Forgame Holdings Limited
雲遊控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00484)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2014

The board (the "Board") of directors (the "Directors") of Forgame Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results (the "Interim Results") of the Company, its subsidiaries and the PRC Operational Entities (as defined in the prospectus of the Company dated September 19, 2013 (the "Prospectus")) (collectively the "Group") for the six months ended June 30, 2014 together with comparative figures for the corresponding period in 2013. The Interim Results have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS34") and reviewed by PricewaterhouseCoopers, the auditor of the Company, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". In addition, the Interim Results have also been reviewed by the audit and compliance committee of the Company (the "Audit and Compliance Committee").

FINANCIAL PERFORMANCE HIGHLIGHTS

	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 net (loss)/profit does not include all items that impact our net loss or profit for the periods.

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 role-playing games ("RPG") 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 intellectual property ("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.

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).

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 "player versus environment" ("PVE") or "player versus player" ("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 People's Republic of China (the "PRC" or "China") 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 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 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 initial public offering (the "IPO") of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

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 in our 2013 annual report.

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

(3) Average revenue per paying users ("ARPPU") 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)	2,533.6%
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%

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" 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 the 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" 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 expenses 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 RMB 95.9 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 Renminbi ("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 International Financial Reporting Standards ("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 (December 31, 2013: RMB 33.3 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.

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 Inc. ("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 Limited ("Foga Tech"), a wholly owned subsidiary of the Company, and Magic Feature entered into a non-binding memorandum of understanding (the "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 date of this announcement, 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 in this announcement, there were no other significant events affecting the Group after June 30, 2014 which requires disclosure in this announcement.

Interim Condensed Consolidated Statement of Comprehensive Loss

	Note	Six Months Ended June 30, 2014 RMB'000 (Unaudited)	2013 RMB'000 (Audited)
Revenue	3	**337,452**	573,748
Cost of revenue	3	**(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	4	**(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		**—**	(369,446)
Loss before income tax		**(18,607)**	(203,938)
Income tax expense	5	**(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)	6		
– Basic		**(0.17)**	(14.78)
– Diluted		**(0.17)**	(14.78)
Dividends	7	**—**	—

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		**55,892**	64,209
Intangible assets		**39,627**	40,130
Investments in associates		**33,009**	—
Financial assets at fair value through profit or loss		**20,652**	18,291
Available-for-sale financial assets	8	**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	9	**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		**80**	80
Share premium		**1,934,534**	1,934,534
Reserves		**(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	10	**—**	15,242
Trade payables	11	**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

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 and Presentation

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").

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 existing business and mandatory for the first time for the financial year beginning January 1, 2014.

– Amendments to IAS 32	Financial instruments: presentation
– Amendments to IAS 36	Impairment of assets
– IFRIC 21	Levies

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.

3 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 revenue 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.

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

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)	**Other Regions**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue	**307,753**	**29,699**	**337,452**

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

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

4 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

5 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.

(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 a 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.

6 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 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.

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.

7 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).

8 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 (Notes 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 dates of acquisitions 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.

9 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.

10 Borrowings

	As of June 30, 2014	As of December 31, 2013
	RMB'000	*RMB'000*
	(Unaudited)	*(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**
Proceeds 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).

(b) In connection with the proposed acquisition of 21% of Magic Feature Inc.'s equity interests, 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).

11 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

OTHER INFORMATION

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (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 Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules except for code provision 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 (the "Monthly Updates") 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.

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

During the six-month 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.

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.

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.

Publication of the Unaudited Consolidated Interim Results and 2014 Interim Report

This Interim Results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.forgame.com), and the 2014 interim report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in September 2014.

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.

By order of the Board
Forgame Holdings Limited
WANG Dongfeng
Chairman

Hong Kong, August 26, 2014

As at the date of this announcement, the executive Directors are Mr. WANG Dongfeng and Mr. ZHUANG Jieguang; the non-executive Directors are Mr. TAN Hainan and Mr. TUNG Hans; the independent non-executive Directors are Mr. LEVIN Eric Joshua, Ms. POON Philana Wai Yin and Mr. ZHAO Cong Richard.