

2016 Interim Report

Forgame Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00484



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Dongfeng (*Chairman*)

Ms. LIANG Na

Non-executive Director

Mr. ZHANG Qiang

Independent Non-executive Directors

Mr. HOW Sze Ming

Ms. POON Philana Wai Yin

Mr. ZHAO Cong Richard

AUDIT AND COMPLIANCE COMMITTEE

Mr. HOW Sze Ming (*Chairman*)

Mr. ZHANG Qiang

Ms. POON Philana Wai Yin

REMUNERATION COMMITTEE

Mr. ZHAO Cong Richard (*Chairman*)

Mr. ZHANG Qiang

Mr. HOW Sze Ming

NOMINATION COMMITTEE

Mr. WANG Dongfeng (*Chairman*)

Ms. POON Philana Wai Yin

Mr. ZHAO Cong Richard

AUTHORIZED REPRESENTATIVES

Mr. WANG Dongfeng

Mr. LAW Yat Yang Arthur

COMPANY SECRETARY

Mr. LAW Yat Yang Arthur

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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

FINANCIAL HIGHLIGHTS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Six Months Ended 30 June		
	2016 (RMB' 000) (Unaudited)	2015 (RMB' 000) (Unaudited)	Change %
Revenue	193,720	309,457	-37.4%
Gross profit	39,043	118,285	-67.0%
Loss for the period	(124,560)	(14,899)	736.0%
Non-IFRSs Measures⁽¹⁾			
– Adjusted net loss for the period	(62,985)	(8,396)	650.2%
– Adjusted EBITDA ⁽²⁾ for the period	(49,145)	1,577	-3,216.4%

Notes:

(1) The Group defines adjusted net loss for the period excluding non-cash share-based compensation, changes in the value of financial assets at fair value through profit or loss, impairment of investment in associates, and impairment of available-for-sale financial assets. The use of adjusted net loss has material limitation as an analytical tool, as adjusted net loss does not include all items that impact the Group's net loss for the periods. For details of adjusted net loss and adjusted EBITDA, please refer to the section headed "Management Discussion and Analysis – Non-IFRSs Measures – Adjusted Net Loss and Adjusted EBITDA" in this interim report.

(2) EBITDA means earnings before interest, taxes, depreciation and amortisation.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	As at	As at	Change %
	30 June 2016 (RMB' 000) (Unaudited)	31 December 2015 (RMB' 000) (Audited)	
Assets			
Non-current assets	182,395	281,706	-35.3%
Current assets	1,196,224	1,243,405	-3.8%
Total assets	1,378,619	1,525,111	-9.6%
Equity and liabilities			
Total equity	1,299,336	1,444,726	-10.1%
Non-current liabilities	655	2,202	-70.3%
Current liabilities	78,628	78,183	0.6%
Total liabilities	79,283	80,385	-1.4%
Total equity and liabilities	1,378,619	1,525,111	-9.6%

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the interim report of the Group for the six months period ended 30 June 2016.

OVERVIEW

In the first half of 2016, the gaming market in China was as challenging to Forgame as it was in the second half of 2015. In fact, the growth in the number of mobile internet users and gamers in China experienced a further slowdown. According to a report published by TalkingData⁽¹⁾, the half-on-half growth in the number of active online mobile devices and active mobile gaming devices dropped from 8.5% and 11.0%, respectively, in the second half of 2015 to 3.9% and 6.9%, respectively, in the first half of 2016. At the same time, the competition among game developers was fiercer than ever. According to a report published by DataEye⁽²⁾, as gaming giants are becoming more creative and willing to develop new products, small gaming companies in China will find it more difficult to operate.

To avoid head-on competition with the Group's competitors in China in the production of hard-core games, the Group has been focusing on delivering quality casual games. Despite intense competition, the Group launched 13 mobile games in the first half of 2016, 11 of which were casual mobile games. After the debut of "Beauty Box (美美小店)" on the iOS app store close to the year end of 2015, the Group also expanded its user coverage to the Android market in June 2016. On the very first day of the public test on the iOS App Store, "Beauty Box" excelled, topping the iOS App Store free-download game list with more than 80% of the game reviewers assigning a five-star rating to this game.

As the Group continues to seek new growth opportunities, the HTML5 gaming market could become a new growth area for Forgame. HTML5 games can be run and played on mobile browsers very much similar to how webgames are played on personal computers. According to a report published by DataEye⁽³⁾, the number of HTML5 gamers was expected to reach 171 million by the end of 2015, with a year-on-year growth of approximately 108.4%. On top of that, the growth in the number of HTML5 gamers was expected to be higher than the growth in the number of traditional mobile gamers. The Group expects that HTML5 games will have high growth potential in the following years, and its potential market size could be comparable to the existing traditional mobile gaming market in scale. In view of such growth potential, the Group is working to bring back its most popular games in HTML5 format. "Charmed Westward Journey HTML5 version (醉西游HTML5版本)" is the first foray by the Group in this gaming format and is adapted from one of the key webgame intellectual properties of the Group. The android version of this game has been launched on multiple platforms including Tencent QQ browser and QQ Game platform. The iOS version of this game for the Tencent platforms is expected to be launched in the second half of 2016.

Notes:

- (1) TalkingData 1H2016 Mobile Game Industry Report. TalkingData is an independent data provider.
- (2) DataEye 1H2016 Mobile Game Industry Report. DataEye is an independent data provider.
- (3) DataEye 3Q2015 HTML5 Games Report. DataEye is an independent data provider.

CHAIRMAN'S STATEMENT

Apart from the implementation of its PRC game development strategy, the Group also intends to bring its games to the wider global market. The overseas R&D and publishing team of the Group, having successful experience in bringing locally developed games to the American and European market prior to joining Forgame, launched their first self-developed game at Forgame, namely "Liberators", which is a World War II themed strategy game, in the first quarter of 2016. Up to the end of July 2016, this game served the players from more than 100 countries and regions around the world. The initial results of this game have been satisfactory.

On 3 August 2016, the Group entered into an investment agreement with Yinker Inc., pursuant to which the Group conditionally agreed to subscribe for, and Yinker Inc. agreed to issue, 3.3% coupon convertible bonds in the principal amount of RMB300 million due in year 2021. The investment into Yinker Inc. by way of convertible bonds can provide the Group with a number of benefits. Firstly, the PRC internet finance industry is still in its early development stages and will likely experience rapid and transformative growth. Investing in the PRC internet finance industry enables the Group to expand and diversify its potential income sources and enjoy the benefit of having an interest generating investment. Secondly, this investment gives the Group great flexibility. For instance, if Yinker Inc.'s results meet expectations, the Group has an option to convert the convertible bonds into equity shares, which allows the Group to proportionally capture the net profits of Yinker Inc. as associate income, and therefore boosting the Group's overall net profit. Overall, this investment provides the Group with the opportunity to tap into Yinker Inc.'s profits, improve the Group's financial condition and lay a solid foundation for the long-term development of the Group.

OUTLOOK

Looking forward, the Board expects the gaming market in China will remain competitive and difficult in the second half of 2016.

The Board believes that focusing on developing and publishing casual mobile games is a correct strategy for the Group. Notwithstanding that "Beauty Box (美美小店)" has achieved initial recognition, the Board believes that there is still room for further optimisation for the game to become what the Board expects it should be. In the second half of this year, the Group will continue to enhance this game and strengthen the co-publishing capability with Meitu. Moreover, the HTML5 version of "Beauty Box (美美小店)" is under development and is planned to be advertised through Meitu apps when the traditional version has gained sufficient attention. Furthermore, the Board considers the overseas market to be a relatively new market for Chinese casual games. The Group intends to leverage its overseas R&D and publishing team's capability to introduce this game into lucrative markets such as the United States of America, the United Kingdom and so on.

The Group's initial attempt to expand into the overseas market has met the Group's expectations. By July 2016, the Group's international strategy game "Liberators" had served users from more than 100 countries and regions. The next step of the Group is to introduce different language patches to address more specific markets. Currently the game has 5 language versions, i.e. English, French, German, Spanish and Portuguese. The Group plans to introduce 5 additional language versions, namely Russian, Turkish, Polish, Romanian and Greek, making this game available in 10 different languages. The Group is also looking for collaboration opportunities with local platforms or publishers in the hope of increasing the Group's penetration of the targeted markets.

CHAIRMAN'S STATEMENT

As evidenced in the Group's approach to mobile games as well as investments, the Group's management team is working diligently and progressively to enhance Forgegame's growth potential, overall competitiveness, and ultimately shareholder's value. As the Board believes the speed of adapting to this fast-paced PRC internet market is key to the Group's eventual success, the Board intends to further explore opportunities in the internet, media, and technology industry. While there will be short term challenges during transformation, which is highlighted in the section headed "Management Discussion and Analysis – Transformation Plan: Risks and Hurdles" in this interim report, the Group strongly believes a brighter future will come soon. The management team of the Group wants to express its thanks to the shareholders of the Company (the "Shareholders") for their patience with the Group, and wants the Shareholders to continue to believe that the Group will ultimately deliver the returns that the market expects.

INTERIM DIVIDEND

The Board does not declare the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

APPRECIATION

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

WANG Dongfeng

Chairman

Hong Kong, 23 August 2016

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The mobile gaming market in China remained competitive and difficult in the first half of 2016. The Group's total revenue decreased by approximately 37.4% to RMB193.7 million for the six months ended 30 June 2016 mainly due to delays in the Group's promotion of several major titles such as "Liberators" and "Charmed Westward Journey HTML5 version", as well as the decline in revenue from several existing mobile games as they entered into the mature phase of their life cycles.

Despite fierce competition, the Group strives to push forward with its transition plan to become a mobile game developer and publisher. The Company generated RMB122.4 million of revenue from mobile games and improved the mobile revenue contribution to 63.2% in the first half of 2016. In particular, mobile revenue contribution as a percentage of total revenue increased thanks to the contribution from "Sword Immortal (劍仙緣)", "Boonie Bears (熊出沒)" series and "Ultraman (奧特曼)" series. In the six months ended 30 June 2016, the Group launched 13 mobile games, 11 of which were casual mobile games.

Webgames segment generated RMB71.3 million of revenue for the Company in the first half of 2016, representing a decrease of approximately 40.7% compared to the same period last year. This decrease was the direct result of the Group's strategy to produce fewer but more profitable webgames. In the first half of 2016, the Company launched two webgames, one of which was "Liberators". "Liberators" is a World War II themed strategy game tailored for overseas markets.

Forgame's management continues to optimise the Company's operation structure through various cost-cutting measures. The Company has decreased its headcount from 805 personnel as at 30 June 2015 to 547 personnel as at 30 June 2016. In addition, the costs incurred on selling and marketing and the costs incurred on research and development decreased by approximately 53.9% and 40.0%, respectively, in the first half of 2016 when compared to the same period of 2015.

For the first half of 2016, Forgame recorded investment loss of RMB59.3 million, among which, (i) RMB3.2 million is reflected under other losses, (ii) RMB4.0 million is reflected under share of loss of investments accounted for using the equity method netting off the gain of RMB2.6 million on the dilution of investments accounted for using the equity method, (iii) RMB6.7 million is reflected under the impairment of investment in associates, and (iv) RMB48.0 million is reflected under impairment of available-for-sale financial assets. These investment losses were due to a number of reasons including (i) the volatility of fund raising market, (ii) existing cash availability for the Group's investments, and (iii) a more prudent assessment of the outlook of the games in the pipelines of these invested game studios.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING INFORMATION

As at 30 June 2016, the Group had 44 mobile games⁽¹⁾ and 32 self-developed webgames in operation. Out of the Group's 44 mobile games, 28 were self-developed and 16 were exclusively licensed to the Group from other developers. As at 30 June 2016, 91wan had over 226 million registered players and distributed 48 webgames in total. Out of the 48 webgames distributed by 91 wan, 15 were self-developed and 33 were licensed from third parties.

The following table sets forth certain operating statistics relating to the Group's businesses in the periods presented:

	Six Months Ended 30 June	
	2016	2015
Game Product:		
Average MPUs (in thousands) ⁽¹⁾	1,272	785
Monthly ARPPU (RMB) ⁽²⁾	24	60
Game Platform:		
Registered players (in thousands)	226,403	224,223
Average MPUs (in thousands) ⁽¹⁾	9	12
Monthly ARPPU (RMB)	274	367

Notes:

- (1) The numbers do not eliminate the duplication in paying users of self-developed games published on the Group's own platforms.
- (2) The numbers do not include the MPUs of negligible console mobile games.

Game product. The average MPUs for the game product segment increased from approximately 0.8 million for the six months ended 30 June 2015 to approximately 1.3 million for the six months ended 30 June 2016. This increase was primarily contributed by the popularity and ramp up in the sales of (i) games launched in the second half of 2015, such as casual mobile games "Boonie Bears: Crazy Shooter(熊出沒之瘋狂彈射)", "Boonie Bears: Jelly Defense (熊出沒之天降美食)" and webgame "Storm World (風暴大陸)", and (ii) games launched in the first half of 2016, such as webgame "Liberators".

Monthly ARPPU of the game product segment decreased from RMB60 for the six months ended 30 June 2015 to RMB24 for the six months ended 30 June 2016. This decrease was primarily due to the increase in the contribution of the Group's casual mobile games, which usually have a lower ARPPU level.

Game platform. Registered players of webgame platform 91wan have increased to 226 million as at 30 June 2016 from approximately 224 million as at 30 June 2015, representing a growth of approximately 1%.

The average MPUs of game platform segment declined from approximately 12,000 for the six months ended 30 June 2015 to approximately 9,000 for the six months ended 30 June 2016, and the monthly ARPPU of game platform segment decreased from RMB367 for the six months ended 30 June 2015 to RMB274 for the six months ended 30 June 2016. These decreases were primarily due to the fact that the Group lowered its marketing expenses on user acquisitions while allocating appropriate resources on improving the return of investment of games that it has published.

Note:

- (1) Number of launched games excludes the games launched to the market for early-stage testing purpose.

MANAGEMENT DISCUSSION AND ANALYSIS

FIRST HALF OF 2016 COMPARED TO FIRST HALF OF 2015

The following table sets forth the income statement for the six months ended 30 June 2016 as compared to the six months ended 30 June 2015:

	Six Months Ended 30 June		Change %
	2016 (RMB' 000) (Unaudited)	2015 (RMB' 000) (Unaudited)	
Revenue	193,720	309,457	-37.4%
Cost of revenue	(154,677)	(191,172)	-19.1%
Gross profit	39,043	118,285	-67.0%
Selling and marketing expenses	(12,997)	(28,180)	-53.9%
Administrative expenses	(37,035)	(39,252)	-5.6%
Research and development expenses	(47,128)	(78,527)	-40.0%
Other income	7,606	17,147	-55.6%
Other losses	(6,088)	(402)	1,414.4%
Gain on disposal of a subsidiary	—	1,692	-100.0%
Finance income-net	4,823	4,702	2.6%
Impairment loss on intangible assets	(12,831)	—	N/A
Share of loss of investments accounted for using the equity method	(4,020)	(6,282)	-36.0%
Gain on dilution of investments accounted for using the equity method	2,581	1,333	93.6%
Impairment of investment in associates	(6,674)	—	N/A
Impairment of available-for-sale financial assets	(47,999)	—	N/A
Loss before income tax	(120,719)	(9,484)	1,172.9%
Income tax expense	(3,841)	(5,415)	-29.1%
Loss for the period	(124,560)	(14,899)	736.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue. Revenue decreased by approximately 37.4% to RMB193.7 million for the six months ended 30 June 2016 from RMB309.5 million for the six months ended 30 June 2015. The following table sets forth the Group's revenue by segment for the six months ended 30 June 2016 and 2015:

	Six Months Ended 30 June			
	2016		2015	
	(RMB' 000) (Unaudited)	(% of Total Revenue)	(RMB' 000) (Unaudited)	(% of Total Revenue)
Revenue by Segment				
– Game product	179,734	92.8	282,456	91.3
– Game platform	13,986	7.2	27,001	8.7
Total Revenue	193,720	100.0	309,457	100.0
Revenue by Game Type				
– Mobile games	122,409	63.2	189,207	61.1
– Webgames	71,311	36.8	120,250	38.9
Total Revenue	193,720	100.0	309,457	100.0

- The Group's revenue generated from the game product segment decreased by approximately 36.4% to RMB179.7 million for the six months ended 30 June 2016 from RMB282.5 million for the six months ended 30 June 2015. This decrease was primarily due to (i) the fact that some of the Group's games entered into the mature stage of their life cycles whilst revenue from new games has yet to offset the decrease in revenue, and (ii) delays in promotion of several major game titles.
- The Group's revenue generated from the game platform segment decreased by approximately 48.2% to RMB14.0 million for the six months ended 30 June 2016 from RMB27.0 million for the six months ended 30 June 2015. This decrease was mainly due to the drop in platform MPUs as the Group scaled back in webgame player acquisitions.
- The Group's revenue generated from mobile games decreased by approximately 35.3% to RMB122.4 million for the six months ended 30 June 2016 from RMB189.2 million for the six months ended 30 June 2015. This decrease was primarily due to (i) delays in the Group's promotion of several major titles such as "Charmed Westward Journey HTML5 version", and (ii) the decline in revenue from several of the Group's existing mobile games, such as "Soul Guardian (凡人修真)" series and "Boonie Bears (熊出没)" series, as they entered into the mature phase of their life cycles. Most of these matured games were launched back in 2013 and 2014.
- The Group's revenue generated from webgames decreased by approximately 40.7% to RMB71.3 million for the six months ended 30 June 2016 from RMB120.3 million for the six months ended 30 June 2015. This decrease was mainly due to (i) the Group's ongoing transformation from a webgame company to a mobile game company, resulting in the decrease in the number of webgames the Group launched and operated, (ii) several of the existing self-developed and licensed webgames of the Group entered into the mature phase of their life cycles, and (iii) further delay of promotion for several key titles, such as "Liberators". The decline in revenue generated from webgame was partially offset by the revenue generated from webgame "Storm World (風暴大陸)" launched in the third quarter of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of revenue. Cost of revenue decreased by approximately 19.1% to RMB154.7 million for the six months ended 30 June 2016 from RMB191.2 million for the six months ended 30 June 2015. As a percentage of revenue, cost of revenue increased to approximately 79.8% for the six months ended 30 June 2016 from approximately 61.8% for the six months ended 30 June 2015. The following table sets forth the Group's cost of revenue by segment for the six months ended 30 June 2016 and 2015:

	Six Months Ended 30 June			
	2016		2015	
	(RMB' 000) (Unaudited)	(% of Total Cost of Revenue)	(RMB' 000) (Unaudited)	(% of Total Cost of Revenue)
Cost of Revenue by Segment				
– Game product	151,732	98.1	182,982	95.7
– Game platform	2,945	1.9	8,190	4.3
Total Cost of Revenue	154,677	100.0	191,172	100.0

- Cost of revenue for game product segment decreased by approximately 17.1% to RMB151.7 million for the six months ended 30 June 2016 from RMB183.0 million for the six months ended 30 June 2015. This decrease was mainly due to lower revenue sharing costs incurred for self-developed mobile games. The decrease in such costs was in line with the decrease in revenue of self-developed mobile games. Besides, the Group has managed to eliminate its redundant servers which also reduced the relevant server depreciation costs.
- Cost of revenue for game platform segment decreased by approximately 64.0% to RMB2.9 million for the six months ended 30 June 2016 from RMB8.2 million for the six months ended 30 June 2015. This decrease was primarily due to the continuous effort of the Group to optimise the profitability and organisation structure of 91wan.

Selling and marketing expenses. Selling and marketing expenses decreased by approximately 53.9% to RMB13.0 million for the six months ended 30 June 2016 from RMB28.2 million for the six months ended 30 June 2015. This decrease was mainly attributable to the decrease in the promotion and advertising expenses incurred by the Group on 91wan which is in line with the strategic transition of the Group's business focus from webgames to mobile games.

Administrative expenses. Administrative expenses decreased by approximately 5.6% to RMB37.0 million for the six months ended 30 June 2016 from RMB39.3 million for the six months ended 30 June 2015. Administrative expenses comprised of costs such as salary, compensation expenses and professional service expenses. The Group's slight decrease in administrative expenses was mainly attributable to effective control of welfares expenses of administrative employees.

Research and development expenses. Research and development expenses decreased by approximately 40.0% to RMB47.1 million for the six months ended 30 June 2016 from RMB78.5 million for the six months ended 30 June 2015. This decrease was primarily due to the continuous effort of the Group to optimise its research and development capability, which is in line with the strategic transition of the Group's business focus from webgames to mobile games.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income. Other income decreased to RMB7.6 million for the six months ended 30 June 2016 from RMB17.1 million for the six months ended 30 June 2015. Such decrease was mainly resulted from lower interest income of cash and cash equivalent which was in line with the decrease in average balance of cash and cash equivalent.

Other losses. Other losses increased to RMB6.1 million for the six months ended 30 June 2016 from RMB0.4 million for the six months ended 30 June 2015. This increase was primarily due to the fair value loss of the Group's investment in Appionics, the owner and operator of the Animoca studio, which is a developer and publisher of cross-platform mobile apps for smartphones and tablets.

Finance income-net. Finance income-net for the six months ended 30 June 2016 was RMB4.8 million, as compared to finance income-net of RMB4.7 million for the six months ended 30 June 2015. The finance income-net represents the interest income from short-term deposits and restricted cash. The finance income-net amount varies with the changes in short-term deposits balance and interest rates during the period under review.

Impairment loss on intangible assets. Impairment loss on intangible assets amounted at RMB12.8 million for the six months ended 30 June 2016 (2015: Nil). This was mainly attributable to the impairment loss of game intellectual properties and licenses as the Group took a prudent approach to review and assess the value of these intangible assets.

Share of loss of investments accounted for using the equity method. Share of loss of investments accounted for using the equity method decreased to RMB4.0 million for the six months ended 30 June 2016 from RMB6.3 million for the six months ended 30 June 2015. This decrease was mainly because certain investee companies narrowed their losses or recorded pre-tax profit.

Gain on dilution of investments accounted for using the equity method. Gain on dilution of investments accounted for using the equity method increased by 93.6% to RMB2.6 million for the six months ended 30 June 2016 from RMB1.3 million for the six months ended 30 June 2015. The increase was mainly due to the increase of valuation of investees through fund raising activities.

Impairment of investment in associates and impairment of available-for-sale financial assets. Impairment of investment in associates and impairment of available-for-sale financial assets for the six months ended 30 June 2016 amounted to RMB6.7 million and RMB48.0 million, respectively, while no such costs were incurred for the six months ended 30 June 2015. These impairments represented the provisions made by the Group for the impairment losses of some of the Group's angel investments after the review of the Group's major investments in its investment portfolio with the assistance of a third party consultancy firm. According to the review conducted by the third party consultancy firm, the PRC fund raising market for small gaming studios will continue to be challenging. After considering that the performances of such angel investments (i) are less predictable in nature, and (ii) are dependent on their ability to attract further funding, the Group made a provision for impairment loss as a matter of prudence.

Income tax expense. Income tax expense decreased by approximately 29.1% to RMB3.8 million for the six months ended 30 June 2016 from RMB5.4 million for the six months ended 30 June 2015. This decrease was primarily attributable to lower taxable profit of the Group's operating entities in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss for the period. Loss for the period increased to RMB124.6 million for the six months ended 30 June 2016 from RMB14.9 million for the six months ended 30 June 2015. This increase was the result of the combined impact of (i) several of the existing mobile games entering into the mature phase of their life cycles, (ii) delays in the Group's promotion of several major titles such as "Liberators" and "Charmed Westward Journey HTML5 version", (iii) the impairment provision made by the Group for certain angel investments, and (iv) the Group's effort in driving operational efficiency by improving the investment returns of the Group's advertising expenses and optimising the Group's research and development capability.

NON-IFRSs MEASURES-ADJUSTED NET LOSS AND ADJUSTED EBITDA

To supplement the consolidated results of the Group which are prepared in accordance with IFRSs, certain non-IFRSs measures, including adjusted net loss 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 and adjusted EBITDA are unaudited figures.

The following table sets forth the reconciliation of the Group's non-IFRSs financial measures for the six months ended 30 June 2016 and 2015, and the loss for the six months ended 30 June 2016 and 2015 prepared in accordance with IFRSs:

	Six Months Ended 30 June	
	2016	2015
	(RMB' 000)	(RMB' 000)
	(Unaudited)	(Unaudited)
Loss for the period	(124,560)	(14,899)
Add:		
Share-based compensation	3,737	6,503
Changes in the value of financial assets at fair value through profit or loss	3,165	—
Impairment of investment in associates	6,674	—
Impairment of available-for sale financial assets	47,999	—
Adjusted net loss (unaudited)	(62,985)	(8,396)
Add:		
Depreciation and amortization	20,253	23,557
Net interest income	(10,254)	(18,999)
Income tax expense	3,841	5,415
Adjusted EBITDA (unaudited)	(49,145)	1,577

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

As at 30 June 2016, the total equity of the Group amounted to RMB1,299.3 million, as compared to RMB1,444.7 million as at 31 December 2015. This decrease was mainly due to the increase in accumulated loss for the six months ended 30 June 2016.

The Group's net current assets amounted to RMB1,117.6 million as at 30 June 2016, as compared to RMB1,165.2 million as at 31 December 2015. This decrease was primarily due to the decrease in the balance of the Group's receivables and net cash.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 30 June 2016 (RMB' 000) (Unaudited)	As at 31 December 2015 (RMB' 000) (Audited)
Cash at bank and on hand	420,846	916,095
Cash at other financial institutions	2,508	11,034
Short-term deposits	685,633	200,000
Net cash	<u>1,108,987</u>	<u>1,127,129</u>

The Group's total cash, cash equivalent and short-term deposits amounted to RMB1,109.0 million as at 30 June 2016, as compared to RMB1,127.1 million as at 31 December 2015. The decrease was primarily due to the Company having utilised the cash to buy back the Group's outstanding shares in the first half of 2016.

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

As at 30 June 2016, the Group's gearing ratio (calculated by bank borrowing divided by total assets) was 0% (as at 31 December 2015: 0%), which means that the Group did not have any bank borrowing balance as at 30 June 2016. The borrowing requirements of the Group are not subject to seasonality.

FOREIGN EXCHANGE RISK

As at 30 June 2016, RMB629.0 million of the Group's financial resources (as at 31 December 2015: RMB25.0 million) were held in deposits denominated in non-RMB currencies. The increase in the deposits denominated in non-RMB currencies was due to the conversion of a significant amount of the Group's bank deposits from RMB into USD to support the Group's international operations and for the Group to explore acquisition opportunities overseas. With a significant amount of deposits denominated in USD and in view of potential RMB exchange rate fluctuations, the Group will continue to monitor foreign exchange rate changes to best preserve the Group's cash value.

MANAGEMENT DISCUSSION AND ANALYSIS

TRANSFORMATION PLAN: RISKS AND HURDLES

As Forgame continues its transformation from a webpage company to a mobile game company, especially operating under a competitive and dynamic gaming market in China, there are risks that could adversely affect the Company's business operations and financial results. The major hurdles include (i) delays in game launches, (ii) games developed not able to meet market expectation after launch, (iii) departure of major employees, and (iv) technical issues that hamper the Group's ability to collect fees, data, and update games, all of which would negatively affect the Group's revenue. Also, the Group is exposed to risks such as fluctuation in foreign exchange, fair value change of the Group's investments in the internet, media and technology space, impairment charge due to invested companies' underperformance or becoming insolvent, and other unexpected one-off restructuring costs, all of which would negatively impact the Group's net profit.

Since 2014, the Group has made investments in a number of mobile game studios and incubators in China with a remaining value of approximately RMB113.3 million (excluding investment related impairment and losses in 2015 and the first half of 2016), out of which approximately RMB31.7 million were classified as "investments in associates", including but not limited to Dongfang Guxun (Beijing) Culture Development Limited (東方谷訊(北京)文化發展有限公司) and Guangzhou Xinkai Software Technology Limited (廣州新愷軟件科技有限公司). These investments are mostly angel investments and do not generate meaningful revenue and profit during the development phase. Similar to most angel investments, it is difficult to determine the success of these investments in their early stages, and while successful investments could generate substantial returns, unsuccessful ones may need to be impaired or written off.

Based on what the management has observed thus far in 2016, the Group believes its operating performance (excluding investment related impairment and losses) in the second half of 2016 will be comparable with that of the first half of 2016.

CAPITAL EXPENDITURES

	Six Months Ended 30 June	
	2016 (RMB'000) (Unaudited)	2015 (RMB'000) (Unaudited)
Capital expenditures		
– Purchase of property and equipment	468	1,104
– Purchase of intangible assets	154	18,955
Total	622	20,059

MANAGEMENT DISCUSSION AND ANALYSIS

Capital expenditures comprised purchase of property and equipment, such as servers and computers, and purchase of intangible assets, such as IP adaptation rights and IP rights of games developed by third party developers. The total capital expenditures were RMB0.6 million and RMB20.1 million for the six months ended 30 June 2016 and 2015, respectively. The Group has less property and equipment purchase requirements for the six months ended 30 June 2016 as property and equipment purchased prior to 2016 sufficiently supports its business development. The purchase of intangible assets decreased from RMB19.0 million for the six months ended 30 June 2015 to RMB0.2 million for the six months ended 30 June 2016. This decrease was mainly because the Group scaled back in spending on licensing expenditures for third party mobile games and adaptation rights of popular IPs, such as internet novel, during the six months ended 30 June 2016.

PLEDGE OF ASSET

As at 30 June 2016, the Group had a pledge of assets of RMB0.8 million as restricted cash for corporate credit card deposits.

CONTINGENT LIABILITIES

As of 30 June 2016, the Group did not have any significant unrecorded contingent liabilities.

MAJOR GAMES AND BUSINESS PARTNERS

For the six months ended 30 June 2016, the percentage of the revenue attributable to the Group's highest revenue-generating game and the top five highest revenue-generating games (including both self-developed games and licensed games developed by third party developers) accounted for approximately 20% and 54% of the Group's total revenue, respectively.

For the six months ended 30 June 2016, the percentage of the revenue attributable to the Group's largest game licensor and the top five largest game licensors accounted for approximately 1% and 4% of the Group's total revenue, respectively.

For the six months ended 30 June 2016, the percentage of the revenue attributable to the Group's largest publishing partner and the top five largest publishing partners accounted for approximately 9% and 35% of the Group's total revenue, respectively.

For the six months ended 30 June 2016, the percentage of the purchases attributable to the Group's largest supplier and the top five largest suppliers accounted for approximately 19% and 60% of the Group's cost of revenue, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 30 June 2016, the Group had 547 full-time employees (as at 30 June 2015: 805), the vast majority of whom are based in Guangzhou. The following table sets forth the number of the Group's employees by function as at 30 June 2016:

	Number of Employees	% of Total
Game development	300	55%
Publishing	74	13%
Sales and Marketing	21	4%
General and Administration	152	28%
Total	547	100%

The remuneration to the Group's 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. The Group also provides various training programs to its 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 unit 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 materialises.

PROGRESS OF OVERSEAS EXPANSION PLANS

The Group established a R&D and publishing team in 2015 focusing on developing and distributing their self-developed games in the overseas markets. The overseas R&D and publishing team of the Group, having successful experience in bringing locally developed games to the American and European market prior to joining Forgegame, launched their first self-developed game at Forgegame, namely "Liberators", which is a World War II themed strategy game, in the first quarter of 2016. Up to the end of July 2016, this game served the players from more than 100 countries or regions around the world covering Europe, America, Asia and Africa. The initial results of this game have been satisfactory.

MANAGEMENT DISCUSSION AND ANALYSIS

POST BALANCE SHEET EVENT

On 3 August 2016, the Group entered into an investment agreement with Yinker Inc., an internet finance platform. Pursuant to the agreement, Forgame agreed to subscribe for the convertible bonds in an aggregate principal amount of RMB300 million (the “Convertible Bonds”). The Convertible Bonds will mature on the fifth anniversary of the issue date of the Convertible Bonds, and the Convertible Bonds yield compound interest at the rate of 3.3% per annum, compounded bi-annually. Subject to the transaction terms and conditions of the instrument of the Convertible Bonds, Forgame has the right to convert all or part of the Convertible Bonds into preferred or common shares in the share capital of Yinker Inc. at any time on and after the issue date up to the maturity date of the Convertible Bonds. Assuming the conversion rights are fully exercised, Forgame will hold a total of 474,411,730 conversion shares of Yinker Inc. at an initial conversion price of RMB0.7448 per share, representing approximately 15.01% of the total share capital of Yinker Inc. as at the date when the investment agreement was entered into. If Yinker Inc. fails to achieve the performance target of (a) a consolidated net profit of not less than RMB100 million for the year ending 31 December 2017, or (b) a consolidated net profit of not less than RMB200 million for the year ending 31 December 2018, Forgame will have the right to redeem the outstanding bonds before the maturity date.

Save as disclosed above, there were no other significant events affecting the Group after 30 June 2016 which required disclosure in this interim report.

OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. Specific enquires have been made to all Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2016.

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. Save for the deviation from A.2.1 of the CG Code as disclosed below, the Company has complied with all applicable code provisions under the CG Code as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2016.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual.

Mr. WANG Dongfeng serves as the Chairman and Chief Executive Officer of the Company. In view of the everchanging business environment in which the Group operates, the Chairman and Chief Executive Officer must be proficient in IT knowledge and be sensitive to fast and rapid market changes, including changes in users' preferences, in order to promote the different businesses of the Group. The Board thus considers that a separation of the role of the Chairman and Chief Executive Officer is premature and may create unnecessary costs for the daily operations of the Group. Further, the Board believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team.

The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and to make necessary changes at an appropriate time.

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.

OTHER INFORMATION

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

As at 30 June 2016, the interests and short positions of the Directors and chief executives in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director/ Chief Executive	Capacity/Nature of Interest	Relevant Company (Including Associated Corporation)	Relevant 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	21,673,338 Ordinary Shares (long position)	15.82%
LIANG Na (梁娜) ⁽²⁾	Beneficial Owner	The Company	761,089 Ordinary Shares (long position)	0.56%
POON Philana Wai Yin (潘慧妍) ⁽³⁾	Beneficial Owner	The Company	119,400 Ordinary Shares (long position)	0.09%
ZHAO Cong Richard (趙聰) ⁽⁴⁾	Beneficial Owner	The Company	119,400 Ordinary Shares (long position)	0.09%

OTHER INFORMATION

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 with Managecorp Limited as trustee on 15 March 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 21,673,338 Shares held by Foga Group.
- (2) Ms. LIANG Na is interested in the options granted under (i) the Pre-IPO Share Option Scheme to subscribe for 82,089 Shares and (ii) the Post-IPO Share Option Scheme to subscribe for 679,000 Shares.
- (3) Ms. POON Philana Wai Yin is interested in the options granted under (i) the Pre-IPO Share Option Scheme to subscribe for 49,400 Shares and (ii) the Post-IPO Share Option Scheme to subscribe for 70,000 Shares.
- (4) Mr. ZHAO Cong Richard is interested in the options granted under (i) the Pre-IPO Share Option Scheme to subscribe for 49,400 Shares and (ii) the Post-IPO Share Option Scheme to subscribe for 70,000 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 at 30 June 2016.

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 six months ended 30 June 2016 and up to the Latest Practicable Date 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.

OTHER INFORMATION

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

As at 30 June 2016, 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)}	Trustee	29,437,335 Ordinary Shares (long position)	21.49%
Foga Group ⁽¹⁾	Registered Owner	21,673,338 Ordinary Shares (long position)	15.82%
Gu Wei	Registered Owner	16,073,000 Ordinary Shares (long position)	11.74%
Foga Holdings ⁽²⁾	Registered Owner	7,763,997 Ordinary Shares (long position)	5.67%
KongZhong Corporation	Registered Owner	12,306,100 Ordinary Shares (long position)	8.98%
Foga Internet Development ⁽³⁾	Beneficial Owner	7,785,700 Ordinary Shares (long position)	5.68%

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 with Managecorp Limited as trustee on 15 March 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 21,673,338 Shares held by Foga Group.
- (2) Foga Holdings 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 with Managecorp Limited as trustee on 15 March 2013. The beneficiary object of the Hao Dong Trust is Mr. Liao himself. Mr. Liao and Managecorp Limited are taken to be interested in 7,763,997 Shares held by Foga Holdings.
- (3) Foga Internet Development is wholly owned by Mr. Yang.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2016, 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 28 May 2015, the Shareholders granted a share buy-back mandate to the Board to buy-back Shares (which should not exceed 10% of the issued share capital of the Company as at 28 May 2015) from time to time as the Board thinks fit until the earliest of (i) the conclusion of the next annual general meeting of the Company, (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles to be held or, (iii) the revocation or variation of the authority given under the resolution by an ordinary resolution of the Shareholders in general meeting. Pursuant to such mandate, the Company bought back a total of 9,741,900 Shares at a consideration of HK\$131,829,614 on the Stock Exchange, all of which were cancelled as at 30 June 2016. The bought-backs were effected by the Directors for the enhancement of Shareholders' value. Details of the bought-backs are as follows:

Month of buy-backs	Total number of shares bought back	Price per Share		Aggregate consideration (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
March 2015	220,000	14.98	14.68	3,252,096
July 2015	1,316,900	15.90	10.80	18,167,534
September 2015	4,900,300	14.56	12.46	67,575,594
November 2015	211,900	13.28	13.00	2,798,428
December 2015	697,600	14.18	12.50	9,223,684
January 2016	2,395,200	13.00	11.30	30,812,278
	<u>9,741,900</u>			<u>131,829,614</u>

At the Company's annual general meeting held on 24 May 2016, the Shareholders granted a share buy-back mandate to the Board to buy back Shares (which should not exceed 10% of the issued share capital of the Company as at 24 May 2016) from time to time as the Board thinks fit until the next annual general meeting of the Company.

Save as disclosed above, during the six months period ended 30 June 2016, neither the Company, its subsidiaries nor any of the PRC Operational Entities has purchased, sold or redeemed any of the Company's listed securities.

OTHER INFORMATION

PRE-IPO SHARE OPTION SCHEME

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

Pursuant to the Pre-IPO Share Option Scheme, the Company had granted options to subscribe for 6,440,911 Shares to 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	Number and Class of Shares under the Options Granted	Date of Grant	Vesting period	Option period	Outstanding as at 1 January 2016	Exercise Price	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2016
Ms. LIANG Na	157,589 Ordinary Shares	1 January 2013	3 October 2013 to 1 May 2016	10 years from the date of grant	82,089 Ordinary Shares	Par value of the ordinary shares	—	—	—	82,089 Ordinary Shares
Ms. POON Philana Wai Yin	49,400 Ordinary Shares	1 September 2013	3 October 2013 to 1 September 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	1 September 2013	3 October 2013 to 1 September 2015	10 years from the date of grant	49,400 Ordinary Shares	Par value of the ordinary shares	—	—	—	49,400 Ordinary Shares
Sub-Total	256,389 Ordinary Shares	—	—	—	180,889 Ordinary Shares	—	—	—	—	180,889 Ordinary Shares
1 ex-Director and 361 employees	6,184,522 Ordinary Shares	1 January 2013 to 1 September 2013	3 October 2013 to 1 July 2017	10 years from the date of grant	1,911,045 Ordinary Shares	Par value of the ordinary shares	91,246 Ordinary Shares (Note)	—	69,415 Ordinary Shares	1,750,384 Ordinary Shares
Total	6,440,911 Ordinary Shares	—	—	—	2,091,934 Ordinary Shares	—	91,246 Ordinary Shares	—	69,415 Ordinary Shares	1,931,273 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\$11.80.

OTHER INFORMATION

As a result of the exercise of the options granted under the Pre-IPO Share Option Scheme during the six months ended 30 June 2016, the Company has issued 91,246 Shares to the grantees for an aggregate consideration of US\$9.1246. 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” in Appendix IV to the Prospectus and note 18 to the Financial Statements.

THE RESTRICTED SHARE UNIT SCHEME

The Company has approved and adopted the RSU Scheme by a resolution of its Shareholders on 1 September 2013 and a resolution of the Board on 1 September 2013. The purpose of the RSU Scheme is to reward the RSU participants for their contribution to the success of the Company, and to provide incentives to them to further contribute to the Group. 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.

As approved in the general meeting of the Company held on 24 May 2016, a general and unconditional mandate has been granted to the Directors to exercise the power of the Company to issue up to a maximum of 11,290,494 Shares, representing approximately 8.23 per cent. of the total number of Shares in issue (i.e. 137,207,384 shares) as at the Latest Practicable Date, pursuant to the RSU Scheme. Such mandate will continue to be in force from the passing of the said resolution until whichever the following first occurs: (i) the conclusion of the subsequent annual general meeting, (ii) the expiration of the period within which the subsequent annual general meeting is required by the laws applicable to the Company and the articles of association of the Company, or (iii) the variation of or revocation of such mandate by the ordinary resolution of the Shareholders at a general meeting.

During the six months ended 30 June 2016 and up to the Latest Practicable Date, 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” in Appendix IV to 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 1 September 2013 and a resolution of the Board on 1 September 2013. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules.

The Company has granted options to subscribe for (i) 1,908,000 Shares to a Director and employees of the Group on 2 January 2015 and (ii) 3,845,000 Shares to Directors and employees of the Group on 10 June 2015.

OTHER INFORMATION

Set out below are details of the options granted to Directors and employees under the Post-IPO Share Option Scheme:

Name of grantee	Number and Class of Shares under the Options Granted	Date of Grant	Vesting period	Option period	Outstanding as at 1 January 2016	Exercise Price	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2016
Ms. LIANG Na	329,000 Ordinary Shares	2 January 2015	2 July 2015 to 2 January 2017	4 years from the date of grant	329,000 Ordinary Shares	HK\$14.61	—	—	—	329,000 Ordinary Shares
14 employees	1,579,000 Ordinary Shares	2 January 2015	2 July 2015 to 2 January 2017	4 years from the date of grant	1,209,000 Ordinary Shares	HK\$14.61	—	—	50,000 Ordinary Shares	1,159,000 Ordinary Shares
Ms. LIANG Na	350,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	350,000 Ordinary Shares	HK\$24.29	—	—	—	350,000 Ordinary Shares
Ms. POON Philana Wai Yin	70,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	70,000 Ordinary Shares	HK\$24.29	—	—	—	70,000 Ordinary Shares
Mr. ZHAO Cong Richard	70,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	70,000 Ordinary Shares	HK\$24.29	—	—	—	70,000 Ordinary Shares
2 ex-Directors and 20 employees	3,355,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	3,355,000 Ordinary Shares	HK\$24.29	—	—	2,040,000 Ordinary Shares	1,315,000 Ordinary Shares
Total	5,753,000 Ordinary Shares	—	—	—	5,383,000 Ordinary Shares	—	—	—	2,090,000 Ordinary Shares	3,293,000 Ordinary Shares

Note: The closing prices of the shares immediately before the dates on which the options were granted on 2 January 2015 and 10 June 2015 were HK\$14.70 and HK\$23.05, respectively.

For further details of the Post-IPO Share Option Scheme, please refer to the section headed “Statutory and General Information” in Appendix IV to the Prospectus and note 18 to the Financial Statements.

OTHER INFORMATION

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	<p>As at the Latest Practicable Date, options to subscribe for an aggregate of 1,671,673 Shares were outstanding representing approximately 1.22% of the issued share capital of the Company as at the Latest Practicable Date</p> <p>No further option could be granted under the Pre-IPO Share Option Scheme</p>	<p>As at the Latest Practicable Date, the maximum number of Shares available for issue in respect of which options may be granted under the Post-IPO Share Option Scheme was 16,536,340 Shares, representing approximately 12.05% of the issued share capital of the Company as at the Latest Practicable Date. 5,753,000 Share options had been granted under the Post-IPO Share Option Scheme as at the Latest Practicable Date</p> <p>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</p>

OTHER INFORMATION

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 31 October 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 year up to the date of the latest grant
5. Option year	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 year 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 year within which an option must be exercised shall not be more than ten years commencing on the date of grant	The option year is determined by the Board provided that it is no later than the 10th anniversary of the date of grant. There is no minimum year 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 year 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 3 October 2013	It shall be valid and effective for ten years commencing on 3 October 2013

OTHER INFORMATION

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. HOW Sze Ming and Ms. POON Philana Wai Yin, and one Non-executive Director, being Mr. ZHANG Qiang. The chairman of the Audit and Compliance Committee is Mr. HOW Sze Ming, 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 30 June 2016.

CHANGES OF DIRECTORS DURING THE SIX MONTHS ENDED 30 JUNE 2016

During the six months ended 30 June 2016, (i) Mr. LEVIN Eric Joshua resigned as Independent Non-executive Director with effect from 1 January 2016, (ii) Mr. TUNG Hans retired as Non-executive Director by rotation at the conclusion of the annual general meeting of the Company held on 24 May 2016, (iii) Ms. LIANG Na, the chief financial officer of the Group, was appointed as an Executive Director at the annual general meeting of the Company held on 24 May 2016; and (iv) Mr. ZHANG Qiang was appointed as a Non-executive Director at the annual general meeting of the Company held on 24 May 2016. The biographical information of Ms. LIANG Na and Mr. ZHANG Qiang have been disclosed in the announcement of the Company dated 24 May 2016.

There was no information relating to the Directors that is required to be disclosed pursuant to Rules 13.51(2) and 13.51(B) (1) of the Listing Rules since the publication of the annual report for the year ended 31 December 2015 by the Company and up to the Latest Practicable Date.

USE OF PROCEEDS FROM IPO

The Company's Shares were listed on the Stock Exchange in October 2013 (the "Listing") and the Company raised net proceeds of approximately HK\$982.8 million from the Listing. As at 30 June 2016, the Group had utilised approximately RMB446.6 million of the net proceeds, out of which (i) approximately RMB296.9 million was used in the purchase of webpage and mobile game licenses, acquiring IP rights authorisation and equity investments, (ii) approximately RMB72.5 million was used in funding the expansion of the Group's international operation, and (iii) approximately RMB77.2million was used in other general corporate purposes. Such utilisation of the net proceeds was in line with the proposed allocations as set out in the section headed "Future plans and use of proceeds" in the Prospectus.

The unutilised portion of the net proceeds (i.e. approximately HK\$412.1 million) is currently held in cash and cash equivalents and short-term deposits and it is intended that it will be applied in the manner consistent with the intended use of proceeds as disclosed in the Company's announcement dated 3 August 2016.

OTHER INFORMATION

USE OF PROCEEDS FROM PLACING

The Group successfully raised over HK\$314 million through the Placing of 19,041,900 Placing Shares to not less than six professional, institutional and other investors at the placing price of HK\$16.50 per Share on 5 June 2015 in order to strengthen its capital base and working capital position. The aggregate nominal value of the Placing Shares was US\$1,904.2. The placing price of HK\$16.50 per Placing Share represents (i) a discount of approximately 13.16% to the closing price of HK\$19.00 per Share as quoted on the Stock Exchange on 22 May 2015, being the date of the Placing Agreement, (ii) a discount of approximately 13.25% to the average closing price of approximately HK\$19.02 per Share as quoted on the Stock Exchange for the five trading days immediately preceding the date of the Placing Agreement, and (iii) a discount of approximately 6.94% to the average closing price of approximately HK\$17.73 per Share as quoted on the Stock Exchange for the twenty trading days immediately preceding the date of the Placing Agreement.

Upon the completion of the Placing, the Company received a gross proceeds of HK\$314,191,350 and a net proceeds, after the deduction of the placing commission and other related expenses, of approximately HK\$310,160,000, representing a net issue price of approximately HK\$16.29 per Placing Share. As at 30 June 2016, the Group had not utilised any of the net proceeds from such Placing. The unutilised portion of the net proceeds is currently held in cash and cash equivalents and short-term deposits and it is intended that it will be applied in the manner consistent with the intended use of proceeds as disclosed in the Company's announcement dated 3 August 2016.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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 33 to 65, which comprises the interim condensed consolidated balance sheet of Forgame Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2016 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”. 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, 23 August 2016

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

		Six Months Ended 30 June	
	Note	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Unaudited)
Revenue	6	193,720	309,457
Cost of revenue	6	<u>(154,677)</u>	<u>(191,172)</u>
Gross profit		39,043	118,285
Selling and marketing expenses		(12,997)	(28,180)
Administrative expenses		(37,035)	(39,252)
Research and development expenses		(47,128)	(78,527)
Other income		7,606	17,147
Other losses		(6,088)	(402)
Gain on disposal of a subsidiary		—	1,692
Finance income-net		4,823	4,702
Impairment loss on intangible assets		(12,831)	—
Share of loss of investments accounted for using the equity method	8	(4,020)	(6,282)
Gain on dilution of investments accounted for using the equity method	8	2,581	1,333
Impairment of investment in associates	8	(6,674)	—
Impairment of available-for-sale financial assets	14	(47,999)	—
Loss before income tax	7	(120,719)	(9,484)
Income tax expense	9	(3,841)	(5,415)
Loss for the period		(124,560)	(14,899)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
– Change in fair value of available-for-sale financial assets		(5,202)	—
Items that will not be classified subsequently to profit or loss:			
– Currency translation differences		10,077	177
Total other comprehensive income, before tax		4,875	177
Income tax relating to components of other comprehensive income		780	—
Other comprehensive income for the period, net of tax		5,655	177
Total comprehensive loss for the period		(118,905)	(14,722)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

		Six Months Ended 30 June	
		2016	2015
		RMB' 000	RMB' 000
		(Unaudited)	(Unaudited)
Loss attributable to:			
– Owners of the Company		(124,175)	(14,450)
– Non-controlling interests		(385)	(449)
		<u>(124,560)</u>	<u>(14,899)</u>
Total comprehensive loss attributable to:			
– Owners of the Company		(118,520)	(14,273)
– Non-controlling interests		(385)	(449)
		<u>(118,905)</u>	<u>(14,722)</u>
Loss per share (expressed in RMB per share)	10		
– Basic		<u>(0.91)</u>	<u>(0.11)</u>
– Diluted		<u>(0.91)</u>	<u>(0.11)</u>

The notes on pages 40 to 65 are integral parts of the interim financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2016 RMB' 000 (Unaudited)	As at 31 December 2015 RMB' 000 (Audited)
ASSETS			
Non-current assets			
Property and equipment	12	18,571	26,197
Intangible assets	12	31,322	58,650
Investments accounted for using the equity method	8	31,734	43,857
Financial assets at fair value through profit or loss	13	12,496	15,651
Available-for-sale financial assets	14	69,054	122,255
Prepayments and other receivables		9,845	2,410
Deferred income tax assets		9,373	12,686
		182,395	281,706
Current assets			
Trade receivables	15	57,738	71,927
Prepayments and other receivables		28,728	43,675
Restricted cash		771	674
Short-term deposits		685,633	200,000
Cash and cash equivalents		423,354	927,129
		1,196,224	1,243,405
Total assets		1,378,619	1,525,111
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	86	88
Share premium	16	2,073,597	2,099,777
Reserves	17	(95,398)	(100,750)
Accumulated losses		(678,536)	(554,361)
		1,299,749	1,444,754
Non-controlling interests		(413)	(28)
Total equity		1,299,336	1,444,726

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2016 RMB' 000 (Unaudited)	As at 31 December 2015 RMB' 000 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		64	844
Deferred revenue		591	1,358
		<u>655</u>	<u>2,202</u>
Current liabilities			
Trade payables	19	37,176	24,091
Other payables and accruals		29,751	40,063
Income tax liabilities		1,620	—
Deferred revenue		10,081	14,029
		<u>78,628</u>	<u>78,183</u>
Total liabilities		<u>79,283</u>	<u>80,385</u>
Total equity and liabilities		<u>1,378,619</u>	<u>1,525,111</u>

The notes on pages 40 to 65 are integral parts of the interim financial information.

The interim condensed consolidated financial information on page 33 to 65 was approved for issue by the Board of Directors on 23 August 2016 and was signed on its behalf.

WANG Dongfeng
Director

LIANG Na
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited						
		Attributable to Owners of the Company						
	Note	Share Capital RMB' 000	Share Premium RMB' 000	Accumulated Reserves RMB' 000	Accumulated Losses RMB' 000	Total RMB' 000	Non- Controlling Interests RMB' 000	Total Equity RMB' 000
Balance at 1 January 2016		88	2,099,777	(100,750)	(554,361)	1,444,754	(28)	1,444,726
Comprehensive loss								
Loss for the period		—	—	—	(124,175)	(124,175)	(385)	(124,560)
Other comprehensive income:								
Revaluation of available-for-sale financial assets		—	—	(4,422)	—	(4,422)	—	(4,422)
Currency translation differences	17	—	—	10,077	—	10,077	—	10,077
Total comprehensive loss		—	—	5,655	(124,175)	(118,520)	(385)	(118,905)
Total transactions with owners of the Company recognised directly in equity								
Repurchase and cancellation of shares	16	(2)	(26,180)	—	—	(26,182)	—	(26,182)
Employee share-based compensation scheme: – Value of employee services	17	—	—	3,737	—	3,737	—	3,737
Total transactions with owners of the Company for the period		(2)	(26,180)	3,737	—	(22,445)	—	(22,445)
Transfer out of share of other net asset in the associates' equity	17	—	—	(4,040)	—	(4,040)	—	(4,040)
Balance at 30 June 2016		86	2,073,597	(95,398)	(678,536)	1,299,749	(413)	1,299,336

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited							
Attributable to Owners of the Company							
	Share Capital	Share Premium	Reserves	Accumulated Losses	Total	Non- Controlling Interests	Total Equity
Note	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Balance at 1 January 2015	80	1,934,534	(117,075)	(425,217)	1,392,322	8,724	1,401,046
Comprehensive loss							
Loss for the period	—	—	—	(14,450)	(14,450)	(449)	(14,899)
Other comprehensive income:							
Currency translation differences	17	—	177	—	177	—	177
Total comprehensive loss	—	—	177	(14,450)	(14,273)	(449)	(14,722)
Total transactions with owners of the Company recognised directly in equity							
New shares issued for placement	16	12	248,237	—	248,249	—	248,249
Repurchase and cancellation of shares	16	—	(2,611)	—	(2,611)	—	(2,611)
Employee share-based compensation scheme:							
– Value of employee services	17	—	6,503	—	6,503	—	6,503
Total transactions with owners of the Company for the period	12	245,626	6,503	—	252,141	—	252,141
Disposal of a subsidiary	—	—	—	—	—	(8,275)	(8,275)
Total transactions with Non- Controlling Interests	—	—	—	—	—	(8,275)	(8,275)
Share of other net asset changes in the associates' equity	17	—	1,154	—	1,154	—	1,154
Balance at 30 June 2015	<u>92</u>	<u>2,180,160</u>	<u>(109,241)</u>	<u>(439,667)</u>	<u>1,631,344</u>	<u>—</u>	<u>1,631,344</u>

The notes on pages 40 to 65 are integral parts of the interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended 30 June	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from/(used in) operations	6,029	(15,656)
Income tax refund/(paid)	4,298	(1,389)
Net cash generated from/(used in) operating activities	10,327	(17,045)
Cash flows from investing activities		
Purchases of property and equipment	(506)	(994)
Proceeds from disposals of property and equipment and intangible assets	496	1,163
Purchases of intangible assets	(2,587)	(16,930)
Payments for investments in associates	(6,130)	(12,000)
Payments for investment in a jointly controlled-entity	—	(5,000)
Disposal of a subsidiary	—	(10,136)
Prepayments for investments	(6,900)	(3,500)
Purchases of available-for-sale financial assets	—	(8,750)
Placement of short-term deposits	(938,946)	(280,000)
Proceeds received upon maturity of short-term deposits	460,546	280,000
Interests received from short-term deposits	3,619	5,093
Refund of restricted cash	499	(640)
Payment for restricted bank deposit	(596)	—
Interest received from restricted cash	3	—
Net cash used in investing activities	(490,502)	(51,694)
Cash flows from financing activities		
Share repurchase	(26,182)	(2,611)
Proceeds from issuance of new shares for placement, net of underwriting commissions and other issuance costs	—	248,249
Net cash (used in)/generated from financing activities	(26,182)	245,638
Net (decrease)/increase in cash and cash equivalents	(506,357)	176,899
Cash and cash equivalents at beginning of period	927,129	851,947
Exchange gains/(losses) on cash and cash equivalents	2,582	(554)
Cash and cash equivalents at end of period	423,354	1,028,292

The notes on pages 40 to 65 are integral parts of the interim financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

Forgame Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 26 July 2011 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company’s registered office is at the offices of Osiris International Cayman Limited, Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, P.O. Box 32311, Grand Cayman KY1-1209, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively the “Group”) are principally engaged in developing, publishing webgames and mobile games (the “Group’s Game Business”) in the People’s Republic of China (the “PRC”).

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

The interim condensed consolidated balance sheet as at 30 June 2016, and the related interim condensed consolidated statements of comprehensive loss, changes in equity and cash flows for the six months 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 for issue by the Board on 23 August 2016.

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

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to IFRSs effective for the financial year ending 31 December 2016.

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

- (a) Amendments to IFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.
- (b) Impact of standards issued but not yet applied by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective for accounting periods beginning on or after 1 January 2018.
- IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for accounting periods beginning on or after 1 January 2018.
- IFRS 16, 'Leases', provides updated guidance on the definition of leases, and the guidance on the recognition of lease liability reflecting future lease payments and a 'right-of-use-asset' for almost all lease contracts, with an exemption for certain short-term leases and leases of low-value assets. The standard is effective for accounting periods beginning on or after 1 January 2019.

Management is in the process to assess the impact of above standards.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4 JUDGMENT AND ESTIMATE

The preparation of interim financial statements required management to make judgements, 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 this condensed consolidated interim financial information, the significant judgements 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 consolidated financial statements for the year ended 31 December 2015.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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 condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

There have been no changes in the risk management policies since year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities. The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

5.3 Fair Value Estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy 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).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.3 Fair Value Estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value as at 30 June 2016.

	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	4,633	—	7,863	12,496
Available-for-sale financial assets	—	—	69,054	69,054
	<u>4,633</u>	<u>—</u>	<u>76,917</u>	<u>81,550</u>

The following table presents the Group's financial assets that are measured at fair value as at 31 December 2015.

	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	3,446	—	12,205	15,651
Available-for-sale financial assets	—	—	122,255	122,255
	<u>3,446</u>	<u>—</u>	<u>134,460</u>	<u>137,906</u>

There were no changes in valuation techniques during the six months ended 30 June 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.4 Group Valuation Process

The Group has a team that performs fair value assessment on financial assets required for financial reporting purposes, including level 3 fair values (the “Valuation Team”). This Valuation Team reports directly to management. Discussions of the bases adopted for the assessment and methodology, as well as the results derived out of the process, are held between management and Audit Committee periodically.

Description	Fair value at 30 June 2016 (RMB' 000)	Valuation methodology	Unobservable input	Range
				(weighted average)
Available-for-sale financial assets	69,054	Discounted cash flow	weighted average cost of capital	33%-35% (34%)
			long-term revenue growth rate	3% (3%)
			long-term pre-tax operating margin	8%-28% (15%)
			discount for lack of marketability	30% (30%)
Financial assets at fair value through profit or loss	7,863	Market comparable companies	control premium	20% (20%)
			revenue multiple	5.9 (5.9)

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 trade payables and other payables and accruals, approximate their respective fair values due to their short maturity at the reporting date.

6 SEGMENT INFORMATION

The Group’s Game Business 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 operating segments as follows:

- Webgames and mobile games development service (“Game Product”)
- Publishing services (“Game Platform”)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6 SEGMENT INFORMATION (Continued)

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, gain on disposal of a subsidiary, finance income-net, impairment loss on intangible assets, share of loss of investments accounted for using the equity method, gain on dilution of investments accounted for using the equity method, impairment of investment in associates, impairment of available-for-sale financial assets 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, employee benefit expenses, content cost, distribution cost and other outsourcing expenses, depreciation and amortisation 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 or to 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 30 June 2016 and 2015 is as follows:

	Unaudited Six Months Ended 30 June 2016		
	Game Product RMB' 000	Game Platform RMB' 000	Total RMB' 000
Segment revenue	179,734	13,986	193,720
Segment cost	(151,732)	(2,945)	(154,677)
Gross profit	<u>28,002</u>	<u>11,041</u>	<u>39,043</u>
Depreciation and amortisation included in segment cost	<u>11,254</u>	<u>587</u>	<u>11,841</u>

	Unaudited Six Months Ended 30 June 2015		
	Game Product RMB' 000	Game Platform RMB' 000	Total RMB' 000
Segment revenue	282,456	27,001	309,457
Segment cost	(182,982)	(8,190)	(191,172)
Gross profit	<u>99,474</u>	<u>18,811</u>	<u>118,285</u>
Depreciation and amortisation included in segment cost	<u>13,313</u>	<u>1,073</u>	<u>14,386</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 30 June 2016 and 2015 is as follows:

	Unaudited		
	Six Months Ended 30 June 2016		
	PRC (Excluding Hong Kong) RMB' 000	Other Regions RMB' 000	Total RMB' 000
Segment revenue	<u>177,096</u>	<u>16,624</u>	<u>193,720</u>

	Unaudited		
	Six Months Ended 30 June 2015		
	PRC (Excluding Hong Kong) RMB' 000	Other Regions RMB' 000	Total RMB' 000
Segment revenue	<u>283,058</u>	<u>26,399</u>	<u>309,457</u>

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

The Group offers its products and services in different forms: mobile games and webgames. A breakdown of revenue derived from different forms for six months ended 30 June 2016 and 2015 is as follows:

	Six Months Ended 30 June	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Unaudited)
Mobile games	<u>122,409</u>	189,207
Webgames	<u>71,311</u>	120,250
	<u>193,720</u>	<u>309,457</u>

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 30 June 2016 and 2015.

As at 30 June 2016 and 31 December 2015, the majority of the non-current assets of the Group were located in the PRC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

7 LOSS BEFORE INCOME TAX

An analysis of the amounts presented as charges/(credits) in the Interim Financial Information is given below.

	Six Months Ended 30 June	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Content cost, distribution cost and other outsourcing expenses	130,744	161,608
Employee benefit expenses	61,615	92,290
Promotion and advertising expenses	8,941	22,841
Bandwidth and server custody fees	7,403	12,587
Depreciation of property and equipment	6,505	9,043
Amortisation of intangible assets	13,748	14,514
Legal claims (Note a)	500	—
Other income		
– Interest income arising from cash and cash equivalents	(5,431)	(14,297)
Exchange loss, net	1,806	84
Loss on disposal of property and equipment, net	1,117	318
Gain on disposal of a subsidiary	—	(1,692)
Changes in the value of financial assets at fair value through profit or loss (Note 13)	3,165	—
Impairment of investment in associates (Note 8)	6,674	—
Impairment of available-for-sale financial assets (Note 14)	47,999	—
Impairment loss on intangible assets (Note 12)	12,831	—
Impairment loss on trade receivables	3,273	637
Impairment loss on prepayments and other receivables	2,434	—

- (a) For the six months ended 30 June 2016, the Group made additional provision of RMB500,000 for a legal claim related to copyright infringement after taking appropriate legal advice.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Investment in associates

	Six Months Ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
At beginning of period	43,857	35,126
Additions	30	6,900
Share of loss of associates	(4,020)	(4,323)
Converted from investment in joint venture	2,429	—
Gain on dilution of interest in associates	152	—
Share of other net asset changes in associates' equity	—	1,333
Impairment charge (Note i)	(10,714)	1,154
Converted from a subsidiary to an associate with loss of control	—	7,388
At end of period	31,734	47,578

The investees are principally engaged in mobile online services and internet related-business. The Group has significant influence over the investees with equity interests ranging from 12.5% to 40% and the Company classified the investments as associates.

- (i) During the six months ended 30 June 2016, the Group performed an assessment on the business performance of two associates, Guangzhou Zhengyou Information and Technology Co., Ltd. (廣州正遊信息科技有限公司, "Zhengyou") and Tianjin Laiwan Internet Technology Co., Ltd. (天津萊玩網絡科技有限公司, "Laiwan"). Impairment provision of RMB10,714,000 had been made against the carrying amounts of these investments which were considered to be not recoverable due to uncertainty of their future performance and cash inflows, the loss was net off against share of reserves of these associates amounting to RMB4,040,000 previously recognised by the Group (note 17) and a net impairment loss of RMB6,674,000 was recorded by the Group during the current period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

(b) Investment in joint venture

	Six Months Ended 30 June	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Unaudited)
At beginning of period	—	10,000
Gain on dilution of interest in a joint venture (Note i)	2,429	—
Transfer to investment in associates (Note i)	(2,429)	—
Share of loss of joint venture	—	(1,959)
At end of period	—	8,041

- (i) The investee issued shares to new investors during the current period. Accordingly, the Group's interests in the joint venture was diluted from 50% to 25%, which resulted in the Group's loss of joint control in the investee and a dilution gain amounting to RMB2,429,000 was recognised. Since the Group still remains significant influence on the investee, the carrying amount of the investment was transferred to investment in associates.

9 INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2016 and 2015 are analysed as follows:

	Six Months Ended 30 June	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Unaudited)
Current income tax:		
– PRC and oversea enterprise income tax	528	(1,481)
Deferred income tax	3,313	6,896
Income tax expense	3,841	5,415

(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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9 INCOME TAX EXPENSE (Continued)

(b) Hong Kong Profits Tax

Hong Kong profits tax rate is 16.5%. 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 30 June 2016 and 2015.

(c) Taiwan Business Income Tax

Forgame International Co., Ltd. (“Yunyou”) is incorporated in Taiwan, and the business income tax rate is 17% for the periods ended 30 June 2016 and 2015.

(d) PRC Enterprise Income Tax (“EIT”)

The income tax provision of the Group in respect of operations in the PRC was calculated at the tax rate of 25% on the assessable profits for the periods ended 30 June 2016 and 2015, based on the existing legislation, interpretations and practices in respect thereof.

Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司, “Weidong”) and Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司, “Feiyin”) were qualified as “High and New Technology Enterprises” (“HNTEs”) under the EIT Law in 2013. Accordingly, they were entitled to a preferential income tax rate of 15% for a 3-year period. Weidong and Feiyin are in the process of renewing their qualification of HNTEs, management assessed that it is highly probable for the two companies to be qualified as HNTEs so the tax rate of 15% is used for the period ended 30 June 2016 (for the period ended 30 June 2015: 15%).

Guangzhou Feidong Software Technology Co., Ltd. (廣州菲動軟件科技有限公司, “Feidong”) and Guangzhou Jieyou Software Co., Ltd. (廣州捷遊軟件有限公司, “Jieyou”) were accredited as “software enterprise” under the relevant PRC Laws and regulations. They are exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses generating from prior years. The applicable tax rate for two companies was 12.5% for the period ended 30 June 2016 (for the period ended 30 June 2015: 12.5%).

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 so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). The Group had made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the periods ended 30 June 2016 and 2015.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9 INCOME TAX EXPENSE (Continued)

(e) 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 1 January 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 at 30 June 2016, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings or intend to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at 30 June 2016.

10 LOSS PER SHARE

(a) Basic

Basic loss per share is 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 30 June	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (RMB' 000)	(124,175)	(14,450)
Weighted average number of ordinary shares in issue	137,128,015	130,062,163
Basic loss per share (in RMB/share)	<u>(0.91)</u>	<u>(0.11)</u>

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the six months ended 30 June 2016 and 2015, the Company had two categories of dilutive potential ordinary shares: share options granted to employees under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme. As the Group incurred loss for the six months ended 30 June 2016 and 2015, the options are anti-dilutive.

No adjustment has been made to basic loss per share to derive the diluted loss per share for the six months ended 30 June 2016 and 2015.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11 DIVIDENDS

The board of directors does not declare payment of any interim dividend for the six months ended 30 June 2016 (for the period ended 30 June 2015: Nil).

12 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Property and Equipment RMB' 000 (Unaudited)	Intangible Assets RMB' 000 (Unaudited)
Six months ended 30 June 2016		
Opening net book amount	26,197	58,650
Additions	468	154
Disposals	(1,613)	(946)
Depreciation/amortization charge	(6,505)	(13,748)
Impairment (Note i)	—	(12,831)
Exchange difference	24	43
Closing net book amount	<u>18,571</u>	<u>31,322</u>
Six months ended 30 June 2015		
Opening net book amount	43,365	79,284
Additions	1,104	18,955
Disposal of a subsidiary	(101)	(4,237)
Disposals	(449)	—
Depreciation/amortisation charge	(9,043)	(14,514)
Exchange difference	8	15
Closing net book amount	<u>34,884</u>	<u>79,503</u>

- (i) After assessing the performance and development progress on certain games, the Group made impairment loss of RMB12,831,000 against its acquired game intellectual properties and licenses within intangible assets during the current period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six Months Ended 30 June	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Unaudited)
At beginning of period	15,651	21,054
Changes in fair value	(3,165)	—
Exchange differences	10	3
	<hr/>	<hr/>
At end of period, all non-current	12,496	21,057
	<hr/>	<hr/>
Total losses for the period included in profit or loss for assets held at the end of the reporting period, under “Other losses”	(3,165)	—
Change in unrealised losses for the period included in profit or loss for assets held at the end of the reporting period	(3,165)	—
	<hr/>	<hr/>

The Group holds some redeemable convertible preferred shares and convertible bonds of certain private companies, which are host debt instruments issued by investees with conversion features. After considering the Group's investment objectives and intention, the Group does not bifurcate the conversion feature from the host instruments and designates the entire hybrid contracts as financial assets at fair value through profit or loss, with the changes in the fair value recorded in other gains/losses in the consolidated statement of comprehensive loss. The Company determines the respective fair values as at balance sheet date based on the expected revenue and market multiple of comparable companies.

The Group holds some common shares and performance shares with conversion features of a listed company. They are held-for-trading and classified as financial assets at fair value through profit or loss. As at 30 June 2016, the Company determined the fair value of common shares with reference made to their quoted price in the stock market and assessed the fair values of performance shares by using relevant valuation techniques.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six Months Ended 30 June	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Unaudited)
At beginning of period	122,255	138,140
Additions	—	12,950
Impairment charge (Note (a))	(53,201)	—
At end of period, all non-current	69,054	151,090

- (a) Taking into account of the challenging and competitive market conditions and rapid changes in the game industry in the PRC, management of the Group performed an assessment on the fair values of its investments in available-for-sale financial assets according to relevant valuation techniques and made an impairment provision of RMB53,201,000 against the carrying amounts of these investments during the six months ended 30 June 2016(2015: Nil). RMB47,999,000 was recognised as impairment loss in the Group's profit or loss and RMB5,202,000 was accounted for as fair value change in other comprehensive income.

15 TRADE RECEIVABLES

	As at 30 June 2016 RMB' 000 (Unaudited)	As at 31 December 2015 RMB' 000 (Audited)
	Third parties	66,879
Related parties	1,920	3,343
Less: provision for impairment	(11,061)	(7,788)
	57,738	71,927

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15 TRADE RECEIVABLES (Continued)

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

	As at 30 June 2016 RMB' 000 (Unaudited)	As at 31 December 2015 RMB' 000 (Audited)
0-30 days	11,707	20,673
31-60 days	9,960	17,299
61-90 days	9,567	7,144
91-180 days	16,152	13,705
181-365 days	9,125	9,732
Over 1 year	12,288	11,162
	<u>68,799</u>	<u>79,715</u>

Credit sales are mainly derived from the Game Product business in which the Group contracts with various game platforms and publisher to publish games and collect the proceeds from sales of in-game virtual items. The normal credit term granted by the Group was from 60 to 180 days from respective transaction dates. As at 30 June 2016 and 31 December 2015, trade receivables which were past due but not impaired were RMB13,871,000 and RMB17,319,000, respectively. These receivables were due from a number of game platforms which were assessed by the Company to have no significant financial difficulty. The Company had assessed, based on past experience, that these overdue amounts could be recovered.

16 SHARE CAPITAL AND PREMIUM

	Number of Ordinary Shares	Nominal Value of Ordinary Shares US\$
Authorised:		
As at 30 June and 1 January 2016, 30 June and 1 January 2015	<u>500,000,000</u>	<u>50,000</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16 SHARE CAPITAL AND PREMIUM (Continued)

		Unaudited				
	Note	Number of Ordinary Shares	Nominal Value of Ordinary Shares US\$' 000	Share Capital RMB' 000	Share Premium RMB' 000	Total RMB' 000
Issued:						
As at 1 January 2016		139,269,763	14	88	2,099,777	2,099,865
Employee share option scheme:						
– new shares issued	a	91,246	—	—	—	—
New shares issued for placement		—	—	—	—	—
Repurchase and cancellation of shares	b	(2,395,500)	—	(2)	(26,180)	(26,182)
As at 30 June 2016		136,965,509	14	86	2,073,597	2,073,683
As at 1 January 2015		127,054,229	13	80	1,934,534	1,934,614
Employee share option scheme:						
– new shares issued	a	487,487	—	—	—	—
New shares issued for placement		19,041,900	2	12	248,237	248,249
Repurchase and cancellation of shares	b	(220,000)	—	—	(2,611)	(2,611)
As at 30 June 2015		146,363,616	15	92	2,180,160	2,180,252

- (a) During the six months ended 30 June 2016, 91,246 pre-IPO share options with exercise price of US\$0.0001 were exercised.
- (b) For the six months ended 30 June 2016, the Company had bought back an aggregate of 2,395,500 shares at an average price of HK\$12.86 per share for an aggregate consideration of HK\$30,812,278 (equivalent to RMB26,182,000) under the share buy-back mandates approved in 2014 and 2015 annual general meetings.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

17 RESERVES

	Unaudited					Total RMB' 000
	Capital Reserve RMB' 000	Statutory Reserves RMB' 000	Share-based Compensation Reserve RMB' 000	Translation Differences RMB' 000	Other Reserves RMB' 000	
As at 1 January 2016	30,000	10,828	189,884	31,605	(363,067)	(100,750)
Value of employee service						
– Pre-IPO Share Option Scheme	—	—	2,896	—	—	2,896
– Post-IPO Share Option Scheme	—	—	841	—	—	841
Currency translation differences	—	—	—	10,077	—	10,077
Change in value of available-for-sale financial assets – gross	—	—	—	—	(5,202)	(5,202)
Change in value of available-for-sale financial assets – tax	—	—	—	—	780	780
Transfer out (Note 8)	—	—	—	—	(4,040)	(4,040)
As at 30 June 2016	30,000	10,828	193,621	41,682	(371,529)	(95,398)
As at 1 January 2015	30,000	10,828	180,292	28,070	(366,265)	(117,075)
Value of employee service						
– Pre-IPO Share Option Scheme	—	—	1,400	—	—	1,400
– Post-IPO Share Option Scheme	—	—	5,103	—	—	5,103
Currency translation differences	—	—	—	177	—	177
Share of other net asset changes in associates' equity	—	—	—	—	1,154	1,154
As at 30 June 2015	30,000	10,828	186,795	28,247	(365,111)	(109,241)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18 SHARE-BASED PAYMENTS

(a) Pre-IPO Share Option Scheme

On 31 October 2012, the Board of Directors of the Company approved the establishment of a Pre-IPO Share Option Scheme with the objective to recognise 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 conditionally 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 recognised stock exchange of the Company ("performance condition") and the grantees remain employed by the Group.

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

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

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 30 June	
	Exercise Price	2016	2015
At beginning of period		2,091,934	3,400,276
Exercised	US\$0.0001	(91,246)	(487,487)
Forfeited	US\$0.0001	(69,415)	(640,364)
At end of period		1,931,273	2,272,425

As a result of the options exercised during the six months ended 30 June 2016, 91,246 ordinary shares were issued by the Company (Note 16). The weighted average price of the shares immediately before the dates on which the options were exercised was HK\$11.80 (equivalent to RMB9.94) per share.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18 SHARE-BASED PAYMENTS (Continued)

(a) Pre-IPO Share Option Scheme (Continued)

As at 30 June 2016, all share options granted will expire 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 Company has 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 Company with their best estimate. 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 Company has 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 1 January, 1 July, and 1 September 2013 was US\$3.03 (equivalent to RMB19.02), US\$4.88 (equivalent to RMB30.26) and US\$5.12 (equivalent to RMB31.61) per option, respectively. Key assumptions are set as below:

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

The Company 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18 SHARE-BASED PAYMENTS (Continued)

(b) Post-IPO Share Option Scheme

On 1 September 2013, the Board of Directors of the Company approved the establishment of a Post-IPO Share Option Scheme with the objective to reward eligible directors, employees and other persons for their past contribution to the success of the Group, and to provide incentives to them to further contribute to the Group.

The exercise price of the granted options represents the highest of (i) the closing price per share as stated in the Main Board of The Stock Exchange of Hong Kong Limited's daily quotations sheet on the offer dates; (ii) the average closing prices per share as stated in the Main Board of The Stock Exchange of Hong Kong Limited's daily quotations sheets for the 5 business days immediately preceding the offer dates; and (iii) the nominal value of a share.

The options are conditionally vested on the employee completing 2 years of service from the offer date, which is mutually agreed by the employees and the Company. And the vesting of share options granted on 10 June 2015 is subject to certain non-market performance vesting conditions which are related to the financial performance of the Group during the vesting period.

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

On 2 January and 10 June 2015, 1,908,000 and 3,845,000 share options were granted under the scheme, respectively.

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

	Average Exercise Price	Post-IPO Share Option Scheme Number of Share Options Six Months Ended 30 June	
		2016	2015
At beginning of period		5,383,000	—
Granted	HK\$21.08	—	5,753,000
Forfeited	HK\$24.06	(2,090,000)	(175,000)
At end of period		3,293,000	5,578,000

As at 30 June 2016, all share options granted will expire in 2019 with an average exercise price of HK\$19.92 per share option.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18 SHARE-BASED PAYMENTS (Continued)

(b) Post-IPO Share Option Scheme (Continued)

Based on fair value of the underlying ordinary share, the Company has used Binomial option-pricing model to determine the fair value of the share option as at the grant date. The weighted average fair value of post-IPO options granted on 2 January and 10 June 2015 was HK\$5.78 (equivalent to RMB4.62) and HK\$9.17 (equivalent to RMB7.33). Key assumptions are set as below:

	Post-IPO Share Option Scheme 2 January 2015	Post-IPO Share Option Scheme 10 June 2015
Risk-free interest rate	1.35%	1.01%
Volatility	53.64%	54.49%
Dividend yield	—	—

The Company estimated the risk-free interest rate based on the yield of Hong Kong Foreign Exchange Fund Bonds with a maturity life equal to the option life of the share option at the grant date. 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 restricted share unit (“RSU”) scheme on 1 September 2013. As at 30 June 2016, no RSU had been granted or agreed to be granted by the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19 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 based on recognition date of trade payables at the respective balance sheet dates is as follows:

	As at 30 June 2016 RMB' 000 (Unaudited)	As at 31 December 2015 RMB' 000 (Audited)
0-30 days	6,408	6,790
31-60 days	5,090	2,731
61-90 days	5,426	3,423
91-180 days	14,863	2,400
181-365 days	3,661	5,647
over 1 years	1,728	3,100
	<u>37,176</u>	<u>24,091</u>

20 COMMITMENTS

Capital Commitments

As at 30 June 2016, the capital expenditure contracted but not provided for amounted to RMB18,359,000 (as at 31 December 2015: RMB1,285,000), which were related to investment arrangements and acquisition of intangible assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Significant Transactions with Related Parties

In the opinion of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective parties.

	Six Months Ended 30 June	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
(i) Revenue derived from the Group's provision of services to related parties Associates	<u>—</u>	<u>1,454</u>

	Six Months Ended 30 June	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
(ii) Content cost to related parties who provided publishing services to the Group for game operation Associates	<u>2,576</u>	<u>299</u>

(b) Period End Balances Arising from Sales and Purchase of Services

	As at	As at
	30 June	31 December
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
(i) Receivable from related parties Associates	<u>1,920</u>	<u>3,343</u>

The receivables due from related parties mainly arose from the revenue sharing generated from games operated and published by related parties.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Period End Balances Arising from Sales and Purchase of Services (Continued)

	As at 30 June 2016 RMB' 000 (Unaudited)	As at 31 December 2015 RMB' 000 (Audited)
(ii) Prepayment to related parties		
Associates	657	180

Prepayments to related parties include the revenue sharing and outsourcing expenses paid in advance according to respective cooperation agreements.

	As at 30 June 2016 RMB' 000 (Unaudited)	As at 31 December 2015 RMB' 000 (Audited)
(iii) Payable to related parties		
Associates	1,940	2,003

The payables due to related parties arose from revenue sharing generated from games developed/operated by the related parties, which the Group provides the game platform and related publishing services. The Group is obliged to share the income with the related parties according to provisions stipulated in the respective cooperation agreements.

Balances with related parties were all unsecured, interest-free and had no fixed repayment terms.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Key Management Personnel Compensations

Key management includes directors, chief executive officer and other senior executives. Key management compensation amounted to RMB3,081,000 for the six months ended 30 June 2016 (for the period ended 30 June 2015: RMB4,855,000). See below:

	Six Months Ended 30 June	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Fees, Wages, salaries and bonuses	2,157	2,250
Pension costs – defined contribution plans	40	30
Other social security costs and housing benefits	83	70
Share-based compensation expenses under Pre-IPO Share Option Scheme and Post-IPO Scheme Option Scheme	801	2,505
	<u>3,081</u>	<u>4,855</u>

22 CONTINGENCIES

As at 30 June 2016, the Group did not have any significant unrecorded contingent liabilities.

23 SUBSEQUENT EVENTS

On 3 August 2016, the Company announced to enter into an investment agreement with Yinker Inc., which is principally engaged in the internet financial business (also known as “互聯網金融服務”) in the PRC. Pursuant to the agreement, the Company conditionally agreed to subscribe for convertible bonds issued by Yinker Inc. in an aggregate principal amount of RMB300,000,000 (“Convertible Bonds”). Assuming the completion of the subscription and the conversion rights attaching to the Convertible Bonds together with the related accrued interest are exercised in full, the Company will receive conversion shares issued by Yinker Inc. representing approximately 15.01% of the existing issued share capital of Yinker Inc. on an as-converted and fully diluted basis as at the date of announcement of this transaction. Up to date of the approval of the interim financial statement, the subscription had not yet completed.

DEFINITIONS

“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
“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
“Company” or “Forgame” or “we” or “us”	Forgame Holdings Limited (雲遊控股有限公司), an exempted company incorporated in the Cayman Islands on 26 July 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 as set out in Appendix 14 to the Listing Rules
“Director(s)”	director(s) of the Company
“Executive Director(s)”	executive director(s) of the 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 13 June 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 12 April 2004
“Financial Statements”	Unaudited consolidated financial statements of the Company for the six months ended 30 June 2016

DEFINITIONS

“Foga Development”	Foga Development Co. Ltd., a company incorporated in the BVI on 25 July 2011
“Foga Group”	Foga Group Ltd. (also referred to as Foga Group Limited), a company incorporated in the BVI on 25 July 2011
“Foga Holdings”	Foga Holdings Ltd., a company incorporated in the BVI on 25 July 2011, which was established by Mr. Liao and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Hao Dong Trust.
“Foga Internet Development”	Foga Internet Development Ltd., a company incorporated in the BVI on 25 July 2011, which was established and wholly-owned by Mr. Yang and is one of the Holding Companies.
“Foga Networks”	Foga Networks Development Ltd., a company incorporated in the BVI on 25 July 2011, which was established by Mr. Huang and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Keith Huang Trust.
“Foga Tech”	Foga Tech Limited, a limited company incorporated under the laws of Hong Kong on 9 August 2011 and a wholly-owned subsidiary of the Company
“Founders”	founder(s) of the Company, collectively, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang
“Group”	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
“Holding Companies”	collectively Foga Group, Foga Networks, Foga Holdings, Foga Internet Development and Foga Development, which are the immediate holding companies established by Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang, respectively
“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

DEFINITIONS

“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 7 June 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
“Latest Practicable Date”	23 September 2016, being the latest practicable date prior to the bulk printing and publication of this interim report
“Listing Date”	3 October 2013
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“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
“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) the chairman of the Board, an Executive Director, one of the Founders and the settlor of the Wang Trust

DEFINITIONS

“Mr. Yang”	Mr. Yang Tao (楊韜), one of the Founders
“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 the Company
“Offer Date”	the date which the pre-IPO option is offered to an eligible participant as defined in the scheme
“Placing”	the placing of the Placing Shares to professional, institutional and other investors at the placing price of HK\$16.50 per Share on 5 June 2015 pursuant to the terms of the Placing Agreement
“Placing Agreement”	the placing agreement entered into by the Company with BOCOM International Securities Limited as placing agent on 22 May 2015 in relation to the Placing
“Placing Share(s)”	an aggregate of 19,041,900 Shares placed to professional, institutional and other investors pursuant to the Placing
“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 the Company on 1 September 2013, for the benefit of the 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 Option Scheme”	the pre-IPO share option scheme approved and adopted by the Shareholders on 31 October 2012, which was amended and restated on 1 September 2013, for the benefit of the Directors, members of senior management, employees and other eligible participants defined in the scheme
“Prospectus”	IPO prospectus of the Company dated 19 September 2013 in relation to the IPO
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“R&D”	research and development

DEFINITIONS

“RSUs”	restricted share units granted pursuant to the RSU Scheme
“Restricted Share Unit Scheme”	the scheme conditionally approved and adopted by the Company on or “RSU Scheme” 1 September 2013 for the grant of RSUs to RSU participants following the completion of IPO
“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
“TA”	TA FG Acquisitions, an exempted company incorporated in the Cayman Islands on 26 April 2012 with limited liability
“United States”	the United States of America
“USD”	United States dollars, the lawful currency of the United States
“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 22 January 2007
“INK Group”	INK Group and its subsidiaries
“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
“91wan”	the self-publishing platforms, including 91wan.com, 2918.com, 9vs.com, 915.com and 336.com