set up a new mobile game company for a consideration of RMB21,000,000 with a third party; and ii) is in the process of acquiring a minority interest in a mobile game company for a consideration of RMB4,000,000. The Group is assessing the accounting treatment for these investments.

DEFINITION

"ARPPU"	average revenue per paying users
"Audit and Compliance Committee"	the audit and compliance committee of the Company
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"Cayman Islands"	the Cayman Islands, a British Overseas Territory
"China" or "PRC"	the People's Republic of China and, except where the context otherwise requires and only for the purpose of this interim report, excluding Hong Kong, Macau and Taiwan
"CODM"	Chief Operating Decision Maker
"Company" or "Forgame"	Forgame Holdings Limited (雲遊控股有限公司), an exempted company incorporated in the Cayman Islands on July 26, 2011 with limited liability, whose shares became listed on the Main Board of the Stock Exchange on the Listing Date
"Contractual Arrangements"	a series of contractual arrangements entered into by Feidong, the PRC Operational Entities and their respective shareholders
"Corporate Governance Code" or "CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules
"Director(s)"	director(s) of our Company
"Executive Director(s)"	executive director(s) of our Company
"Family Trust"	collectively, WANG Trust, Keith Huang Trust, Hao Dong Trust and ZHUANGJG Trust
"Feidong"	Guangzhou Feidong Software Technology Co., Ltd. (also referred to as Guangzhou Feidong Software Technology Company Limited) (廣州菲動軟件科技有限公司), an indirect, wholly-owned subsidiary of the Company, incorporated under the laws of the PRC on June 13, 2012
"Feiyin"	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), a limited company established under the laws of the PRC on April 12, 2004
"Financial Statement"	unaudited consolidated financial statements of the Company for the six months ended June 30, 2014
"Foga Development"	Foga Development Co. Ltd., a company incorporated in the BVI on July 25, 2011

DEFINITION

"Foga Group"	Foga Group Ltd. (also referred to as Foga Group Limited), a company incorporated in the BVI on July 25, 2011
"Foga Tech"	Foga Tech Limited, a limited company incorporated under the laws of Hong Kong on August 9, 2011 and a wholly-owned subsidiary of the Company
"Founders"	founder(s) of the Company, collectively, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang Tao and Mr. Zhuang
"Group", "we", "us" or "our"	the Company and its subsidiaries and the PRC Operational Entities (the financial results of which have been consolidated and accounted for as the subsidiaries of the Company by virtue of the Contractual Arrangements)
"Hao Dong Trust"	a discretionary trust set up by Mr. Liao of which Managecorp Limited acts as the trustee and the discretionary beneficiary is Mr. Liao
"Hong Kong" or "HK"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IFRSs"	the International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
"Independent Non-executive Director(s)"	independent non-executive Director(s) of the Company
"IP"	intellectual property
"IPO"	initial public offering of the Shares on the Stock Exchange
"Jieyou"	Guangzhou Jieyou Software Co., Ltd. (also referred to as Guangzhou Jieyou Software Company Limited) (廣州捷遊軟件有限公司), a limited company established under the laws of the PRC on June 7, 2012
"Keith Huang Trust"	a discretionary trust set up by Mr. Huang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Huang and certain of his family members
"LIBOR"	London Inter-bank Offered Rate
"Listing Date"	October 3, 2013
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Magic Feature"	Magic Feature Inc., a company incorporated in the BVI with limited liability whose registered office is at Akara Bldg., 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, BVI

"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
"Managecorp Limited"	Managecorp Limited, the trustee of each of the Family Trusts
"Model Code"	the Model Code for Securities Transactions set out in Appendix 10 to the Listing Rules
"MOU"	a non-binding memorandum of understanding dated March 3, 2014 entered into between Foga Tech Limited ("Foga Tech"), a wholly owned subsidiary of the Company and Magic Feature
"MPUs"	monthly paying users
"Mr. Huang"	Mr. Huang Weibing (黃衛兵) (alias: Huang Kai (黃凱)), one of the Founders and the settlor of the Keith Huang Trust
"Mr. Liao"	Mr. Liao Dong (廖東), one of the Founders and the settlor of the Hao Dong Trust
"Mr. Wang"	Mr. Wang Dongfeng (汪東風), one of the Founders and the settlor of the Wang Trust
Mr. Zhuang"	Mr. Zhuang Jieguang (莊捷廣), one of the Founders and the settlor of the ZHUANGJG Trust
"Nomination Committee"	the nomination committee of the Board
"Non-executive Director(s)"	non-executive director(s) of our Company
"Offer Date"	the date which the pre-IPO option is offered to an eligible participant as defined in the scheme
"Post-IPO Share Options"	options to be granted under the Post-IPO Share Option Scheme
"Post-IPO Share Option Scheme"	the post-IPO share option scheme conditionally adopted by our Company on September 1, 2013, for the benefit of our Directors, members of senior management, employees and other eligible participants defined in the scheme
"PRC Operational Entities"	collectively, Feiyin, Weidong and Jieyou, the financial results of which have been consolidated and accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements
"Pre-IPO Share Options"	options granted under the Pre-IPO Share Option Scheme
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme approved and adopted by our Shareholders on October 31, 2012, which was amended and restated on September 1, 2013, for the benefit of our Directors, members of senior management, employees and other eligible participants defined in the scheme

DEFINITION

"Prospectus"	IPO prospectus of the Company dated September 19, 2013
"PVE"	player versus environment
"PVP"	player versus player
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	six months ended June 30, 2014
"RPG"	role-playing game
"RSUs"	restricted share units granted pursuant to the RSU Scheme
"Restricted Share Unit Scheme" or "RSU Scheme"	the scheme conditionally approved and adopted by our Company on September 1, 2013 for the grant of RSUs to RSU participants following the completion of IPO
"Sale and Purchase Agreement"	The sale and purchase agreement dated March 3, 2014 and entered into between the Company and Magic Feature Inc.'s shareholders
"SFO"	the Securities and Futures Ordinance of Hong Kong (chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shareholders"	shareholders of the Company
"Shares"	shares of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Wang Trust"	a discretionary trust set up by Mr. Wang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Wang and certain of his family members
"Weidong"	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), a limited company established under the laws of the PRC on January 22, 2007
"ZHUANGJG Trust"	a discretionary trust set up by Mr. Zhuang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Zhuang and certain of his family members
"2013 Financial Statements"	audited consolidated financial statements of the Company for the year ended December 31, 2013
"*91wan*"	the self-publishing platforms, including 91wan.com, 2918.com, 9vs.com, 915.com and 336.com

Forgame Holdings Limited
雲 遊 控 股 有 限 公 司