天鴿 tianGe

Tian Ge Interactive Holdings Limited

天鴿互動控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code：1980

2016

ANNUAL REPORT

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Company Overview

ABOUT TIAN GE

Tian Ge Interactive Holdings Limited (the "**Company**", "**We**" or "**Tian Ge**") was founded in Hangzhou, China in 2008 with its shares listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing**") on July 9, 2014 (the "**Listing Date**"). In March 2015, Tian Ge was included in Hang Seng Composite Index Series including: HSCI, Industry Index – Information Technology, SmallCap Index, Hang Seng Broad Consumption Index and Hang Seng Global Composite Index. In September 2016, Tian Ge was included in Hang Seng Software & Services Index.Shenzhen-Hong Kong Stock Connect was launched in December 2016 and Tian Ge is the only "Mobile Entertainment" Stock under Shenzhen-Hong Kong Stock Connect.

The Company and its subsidiaries (collectively the "**Group**") operate a number of renowned "many-to-many" and "one-to-many" live social video communities. Leveraging on its leading industrial position, Tian Ge launched series of live streaming mobile applications and entered overseas market including Thailand and Taiwan. The wide acceptance of live streaming mobile applications allows Tian Ge to fully capture the opportunities arising from the rapidly growing demand for mobile entertainment in China, Asia and the rest of the world, which also creates synergistic effects with Tian Ge's live social video businesses.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Fu Zhengjun *(Chairman and Chief Executive Officer)*
Mr. Mai Shi'en *(Chief Operating Officer and Acting Chief Financial Officer)*

Non-executive Directors

Mr. Mao Chengyu
Mr. Herman Yu

Independent Non-executive Directors

Ms. Yu Bin
Mr. Wu Chak Man
Mr. Chan Wing Yuen Hubert

Joint Company Secretaries

Mr. Chen Shi
Ms. Ng Sau Mei

Authorized Representatives

Mr. Fu Zhengjun
Ms. Ng Sau Mei

Audit Committee

Ms. Yu Bin *(Chairman)*
Mr. Wu Chak Man
Mr. Chan Wing Yuen Hubert

Remuneration Committee

Mr. Wu Chak Man *(Chairman)*
Mr. Chan Wing Yuen Hubert
Mr. Mao Chengyu

Nomination Committee

Mr. Fu Zhengjun *(Chairman)*
Ms. Yu Bin
Mr. Wu Chak Man

REGISTERED OFFICE

Grand Pavilion
Hibiscus Way
802 West Bay Road
P.O. Box 31119
KY1-1205
Cayman Islands

HEADQUARTERS

Room 3A09
Sunshine International Business Center
No. 186 South Hushu Road
Hangzhou, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Offshore Incorporations (Cayman) Limited
Grand Pavilion
Hibiscus Way
802 West Bay Road
P.O. Box 31119
KY1-1205
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Corporate Information

LEGAL ADVISERS

As to Hong Kong law:
Kirkland & Ellis
26th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

STOCK CODE

1980

COMPANY'S WEBSITE

www.tiange.com

PRINCIPAL BANKERS

China Merchants Bank
Offshore Banking Department
19/F, China Merchants Bank Tower
No. 7088 Shennan Boulevard
Shenzhen, Guangdong, PRC

China Merchants Bank
Hong Kong Branch
21/F, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

Financial Highlights

The board of directors (the "**Directors**") (the "**Board**") of Tian Ge is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2016 (the "**Reporting Period**"). The annual results have been audited by PricewaterhouseCoopers, the auditor of the Company, and reviewed by the audit committee of the Company (the "**Audit Committee**").

The following are the financial highlights of the Company for the year ended December 31, 2016:

	Year ended December 31,		Change
(in RMB'000)	**2016**	2015	%
Revenue	**834,185**	677,543	23.1%
– Online interactive entertainment service	**759,336**	590,738	28.5%
– Others	**74,849**	86,805	-13.8%
Gross Profit	**646,087**	526,208	22.8%
Gross margin	**77.5%**	77.7%	
Profit Attributable to Equity Holders of the Company	**233,213**	151,792	53.6%
Net profit	**230,709**	149,750	54.1%
Net profit Margin	**27.7%**	22.1%	
Adjusted net profit [(1)]	**280,572**	222,969	25.8%
Adjusted Net profit Margin	**33.6%**	32.9%	
Adjusted EPS [(2)] *(expressed in RMB per share)*			
– basic	**0.222**	0.183	21.3%
– diluted	**0.210**	0.169	24.3%
Adjusted EBITDA [(3)]	**359,555**	280,300	28.3%
Adjusted EBITDA margin	**43.1%**	41.4%	
Total Assets	**2,907,042**	2,500,208	16.3%
Total Liabilities	**283,070**	191,536	47.8%

Financial Highlights

(in RMB'000)	**December 31, 2016**	September 30, 2016	Quarter-on-Quarter Change %	December 31, 2015	Year-on-Year Change %
	Three months ended				
Revenue	**248,348**	236,130	5.2%	147,228	68.7%
– Online interactive entertainment service	**228,429**	219,904	3.9%	119,851	90.6%
– Others	**19,919**	16,226	22.8%	27,377	-27.2%
Gross Profit	**213,741**	179,725	18.9%	102,492	108.5%
Gross margin	**86.1%**	76.1%		69.6%	
Profit Attributable to Equity Holders of the Company	**92,388**	64,126	44.1%	6,918	1235.5%
Net profit	**92,541**	63,833	45.0%	3,309	2696.7%
Net profit Margin	**37.3%**	27.0%		2.2%	
Adjusted net profit [(1)]	**102,218**	81,525	25.4%	24,328	320.2%
Adjusted net profit Margin	**41.2%**	34.5%		16.5%	
Adjusted EPS [(2)] *(expressed in RMB per share)*					
– basic	**0.079**	0.064	23.4%	0.022	259.1%
– diluted	**0.076**	0.061	24.6%	0.021	261.9%
Adjusted EBITDA [(3)]	**125,974**	106,295	18.5%	31,715	297.2%
Adjusted EBITDA margin	**50.7%**	45.0%		21.5%	

Notes:

(1) Adjusted net profit is not defined under IFRS, and is derived from the net profit excluding the effect of non-cash share-based compensation expenses, amortisation of intangible assets arising from acquisitions, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries and impairment loss arising from acquisitions.

*(2) Adjusted basic earnings per share ("**EPS**") is calculated by dividing the adjusted net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year which have been adjusted retroactively for the proportional changes in the number of ordinary shares outstanding as a result of the issuance of bonus shares. The denominator for computing the adjusted diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume share options granted to employees under 2008 Global Share Option Plan and Post-IPO Share Option Scheme, restricted share units ("**RSUs**") granted to employees under Pre-IPO Restricted Share Unit Scheme and Post-IPO Restricted Share Unit Scheme have been fully vested and exercised with no impact on the non-IFRS adjusted earnings.*

(3) Adjusted EBITDA, as presented, represents operating profit, adjusted to exclude non-cash share-based compensation expenses, amortisation of intangible assets arising from acquisitions, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries, impairment loss arising from acquisitions and depreciation and amortization.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") and the management of Tian Ge, I am pleased to present the annual report of 2016 of the Company and its subsidiaries.

In 2016, Tian Ge achieves high development. Our revenue increased by 23.1% year-on-year to RMB834.2 million from RMB677.5 million in 2015, net profit increased by 54.1% year-on-year to RMB230.7 million from RMB149.8 million in 2015, adjusted net profit increased by 25.8% year-on-year to RMB280.6 million from RMB223.0 million in 2015, adjusted EBITDA increased by 28.3% year-on-year to RMB359.6 million from RMB280.3 million in 2015.

Mobile live streaming is in full swing in China, and dozens of mobile video streaming startups have emerged in China. As a leader in the live streaming industry, Tian Ge is devoted to capture the opportunity of the rapidly growing demand for mobile entertainment. This year, Tian Ge launched and operated numbers of distinctive streaming mobile applications, namely Miao Broadcasting (喵播), Crystal Live Broadcasting (水晶直播), Happy Live Broadcasting (歡樂直播), Feng Broadcasting (瘋播) and "9158 Live Streaming". The abovementioned applications are gaining traction among Chinese internet users. During the year, Tian Ge integrated its five mobile live streaming platforms with the Group's five PC platforms. As a result, users may enjoy live streaming content with more features via both mobile and PC application.

Moreover, Tian Ge successfully tapped into the overseas market by launching overseas mobile live streaming application, i.e. Miao Broadcasting in Thailand and Taiwan. In the future, Tian Ge will continue to promote its live streaming applications to overseas markets especially in Southeast Asia.

The mobile games industry is undergoing massive expansion in China, and Tian Ge has been focusing on delivering quality social games. By integrating its social games with its live streaming platform, Tian Ge successfully created positive synergy and gained a large number of loyal users.

Tian Ge has been one of the shares eligible under the southbound trading link of Shenzhen-Hong Kong Stock Connect which was launched on December 5, 2016. These shares are constituent stock of the Hang Seng Composite Mid/Large Cap Index, Hang Seng Composite Small Cap Index which has a market capitalization of not less than HK$5 billion and shares listed on the Stock Exchange issued by companies which have also issued A-shares. On September 5, 2016, Tian Ge was included in the Hang Seng Software & Services Index ("**HSSSI**") as the recognition from the market to Tian Ge as a leader in the industry. The HSSSI series reflect the performance of certain sectors with the use of top 10 stocks with adequate liquidity as representatives for each of the sectors. Constituents are free float-adjusted for investability representation.

As one of China's largest real-time social video platform, Tian Ge continued to develop mobile business and implemented successful business strategies, these contributed to the significant improvement in Tian Ge's operation and financial performance. Looking forward, Company will increase research and development inputs and promote artificial intelligence, strengthen socialized content for further commercialization, as well as put forth its internationalization strategy. We are working to achieve diversification of income from live streaming, game business, financial e-commerce, technological service and advertisement.

The Board has proposed a final dividend of HK$0.07 per share for the year ended December 31, 2016 (2015: HK$0.06), which is subject to the approval at the forthcoming annual general meeting of the Company (the "**AGM**").

Fu Zhengjun
Chairman, Executive Director and Chief Executive Officer
Tian Ge Interactive Holdings Limited

March 24, 2017

Management Discussion and Analysis

1. BUSINESS OVERVIEW

2016 marks the start of a new era in China's live streaming industry. Fueled by enhanced 4G network in China and the shift from computers to mobile, demand for live streaming mobile applications in China held firm and remained a key driver for Tian Ge's growth in 2016. The Group expanded its mobile product line at a solid pace and recorded buoyant financial growth during the year ended December 31, 2016. The Board is content with the prospect of the industry.

Overall Financial Performance

For the year ended December 31, 2016, Tian Ge's revenue increased by 23.1% year-on-year to RMB834.2 million from RMB677.5 million in 2015. Revenue from online interactive entertainment service increased by 28.5% year-on-year from RMB590.7 million in 2015. In the fourth quarter of 2016, revenue increased by 5.2% quarter-on-quarter to RMB248.3 million from RMB236.1 million for the three months ended September 30, 2016. Revenue from online interactive entertainment service increased by 3.9% quarter-on-quarter from RMB219.9 million for the three months ended September 30, 2016. The increase was mainly driven by robust growth in our mobile live streaming business. Based on the analysis on cash proceeds received from sales of our virtual currency and game coins, revenue generated from mobile devices represented approximately 46.4% of revenue from our online interactive entertainment service for the year ended December 31, 2016 compared with approximately 17.2% for the year ended December 31, 2015.

For the year ended December 31, 2016, profit attributable to equity holders of the Company was RMB233.2 million which increased by 53.6% year-on-year; net profit was RMB230.7 million which increased by 54.1% year-on-year; adjusted net profit was RMB280.6 million which increased by 25.8% year-on-year; and adjusted EBITDA was RMB359.6 million which increased by 28.3% year-on-year.

In the fourth quarter of 2016, profit attributable to equity holders of the Company was RMB92.4 million which increased by 44.1% quarter-on-quarter from the three months ended September 30, 2016; net profit was RMB92.5 million which increased by 45.0% quarter-on-quarter from the three months ended September 30, 2016; adjusted net profit was RMB102.2 million which increased by 25.4% quarter-on-quarter from the three months ended September 30, 2016; and adjusted EBITDA was RMB126.0 million which increased by 18.5% quarter-on-quarter from the three months ended September 30, 2016.

1. BUSINESS OVERVIEW (continued)

Business Highlights

"Mobile + PC" Dual Live Streaming

With advanced casting technologies, the popularity of live streaming mobile applications surged in China, attracting a huge fan base of users. According to a report of China Internet Network Information Center, number of live-streaming viewers in China reached 344 million in December 2016, representing 47.1% of China's internet users.

As a leading enterprise in the industry, Tian Ge formulated specific strategies to seize each and every opportunity flowing from the rapid industry growth. The Group launched and operated numbers of distinctive streaming mobile applications, namely Miao Broadcasting (喵播), Crystal Live Broadcasting (水晶直播), Happy Live Broadcasting (歡樂直播), Feng Broadcasting (瘋播) and "9158 Live Streaming", which are innovatively incorporated with the Group's "many to many" concept. During the year, Tian Ge spared no effort in upgrading and optimizing its products, as well as seamlessly integrating its five mobile live streaming platforms with the Group's five original PC platforms, As a result, users may enjoy live streaming content with more features via both mobile and PC application.

The successful launch and operation of the above-mentioned mobile live streaming applications contributed to the significant increase in the Group's mobile monthly active users ("**MAUs**") and quarterly paying users ("**QPUs**"), which represented 47.0% and 63.9% of the Group's total MAUs and total QPUs respectively as at December 31, 2016 (2015: 23.4% and 24.1%).

Through integration of the Group's mobile and PC live streaming platforms during the year, the Group delivered positive results in terms of both expansion in user base and growth in revenue. Among the users attracted by the newly emerged mobile platform, the more active users are directed to our PC live streaming platforms, allowing our PC platform to remain vibrant. We will continue to strengthen the well-established mobile and PC live streaming platform. Riding on our intrinsic strength, loyal user base and thorough understanding of Chinese internet users from our PC platforms operation, the Group endeavors to provide users with comprehensive entertainment experience and to effectively expand Tian Ge's market share.

1. BUSINESS OVERVIEW (continued)

Business Highlights (continued)

Mobile Games

The mobile games industry is undergoing massive expansion in China, as the number of mobile game users reached 495 million by 2015, and is expected to increase to 582 million by 2018, according to Statista. According to iResearch, the market size of the China mobile gaming sector in the first quarter of 2016 reached RMB21.2 billion, accounting for 51% of China internet gaming market and surpassing PC gaming sector for the first time. The Board firmly believes that the mobile gaming market in China will continue to grow and flourish.

During the year ended December 31, 2016, by establishing a comprehensive series of self-developed mobile social games and incorporating these games into the Group's mobile live streaming platform, Tian Ge successfully generated effective synergy in line with the Group's business development which allows users to enjoy all-rounded entertainment experience, thus strengthening the loyalty of our huge user base.

Financial Technology

The Board foresees a steady growth in demand for both financing and wealth management services of its huge paying user base. To satisfy such demand and to capture the opportunity, Tian Ge sets forth its new business strategy in the financial technology ("**FINTECH**") field: actively exploring and identifying investment and acquisition opportunities for FINTECH platforms, and to develop such platforms for its mobile and internet customers. In January 2016, Tian Ge announced its investment in Wuhan Jiuxin Puhui Financial Information Services Company Limited* (武漢玖信普惠金融信息服務有限公司) ("**Wuhan Jiuxin**"), an internet financing enterprise specializing in the operation of peer-to-peer investment platform based on the investment interest of the vehicle mortgage loan through its website and mobile application. In May 2016, the Group announced its investment in Hangzhou Shangfu Information Technology Co., Ltd.* (杭州商富信息科技有限公司) ("**Hangzhou Shangfu**"), an internet financing enterprise specializing in the operation of peer-to-peer investment platform based on the vehicle mortgage loan and online financing services through its website and Shanghai Hongxing Asset Management Co., Ltd.* (上海泓星資產管理有限公司), whose subsidiary is primarily engaged in personal real estate mortgage, bridge loan and non-performing loan disposal business through online financing platforms. The completion of the above transactions except Shanghai Hongxing Asset Management Co., Ltd. is subject to certain conditions set out in the relevant agreements. In December 2016, the Group signed a series of agreements to invest in Shanghai Ruiben Financial Information Services Company Limited* (上海睿本金融信息服務有限公司), Shenzhen Qianhai Goodsure Internet Financial Information Services Company Limited* (深圳市前海果樹互聯網金融服務有限公司) and Shenzhen Qianhai Tuteng Internet Financial Information Services Company Limited* (深圳市前海圖騰互聯網金融服務有限公司), which are internet financing enterprises specializing in the operation of peer-to-peer investment platform based on the investment interest of the vehicle mortgage loan through its website and mobile application. In January 2017, the Group signed a series of agreements to invest in Shanghai Jieta Financial Information Services Company Limited* (上海截塔金融信息服務有限公司), an internet loan company specializing in the operation of microcredit through its website and mobile application. On the date of this announcement, the above transactions except Shanghai Hongxing Asset Management Co., Ltd. are yet to be consummated.

1. BUSINESS OVERVIEW (continued)

Business Highlights (continued)

International Expansion

In 2016, Tian Ge successfully tapped into the overseas market by launching mobile live streaming application, i.e. Miao Broadcasting in Thailand. The Thai version of Miao Broadcasting gained attraction among Thailand users and entered the top charts of local Google Play store within short period of time. The Group also launched Traditional Chinese version of Miao Broadcasting in Taiwan and Hong Kong. During the year ended December 31, 2016, Tian Ge's professional team made vigorous efforts in expanding its business to overseas market, especially Southeast Asia.

In the coming year, Tian Ge will put forth its internationalization strategy by leveraging our strong technological capabilities and infrastructure and established social ecosystem to advance our penetration and global presence in the live streaming industry.

Outlook

In 2017, Tian Ge will complete connection of all PC and mobile live streaming platforms and deepen integrations among its platforms, as well as stepping up efforts to further expand its mobile live streaming business, including optimizing its ecosystem, as well as enriching its product portfolio and innovative content. Mobile live streaming business is expected to continue to provide major momentum for the Group's growth in near future.

To enrich the Group's social ecosystem, Tian Ge will also actively develop and operate related application to drive more users to the Group's live streaming platforms, including Meow Camera (喵拍), a short video sharing platform. Moreover, the Group aims to enhance its social media content by increasing R&D investment. The Board is confident in the expansion of user base in the coming year.

In addition, Tian Ge will remain focused on providing comprehensive entertainment and related services to tier 2 to tier 4 cities in China. The Group will keep abreast of the overseas mobile live streaming and gaming market, and will actively introduce its quality products to foreign countries, especially in Southeast Asian countries.

Looking ahead, the Group will continue to build on and reinforce its advantages by delivering the most sought-after real-time social interactive entertainment and gaming experiences to grasp business opportunities driven by the rapid market growth. Other than strengthening its existing businesses, Tian Ge will continue to identify various related investment opportunities with enormous potentials to further diversify its business and broaden the income sources, in order to generate positive impacts to the business, and increase its profit and increase shareholders' value.

2. OPERATING INFORMATION

The following table sets forth certain quarterly operating statistics relating to the Company's internet platforms as of the dates and for the periods presented below:

	Three months ended				
	December 31, 2016	December 31, 2015	Year-on-year change	September 30, 2016	Quarter-on-quarter change
Monthly Active Users *(in '000)**	**21,913**	16,536	32.5%	20,667	6.0%
Quarterly Paying Users *(in '000)**	**1,264**	801	57.8%	1,223	3.4%
Quarterly Average Revenue Per User *(RMB)**	**181**	162	11.7%	180	0.6%
Number of Rooms	**65,259**	26,192	149.2%	59,788	9.2%
Number of Hosts	**99,909**	36,261	175.5%	91,605	9.1%

* *To be consistent with the revenue classification, the key operating data now includes the users from online interactive entertainment service only.*

The following is a summary of the comparative figures for the periods presented above:

- The number of MAUs for Tian Ge's online interactive entertainment service was approximately 21.9 million for the three months ended December 31, 2016, representing an increase of approximately 32.5% from the three months ended December 31, 2015 and representing an increase of approximately 6.0% from the three months ended September 30, 2016.

- Our mobile MAUs as at December 31, 2016 represents 47.0% of our total MAUs, while the percentages as at December 31, 2015 and September 30, 2016 were 23.4% and 45.6%, respectively.

- The number of QPUs for Tian Ge's online interactive entertainment service was approximately 1,264,000 for the three months ended December 31, 2016, representing an increase of approximately 57.8% from the three months ended December 31, 2015 and representing an increase of approximately 3.4% from the three months ended September 30, 2016.

- Our mobile QPUs as at December 31, 2016 represents 63.9% of our total QPUs, while the percentages as at December 31, 2015 and September 30, 2016 were 24.1% and 63.6% respectively.

2. OPERATING INFORMATION (continued)

- The number of Quarterly Average Revenue Per User of Tian Ge's online interactive entertainment service for the three months ended December 31, 2016 increased by 11.7% to RMB181 from the three months ended December 31, 2015 and remained stable from the three months ended September 30, 2016. The increase was mainly due to the rapid development in our mobile live streaming business which was launched in the second quarter of 2016.

- Number of virtual rooms and hosts for Tian Ge's online interactive entertainment service increased by 9.2% and 9.1% on a quarter-on-quarter basis compared to that of September 30, 2016, respectively, and achieved a substantial increase on a year-on-year basis. The quarter-on-quarter increase was benefited from the continued rapid development of our mobile live streaming business in the fourth quarter of 2016. The year-on-year substantial increase was mainly due to the newly launched mobile live streaming business in the second quarter of 2016 which was popular.

- The total number of registered users of Tian Ge as at December 31, 2016 was 320.4 million, as compared to 292.3 million as at December 31, 2015*.

* *Registered users here refers to accumulated registered users who have signed up an account and duplicate account was not excluded.*

The following table sets forth certain annual operating statistics relating to the Company's online interactive entertainment service as at the dates and for the years presented below:

	Year ended		
	December 31, 2016	December 31, 2015	Year-on-Year Change
Monthly Active Users *(in '000)*	**19,235**	17,488	10.0%
Quarterly Paying Users *(in '000)*	**1,078**	770	40.0%
Quarterly Average Revenue Per User *(RMB)*	**176**	192	-8.3%

3. FINANCIAL INFORMATION

Revenue

Revenue of online interactive entertainment service mainly includes revenue from live social video platforms and online games, which increased by 28.5% year-on-year to RMB759.3 million for the year ended December 31, 2016 from RMB590.7 million for the corresponding period in 2015 and increased by 3.9% quarter-on-quarter to RMB228.4 million for the three months ended December 31, 2016 from RMB219.9 million for the three months ended September 30, 2016, respectively. The increase was primarily due to the growth of QPUs contributed by mobile live streaming business and mobile games.

Revenue of others mainly includes the revenue from the provision of game licensing, e-commerce transactions, provision of beauty clinic service, sales of software and other services.

Cost of Revenue

Cost of revenue experienced an increase of 24.3% year-on-year to RMB188.1 million for the year ended December 31, 2016 from RMB151.3 million for the corresponding period in 2015, and decreased by 38.6% quarter-on-quarter to RMB34.6 million for the three months ended December 31, 2016 from RMB56.4 million for the three months ended September 30, 2016. The year-on-year increase was primarily due to the increased costs related to mobile games and partially offset by the decrease of the costs of other value-added services. The quarter-on-quarter decrease was primarily due to decreased costs related to mobile games and costs of other value-added services.

The gross margin for the year ended December 31, 2016 was 77.5%, compared with 77.7% for the corresponding period in 2015. The gross margin for the three months ended December 31, 2016 was 86.1%, compared with 76.1% for the three months ended September 30, 2016.

Selling and Marketing Expenses

Selling and marketing expenses increased by 7.9% year-on-year to RMB206.4 million for the year ended December 31, 2016 from RMB191.4 million for the corresponding period in 2015, and remained stable quarter-on-quarter for the three months ended December 31, 2016 from the three months ended September 30, 2016. The year-on-year increase was mainly caused by the increase in promotion expenses for the promotion of our mobile live streaming products and partially offset by the decrease of employee costs.

3. FINANCIAL INFORMATION (continued)

Administrative Expenses

Administrative expenses increased by 5.6% year-on-year to RMB122.3 million for the year ended December 31, 2016 from RMB115.7 million for the corresponding period in 2015, and decreased by 17.1% quarter-on-quarter to RMB30.2 million for the three months ended December 31, 2016 from RMB36.4 million for the three months ended September 30, 2016. The year-on-year increase was primarily due to the increase of impairment loss and partially offset by the decrease of employee costs. The quarter-on-quarter decrease was primarily due to the decrease of employee costs and impairment loss.

Research and Development Expenses

Research and development expenses increased by 4.2% year-on-year to RMB87.2 million for the year ended December 31, 2016 from RMB83.6 million for the corresponding period in 2015, and remained stable quarter-on-quarter for the three months ended December 31, 2016 from the three months ended September 30, 2016. The year-on-year increase was primarily due to the new research developments in mobile live streaming products and mobile games as well as related employee costs.

Other Gains, Net

Other gains, net increased by 11.9% year-on-year to RMB59.4 million for the year ended December 31, 2016 from RMB53.0 million for the corresponding period in 2015, and decreased by 48.5% quarter-on-quarter to RMB10.9 million for the three months ended December 31, 2016 from RMB21.2 million for the three months ended September 30, 2016. The year-on-year increase was primarily due to the increase of gains from step acquisition, decrease of provisions, and partially offset by the increase of foreign exchange loss on non-financing activities. The quarter-on-quarter decrease was primarily due to the increase of foreign exchange loss on non-financing activities and the decrease of government grant.

Finance Costs, Net

Finance costs, net was RMB1.3 million for the year ended December 31, 2016 while finance income, net was RMB3.3 million for the corresponding period in 2015, which was mainly caused by the decrease of interest income on our cash and cash equivalents and the increase of foreign exchange loss on financing activities. Finance costs, net was RMB1.3 million for the three months ended December 31, 2016 while finance income, net was RMB0.1 million for the three months ended September 30, 2016, which was mainly caused by the increase of foreign exchange loss on financing activities.

3. FINANCIAL INFORMATION (continued)

Income tax expense

Income tax expense increased by 51.2% year-on-year to RMB52.5 million for the year ended December 31, 2016 from RMB34.7 million for the corresponding period in 2015, and decreased by 18.9% quarter-on-quarter to RMB15.6 million for the three months ended December 31, 2016 from RMB19.3 million for the three months ended September 30, 2016. For the year ended December 31, 2016, the income tax expense consists of (a) current corporate income tax of RMB54.2 million (2015: RMB36.2 million), (b) reversal of temporary differences of RMB6.7 million (2015: reversal of temporary differences of RMB1.5 million) and (c) withholding tax of RMB5.0 million (2015: nil). The increase of current year income tax expenses reflected an increase in profit before income tax, and the effective income tax rate remained stable compared with the year of 2015.

Gain attributable to equity holders of the Company

We recorded gain attributable to equity holders of the Company for the year ended December 31, 2016 of RMB233.2 million compared with gain attributable to equity holders of the Company of RMB151.8 million for the corresponding period of 2015, and gain attributable to equity holders of the Company increased by 44.1% quarter-on-quarter to RMB92.4 million for the three months ended December 31, 2016 from RMB64.1 million for the three months ended September 30, 2016. The year-on-year increase was mainly due to the increase of gross profit and other gains, net, and partially offset by operating expenses and income tax expenses. The quarter-on-quarter increase was mainly due to the increase of gross profit, saving of income tax expenses and partially offset by operating expenses and decrease of other gains, net.

Non-IFRS Measures

To supplement our consolidated financial statements which are presented in accordance with IFRS, adjusted net profit and adjusted EBITDA are used as additional financial measures. These financial measures are presented because they are used by management to evaluate operating performance. The Company also believes that these non-IFRS measures provide useful information to help investors and others understand and evaluate the Company's consolidated results of operations in the same manner as management and in comparing financial results across accounting periods and to those of our peer companies.

3. FINANCIAL INFORMATION (continued)

Non-IFRS Measures (continued)

The following table sets forth the Company's non-IFRS financial data for the years and periods presented:

	Year ended			Three months ended				
	December 31, 2016	December 31, 2015	Year-on-Year Change	**December 31, 2016**	September 30, 2016	Quarter-on-Quarter Change	December 31, 2015	Year-on-Year Change
(in RMB'000)								
Non-IFRS Financial Data								
Non-IFRS EBITDA	**359,555**	280,300	28.3%	**125,974**	106,295	18.5%	31,715	297.2%
*Non-IFRS EBITDA margin**	***43.1%***	*41.4%*		***50.7%***	*45.0%*		*21.5%*	
Non-IFRS Net Income	**280,572**	222,969	25.8%	**102,218**	81,525	25.4%	24,328	320.2%

* *Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenue.*

Non-IFRS Adjusted EBITDA

Non-IFRS adjusted EBITDA, as presented, represents operating profit, adjusted to exclude non-cash share-based compensation expenses, amortisation of intangible assets arising from acquisitions, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries, impairment loss arising from acquisitions and depreciation and amortization. The use of non-IFRS adjusted EBITDA has certain limitations because it does not reflect all items of income and expenses that affect operations. Items excluded from non-IFRS adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Non-cash share-based compensation expenses, amortisation of intangible assets arising from acquisitions, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries, impairment loss arising from acquisitions and depreciation and amortization have been and may continue to be incurred are not reflected in the presentation of non-IFRS adjusted EBITDA. Each of these items should also be considered in the overall evaluation of the Company's results.

3. FINANCIAL INFORMATION (continued)

Non-IFRS Adjusted EBITDA (continued)

The following table reconciles our operating profit to our non-IFRS adjusted EBITDA for the years and periods presented:

	Year ended		Three months ended		
	December 31, 2016	December 31, 2015	**December 31, 2016**	September 30, 2016	December 31, 2015
(in RMB'000)					
Operating Profit	**289,648**	188,524	**111,463**	83,462	8,030
Share-based compensation expense	**31,790**	65,942	**4,504**	7,318	15,588
Impairment loss arising from acquisitions	**6,997**	1,624	**–**	6,997	1,624
Impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries	**4,835**	–	**3,162**	1,673	–
Amortisation of intangible assets arising from acquisitions	**6,241**	2,668	**2,011**	1,704	822
Depreciation and amortization expense	**20,044**	21,542	**4,834**	5,141	5,651
Non-IFRS Adjusted EBITDA	**359,555**	280,300	**125,974**	106,295	31,715

Non-IFRS Net Income and Earnings Per Share

Non-IFRS net income eliminates the effect of non-cash share based compensation expenses, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries, impairment loss arising from acquisitions and amortisation of intangible assets arising from acquisitions. The term of adjusted net profit is not defined under IFRS.

Non-IFRS earnings per share and non-IFRS diluted earnings per share are not defined under IFRS. Non-IFRS earnings per share is defined as adjusted net profit attributable to the equity holders of the Company divided by weighted average number of ordinary shares outstanding.

3. FINANCIAL INFORMATION (continued)

Non-IFRS Net Income and Earnings Per Share (continued)

The denominator for computing the adjusted diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume share options granted to employees under 2008 Global Share Option Plan and Post-IPO Share Option Scheme, restricted share units granted to employees under Pre-IPO Restricted Share Unit Scheme and Post-IPO Restricted Share Unit Scheme have been fully vested and exercised with no impact on the non-IFRS adjusted earnings. The number of ordinary shares outstanding during the corresponding period has been adjusted retroactively for the proportional changes in the number of preferred shares, share options and restricted share units outstanding as a result of the issuance of bonus shares for the corresponding period. The numerator of adjusted diluted EPS is adjusted net profit attributable to the equity holders of the Company.

The following table sets forth the reconciliations of the Company's net profit to non-IFRS net income for the years and periods presented below:

	Year ended		Three months ended		
	December 31, 2016	December 31, 2015	**December 31, 2016**	September 30, 2016	December 31, 2015
(in RMB'000)					
Reconciliation to non-IFRS Net Income					
Net Profit	**230,709**	149,750	**92,541**	63,833	3,309
Share-based compensation expense	**31,790**	65,942	**4,504**	7,318	15,588
Impairment loss arising from acquisitions	**6,997**	4,609	**–**	6,997	4,609
Impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries	**4,835**	–	**3,162**	1,673	–
Amortisation of intangible assets arising from acquisitions	**6,241**	2,668	**2,011**	1,704	822
Non-IFRS Net Income	**280,572**	222,969	**102,218**	81,525	24,328

4. LIQUIDITY AND FINANCIAL RESOURCES

Cash and Cash Equivalents and Financial Assets/Term Deposits

Cash and cash equivalents consist of cash at bank and cash on hand, and as at December 31, 2016 and December 31, 2015, it amounted to RMB290.3 million and RMB232.8 million, respectively. All cash at bank balances as of these dates were demand deposits and term deposits with initial terms of less than three months. The Company had term deposits with initial term of over three months of RMB776.0 million and RMB954.9 million as at December 31, 2016 and December 31, 2015, respectively.

Since there are no cost-effective hedges against the fluctuation of Renminbi ("**RMB**") and no effective manner to generally convert a significant amount of non-RMB currencies into RMB which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

The Company had current available-for-sale financial assets of RMB611.0 million and RMB370.1 million as at December 31, 2016 and December 31, 2015, respectively. Current available-for-sale financial assets typically consist of RMB-denominated principal-guaranteed structured deposits with floating interest rates ranging from 1.5% to 3.5% per annum with maturity periods within one year or with an ongoing term offered by large state-owned and commercial banks in China.

Bank Loans and Other Borrowings

As at December 31, 2016 and December 31, 2015, the Company had no bank loans and other borrowings outstanding.

Gearing Ratio

The gearing ratio as at December 31, 2016 and December 31, 2015 were 0%.

Capital Expenditures

For the year ended December 31, 2016, the Group's capital expenditures were approximately RMB45.8 million, mainly including approximately RMB23.3 million relating to purchase of a house located in the United States, RMB12.6 million relating to purchase of intangible assets, game licenses and royalty fee and RMB4.5 million relating to purchase of sever and equipment.

Significant Investment

The Company did not make any significant investments for the year ended December 31, 2016.

4. LIQUIDITY AND FINANCIAL RESOURCES (continued)

Mergers and Acquisitions

In January 2016, the Group entered into a series of agreements (the "**Agreements**") to purchase 20% equity interest of Wuhan Jiuxin, an internet financing company specializing in vehicle mortgage loan by operating its peer-to-peer investment platform via the website www.jiurong.com or the mobile application, at a total cash consideration of RMB20.8 million. In addition, the Group and the current shareholders of Wuhan Jiuxin agreed to further increase the paid-in capital of Wuhan Jiuxin by capital contribution and the Group will inject an additional capital of RMB26.0 million to increase the Group's equity holding in Wuhan Jiuxin from 20% to 36%. The Group also promised to further acquire the equity interest of Wuhan Jiuxin if certain performance targets of Wuhan Jiuxin as set out in the Agreements are met. On the date of this announcement, the transaction is yet to be consummated.

In May 2015, the Group acquired 15% of the equity interest in Happy Alliance, a third party company engaged in design and promotion of mobile games in the PRC, which was accounted as an investment in an associate with significant influence for a cash consideration of RMB2.0 million. In April 2016, the Group acquired a further 65% of the equity interests and obtained control of Happy Alliance, for a total cash consideration of RMB41.6 million. As a result of the acquisition, the Group held in aggregate 80% of the equity interest in Happy Alliance as of the date of this announcement.

In May 2016, the Group entered into a series of agreements to conditionally purchase 10% equity interest of Hangzhou Shangfu, an internet financing enterprise specializing in the operation of peer-to-peer investment platform based on the vehicle mortgage loan and online financing services through its website www.sfdai.com, at a total cash consideration of RMB10.0 million. In addition, the Group agreed to further increase the paid-in capital of Hangzhou Shangfu by capital injection and will inject an additional capital of RMB15.0 million to increase the Group's equity holding in Hangzhou Shangfu from 10% to 19%, if certain conditions as set out in the relevant agreements are met. On the date of this announcement, the transaction is yet to be consummated.

In December 2016, the Group acquired 27% equity interests of Jinhua Yibo Network Technology Co., Ltd., an independent third party group engaged in the design and operation of web-based casual games, and Yibo International (Macau) Co., Ltd. for a total consideration of RMB63.0 million.

In December 2016, the Group completed the acquisition of 64% equity interest in Jinhua Pangu Information Technology Co. Ltd. and Poon Ku International (Macau) Co., Ltd. (collectively "**Pangu Group**"), a third party group engaged in design and development of web-based and mobile casual games, for a total consideration of RMB105.2 million.

Except as disclosed above, the Group did not make any other material mergers or acquisitions for the year ended December 31, 2016.

4. LIQUIDITY AND FINANCIAL RESOURCES (continued)

Charges on Assets

As at December 31, 2016, the Group did not have any asset charges.

Contingent Liabilities

As at December 31, 2016, the Group did not have any significant contingent liabilities.

Foreign Exchange Risk

Most of our subsidiaries' functional currencies are RMB, as the majority of the revenues of these companies are derived from our operations in mainland China. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to foreign currency denominated financial assets as at December 31, 2016. We do not hedge against any fluctuation in foreign currency.

5. CORPORATE INFORMATION

Staff

The Company had 732 full time employees as at December 31, 2016. Tian Ge's success depends on its ability to attract, retain and motivate qualified personnel. The Company adopts high standards in recruitment with strict procedures to ensure the quality of new hiring and use various methods for recruitment, including campus recruitment, online recruitment, internal recommendation and recruiting through hunting firms or agents, to satisfy the demand for different types of talents. Moreover, the Company provides a robust training program for new employees in order to effectively equip them with the skill and work ethics which are necessary to succeed at Tian Ge.

Relevant staff cost was RMB166.4 million for the year ended December 31, 2016, while our staff cost was RMB195.2 million for the year ended December 31, 2015. The Group's remuneration policies are formulated according to the duty, experience, ability and performance of individual employees and are reviewed annually. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes and discretionary incentive.

The Company's employees have not formed any employee union or association. Tian Ge believes that it maintains a good working relationship with its employees and the Company did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the period under review.

5. CORPORATE INFORMATION (continued)

Share Option Schemes

The Company has adopted the Pre-IPO Share Option Scheme, the Pre-IPO Restricted Share Unit Scheme (the "**Pre-IPO RSU Scheme**"), the Post-IPO Share Option Scheme and the Post-IPO Restricted Share Unit Scheme (the "**Post-IPO RSU Scheme**") (collectively, the "**Schemes**"). The purpose of the Schemes is to reward the participants defined under the Schemes for their past contribution to the success of the Group and to provide incentives to them to further contribute to the Group.

The share-based compensation expenses for the year ended December 31, 2016 is RMB31.8 million, as compared to RMB65.9 million in the corresponding period in 2015.

Financial Summary

	Year ended December 31,				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Revenue	455,768	548,240	692,159	677,543	**834,185**
Gross profit	403,456	480,095	586,851	526,208	**646,087**
Profit/(Loss) before income tax	(15,285)	(56,431)	(71,450)	184,458	**283,190**
Profit/(Loss) for the year	(27,233)	(92,609)	(107,601)	149,750	**230,709**
Profit/(Loss) attributable to Shareholders of the Company	(27,233)	(92,602)	(107,503)	151,792	**233,213**
Total comprehensive income/(loss) for the year	(25,931)	(78,032)	(121,597)	211,759	**321,066**
Total comprehensive income/(loss) attributable to Shareholders of the Company	(25,931)	(78,025)	(121,499)	213,587	**323,133**

	As at December 31,				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Assets					
Non-current assets	135,405	251,885	775,000	820,756	**1,087,818**
Current assets	505,875	592,501	1,487,591	1,679,452	**1,819,224**
Total assets	641,280	844,386	2,262,591	2,500,208	**2,907,042**
Equity and liabilities					
Equity attributable to Shareholders of the Company	72,426	(88,556)	2,083,689	2,286,712	**2,588,331**
Non-controlling interests	–	4,897	4,799	21,960	**35,641**
Total Equity/(deficits)	72,426	(83,659)	2,088,488	2,308,672	**2,623,972**
Non-current liabilities	356,018	628,326	1,750	6,495	**16,252**
Current liabilities	212,836	299,719	172,353	185,041	**266,818**
Total liabilities	568,854	928,045	174,103	191,536	**283,070**
Total equity and liabilities	641,280	844,386	2,262,591	2,500,208	**2,907,042**

EXECUTIVE DIRECTORS

Mr. Fu Zhengjun (**傅政軍**), aged 38, is our Chairman and has been a Director of our Board since July 28, 2008. He was re-designated to our Board as an executive Director on March 11, 2014. Mr. Fu is the founder of our Group and has served as the chief executive officer of all our wholly-owned foreign enterprises ("**WFOE**") and PRC Operating Entities (as defined below) since their respective incorporation. He is responsible for the overall strategic planning, management and operations of our Group, and is instrumental to our growth and business expansion. Mr. Fu has approximately 14 years of experience in the Internet industry. Prior to founding our Group, Mr. Fu was the chief technology officer of Tiantu Information Technology (Shanghai) Co., Ltd. (天圖信息技術(上海)有限公司), a company mainly engaging in the development of Internet advertising technology, from August 2000 to September 2004, where he was responsible for products research and development. From August 1999 to August 2000, Mr. Fu served as an engineer at Zhejiang Data Communications Administration Bureau (浙江省數據通訊局) (formerly known as Zhejiang Communications Administration Bureau (浙江省通訊管理局)), where he was responsible for project management and implementation.

Mr. Fu received a bachelor's degree in computer science application from Zhejiang University of Technology (浙江工業大學) in Hangzhou in July 1999.

Mr. Mai Shi'en (**麥世恩**), aged 41, was appointed as a Director of our Board on March 5, 2014 and re-designated as an executive Director on March 11, 2014. From August 2012 to April 2014, Mr. Mai served as the chief financial officer of the Company and was responsible for the corporate finance, investor relations and financial management of our Group. He has been the chief operating officer of our Group since April 22, 2014 and is responsible for the overall operation of our Group and mergers and acquisitions, as well as our Group's strategy planning and implementation. After the resignation of the former chief financial officer, Mr. Mai has resumed as the acting chief financial officer of the Company, since July 31, 2015. Mr. Mai has served as the directors of a number of subsidiaries or associated companies that are Zhejiang Haile Technology Co., Ltd. (浙江嗨樂科技有限公司), Chengdu Happy Alliance Technology Co., Ltd. (成都歡樂聯盟科技有限公司), Chengdu Yinyuehui Technology Co., Ltd. (成都音悦匯科技有限公司) and Hangzhou Seehealth Information Technology Co., Ltd. (杭州希和信息技術有限公司) since September 22, July 21, April 30 and February 2, 2015, respectively. Also, he has served as a director of Jinhua Tianhu Network Technology Co., Ltd. ("**Tianhu**") since August 29, 2013 and oversees its management and strategic development. Mr. Mai possesses extensive knowledge of the Internet industry and financial management. Prior to joining our Group, Mr. Mai was an executive director and the chief financial officer of Shanghai Nineyou Internet Technology Co. Ltd. (上海久遊網絡科技有限公司), an online games and interactive online platform operator in China, where he worked from September 2005 to July 2012 and was responsible for the company's overall financial planning, internal auditing and investment. From September 2003 to September 2005, Mr. Mai worked at Praxair (China) Investment Co., Ltd. (普萊克斯(中國)投資有限公司), responsible for financial related matters. In addition, from August 1998 to July 2003, Mr. Mai worked in the auditing departments of several top global accounting firms including Ernst & Young, Arthur Anderson and KPMG.

Mr. Mai graduated from Shanghai Jiaotong University (上海交通大學) in Shanghai in July 1998, where he received a bachelor's degree in international finance. He is a Certified Internal Auditor (CIA) admitted by China Institute of Internal Audit (中國內部審計協會) in November 2004 and a Chinese Institute of Certified Public Accountant (CICPA) admitted by Shanghai Certified Public Accountant Association (上海市註冊會計師協會) in December 2009.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Mao Chengyu (毛丞宇), aged 46, was appointed to our Board on December 30, 2008, as a director representative of series B pre-IPO investors. He was re-designated to our Board as a non-executive Director on March 11, 2014. Mr. Mao has resigned as a partner of IDG Capital Partners on August 2015, and now serves as the founder of Yun Qi Capital Partners. Mr. Mao has been a partner of IDG Capital Partners, which is a venture capital fund principally engaged in investing in technology start-up companies with PRC-related businesses, since July 1, 2012 and is responsible for the equity investment. Mr. Mao was a partner of the Shanghai Branch of IDG Investment Consulting (Beijing) Co., Ltd. (IDG資本投資顧問(北京)有限公司上海分公司) (formerly known as Shanghai Pacific Technology Co., Ltd. (上海太平洋技術創業有限公司)) ("**IDG Shanghai Branch**") from July 2006 to June 2012 and was an investment manager and vice president of IDG Shanghai Branch from December 1999 to June 2006, where he was responsible for identifying and analyzing investment opportunities. Prior to entering into the venture capital industry, Mr. Mao was a business manager at Unilever (China) Co., Ltd. (聯合利華中國有限公司), one of the world's largest food and personal care products manufacturers, from April 1999 to November 1999.

Mr. Mao obtained a bachelor's degree in industrial foreign trade from Shanghai Jiaotong University (上海交通大學) in July 1993 and a master of business administration degree in May 1999 from China Europe International Business School (中歐國際工商學院) in Shanghai.

Mr. Herman Yu (余正鈞), aged 46, was appointed to our Board on March 5, 2014, as a director representative of SINA Hong Kong Limited ("**SINA HK**", together with its affiliates, "**SINA Group**"). He was re-designated to our Board as a non-executive Director on March 11, 2014. Mr. Yu is currently the chief financial officer of Weibo Corporation since March 2015. Prior to that, Mr. Yu was the chief financial officer of Sina Corporation from August 2007. He served as a director of Mecox Lane Limited from March 2011 to June 2014, a company listed on NASDAQ Global Market. He was the acting chief financial officer of Sina Corporation from May 2006 to August 2007 and the vice president and corporate controller from September 2004 to May 2006. He oversees the corporate finance, investor relations and financial management of Sina Corporation. Prior to joining Sina Corporation, Mr. Yu held various positions in technologies companies. Mr. Yu has served as a director of 58.com Inc., a NYSE-listed online marketplace company since October 2013.

Mr. Yu obtained a bachelor's degree in economics from the University of California in the United States in June 1992 and a master degree in Accounting from the University of Southern California in the United States in May 1993. He is a California Certified Public Accountant admitted by the California Board of Accountancy in September 1995.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yu Bin (余濱), aged 47, was appointed to our Board as an independent non-executive Director on June 16, 2014. Ms. Yu Bin is the chief financial officer of Innolight Technology Co., Ltd since January 2015 where she is responsible for finance, legal and investor relationship. She has been a director and the chief financial officer of Star Media China Limited (星空華文傳媒集團), a company engaging in entertainment TV programs business, since December 2013 and May 2013, respectively, where she is responsible for the corporate finance, legal, investor relations and financial management. From August 2012 to April 2013, she was the senior vice president of Youku Tudou Inc. (優酷土豆集團), a NYSE-listed China's leading Internet television company and was in charge of the company's investment in content production, merger and acquisition and the strategic investment. From July 2010 to December 2011 and from January 2012 to April 2013, she served as the chief financial officer and the vice president of finance of Tudou Holdings Limited ("**Tudou**"), respectively, a company engaging in Internet television business, and oversaw the management of the company's finance, legal, public relationship and investor relationship departments. Prior to joining Tudou, from September 1999 to July 2010, she worked at KPMG and eventually was promoted to a senior manager of KPMG Greater China region, where she was responsible for financial statements auditing and China based private entities' overseas listing.

Ms. Yu obtained a bachelor's degree in English Literature from Xi'an Foreign Language University (西安外國語大學) in Xi'an in July 1992, a master's degree in accounting and education from the University of Toledo in the United States in May 1998 and August 1998, respectively and an EMBA degree from INSEAD in January 2013. She is a Certified Public Accountant in the United States admitted by the Accountancy Board of Ohio in December 2001, a member of American Institute of Certified Public Accountants ("**AICPA**") admitted by AICPA and a member of Chartered Global Management Accountant ("**CGMA**") admitted by CGMA in December 2013.

Mr. Wu, Chak Man (胡澤民), aged 45, was appointed to our Board as an independent non-executive Director on June 16, 2014. He was an executive director of 91 Wireless Websoft Limited (now known as Baidu 91 Wireless), a company engaging in the development and operation of smartphone application distribution platforms from January 2011 to June 2014 and was responsible for the overall management and strategic planning of the company. Before that, he had been the vice president and chief finance officer of NetDragon Websoft Limited ("**NetDragon**"), a HK-listed company engaging in the online games and mobile Internet business, since April 2004. Mr. Wu was in charge of NetDragon's sales and marketing, North American business, the expansion of overseas market, financing and mergers and acquisitions as well as its listing business. From 2000 to 2002, Mr. Wu was the chief operating officer of Octant Communication Inc., a taxi service company and was in charge of corporate operation. During 1995 to 1999, Mr. Wu served as the vice president, in charge of marketing, in Beso Biological Research Inc., a company engaging in heath food and nutrition supplement business.

Mr. Wu received a bachelor's degree in economics from the University of California, Berkeley in the United States in August 1994 and a master's degree in business administration from Duke University in the United States in May 2004.

Mr. Chan, Wing Yuen Hubert (**陳永源**), aged 59, was appointed to our Board as an independent non-executive Director on June 16, 2014. He has been an independent non-executive director of Shanghai La Chapelle Fashion Co., Ltd. (上海拉夏貝爾服飾股份有限公司) (stock Code: 6116) since 25 July 2016 and also a member of The Hong Kong Institute of Directors (香港董事學會). He is an executive director of Northern New Energy Holdings Limited (北方新能源控股有限公司) (stock code: 8246) and Zhong Fa Zhan Holdings Limited (中發展控股有限公司) (stock code: 475), HK-listed companies. He spent over ten years with the Stock Exchange. In addition, Mr. Chan held various positions with HK listed companies, including: as an executive director of China Pipe Group Limited (中國管業集團有限公司) (stock code: 380) and Interchina Holdings Company Limited (國中控股有限公司) (stock code: 202), as an independent non-executive director of Rising Development Holdings Limited (麗盛集團控股有限公司) (stock code: 1004), and as a director of Guangdong Investment Limited (粵海投資有限公司) (stock code: 270).

Mr. Chan obtained a higher diploma in company secretaryship and administration from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). Mr. Chan has been an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a member of the Hong Kong Securities Institute. In addition, he has been a member of the Chinese People's Political Consultative Conference – Heilongjiang Province Committee (中國人民政治協商會議黑龍江省委員會).

SENIOR MANAGEMENT

Mr. Zhao Weiwen (**趙偉文**), aged 49, has been the general manager of Zhejiang Tiange Information and Technology Co., Ltd. ("**Zhejiang Tiange**") since April 2010 and is responsible for the daily management of Zhejiang Tiange, including administration, HR, IT, finance, customer services, and Internet supervision. He has also served as a director of Tianhu since August 29, 2013 and is in charge of its daily management and development. He has approximately 15 years of experience in the telecommunications industry, gained from his employment at China Telecom's Jinhua branch (中國電信金華分公司) from August 1995 to March 2010, where he was involved in building Internet network infrastructures and related projects.

Mr. Zhao obtained a diploma in project management from the People's Liberation Army Information Engineering College (解放軍信息工程學院) in Zhengzhou in July 1994.

Mr. Yan Xiang (**閆祥**), aged 38, has been the deputy general manager and an executive director of Star Power Culture Media (Beijing) Co., Ltd ("**Star Power**") since May 2013 and September 2013, respectively. He is responsible for our Group's products development in Beijing as well as the overall daily management and operations of Star Power. He has also been the responsible person of the Beijing Branches of Hangzhou Hantang Cultural Communication Co., Ltd. ("**Hantang**") and Jinhua Xingxiu Cultural Communication Co., Ltd. ("**Xingxiu**") and is in charge of the daily management since May 2011 and August 2013, respectively. Prior to joining our Group, Mr. Yan worked at Sina Technology (China) Co., Ltd. (新浪技術(中國)有限公司) from July 2004 to May 2011. At Sina Technology (China) Co., Ltd., Mr. Yan was involved in, among others, unified communication system, interactive music video platforms and advertising products, taking different roles in strategy, development, operation and marketing.

Mr. Yan obtained a China Securities Industry Practicing Certificate admitted by the Securities Association of China (中國證券業協會) in December 2015. Mr. Yan graduated from Sun Yat-Sen University (中山大學) in Guangzhou with a bachelor's degree in computer software in June 2001.

Report of the Directors

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2016.

INITIAL PUBLIC OFFERING

The Company was incorporated in the Cayman Islands on July 28, 2008 as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands as an investment holding company. The Company listed its shares on the Main Board of the Stock Exchange on July 9, 2014 and issued 304,267,000 shares at an offer price of HK$5.28 per share. On July 30, 2014, the Company further issued 45,640,000 shares pursuant to the full exercise of the over-allotment option.

PRINCIPAL ACTIVITIES

The principal activities of the Group are operating of live social video platforms, mobile and online games and other products and services in the People's Republic of China (the "**PRC**").

Details of the principal activities of the principal subsidiaries of the Company are set out in note 5 to the financial statements.

An analysis of the Group's revenue and operating profit for the year ended December 31, 2016 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report.

BUSINESS REVIEW

The business review, the analysis using financial key performance indicator on the Group and the indication of likely future development on the Company's business are set out on pages 9 to 24 of this annual report.

IMPORTANT EVENT AFTER REPORTING DATE

The Group's important event after reporting date is set out in note 39 to the financial statements.

RESULTS

The Group's results for the year ended December 31, 2016 are set out in the consolidated statement of comprehensive income on page 105 of this annual report.

COMPLIANCE WITH THE RELEVANT SIGNIFICANT LAWS AND REGULATIONS

The Group's operations are subject to laws and regulations issued by various PRC government authorities. To contribute to healthy development of the society, we strictly comply with the PRC laws and regulations. We require all users to agree to our terms of service upon account registration. Our terms of service set out types of content strictly prohibited on our platform, and we have also developed a robust content monitoring system, including our proprietary detection technology, which identifies certain features of the human body, such as skin tone, to automatically filter certain types of suspected inappropriate content for further review by our content monitoring team, as well as random checks of rooms during the periods commonly associated with potential violations of our terms of service.

Regulations Relating to Value-added Telecommunications Business

On September 25, 2000, the State Council promulgated the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the "**Telecom Regulations**"). Under the Telecom Regulations and the Catalogue of Telecommunication Business (《電信業務分類目錄》), an appendix to the Telecom Regulations, the services of an Internet content provider (the "**ICP**") are designated as a value-added telecommunication business as at March 1, 2016. An ICP is thus subject to examination by and approval of and is required to obtain a value-added telecommunication service operating license (增值電信業務經營許可證) (the "**ICP License**") from the Ministry of Industry and Information Technology (the "**MIIT**") or its provincial counterparts. The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the "**Internet Measures**") promulgated on September 25, 2000 and amended on January 8, 2011 further categorize Internet information services into either commercial Internet information services or non-commercial Internet information services. The Internet Measures require commercial operators of Internet information services to obtain an ICP License from the MIIT or its provincial counterparts before engaging in the provision of any commercial Internet information services.

According to the currently effective Guidance Catalogue of Industries for Foreign Investment (《外商投資企業指導目錄》) (the "**Guidance Catalogue**"), updated on April 10, 2015, which governs investment activities in the PRC by foreign investors and the Administrative Rules for Foreign Investments in Telecommunications Enterprises (《外商投資電信企業管理規定》) (the "**FITE Regulations**") issued on December 11, 2001 and amended on September 10, 2008, the foreign investors' ultimate equity interests in an entity providing value-added telecommunications services in the PRC shall not exceed 50% (except e-commerce business). Furthermore, the Guidance Catalogue clearly stipulates that foreign investment is still restricted to enter into online publishing and online transmission of audio/visual programs business.

To comply with such foreign ownership restrictions, we operate our live social video platforms and engage in various online activities in the PRC through our PRC Operating Entities. Each of Hantang, Jinhua9158 Network Science and Technology Co., Ltd ("**Jinhua9158**"), Jinhua99 Information Technology Co., Ltd ("**Jinhua99**") and Xingxiu holds an ICP License.

COMPLIANCE WITH THE RELEVANT SIGNIFICANT LAWS AND REGULATIONS (continued)

Regulations Relating to Online Cultural Business

The Interim Provisions on the Administration of Internet Culture (《互聯網文化管理暫行規定》) (the "**Internet Culture Interim Provisions**"), promulgated on May 10, 2003 and amended on February 17, 2011, require entities engaging in activities relating to "online cultural products" to obtain the Network Cultural Business Permit (網絡文化經營許可證) from a provincial counterpart of the Ministry of Culture (the "**MOC**") if they intend to provide online culture products and services for profits. "Online cultural products" include cultural products that are produced specifically for Internet use, such as online music and entertainment, online games, online plays, online performances and other online cultural products that produce or reproduce music, entertainment, games, plays and other art works for Internet dissemination through technical means.

Pursuant to the currently effective Guidance Catalogue, the online cultural business (except online music) falls within the "prohibited" category. On March 18, 2011, the MOC issued the Circular on Implementation of the Newly Revised Interim Provisions on the Administration of Internet Culture (《關於實施新修訂<互聯網文化管理暫行規定>的通知》), which also provides that in general, the authorities temporarily will not accept applications by foreign-invested ICP operators for operation of online culture business.

On December 2, 2016, the MOC promulgated the Administrative Measures on Online Performance Operating Activities (《網絡表演經營活動管理辦法》)(the "**Online Performance Measures**") which took effect from January 1, 2017. The Online Performance Measures regulate online performance operating activities and emphasizes that any entities engaging in online performance operating activities must obtain the Network Cultural Business Permit. We have put measures to rectify and improve operations to comply with the Online Performance Measures.

Each of Hantang, Jinhua9158, Jinhua99 and Xingxiu holds a Network Cultural Business Permit.

Regulations Relating to Internet Publication Business

On February 4, 2016, as approved by the General Administration of Press and Publication (the "**GAPP**"), the MIIT issued the Regulations on Administration of Internet Publication Services (《網絡出版服務管理規定》) (the "**New Internet Publication Regulations**") which took effect from March 10, 2016. The Interim Regulations on Administration of Internet Publication (《互聯網出版管理暫行規定》) (the "**Interim Regulations**") issued on June 27, 2002 was superseded. The New Internet Publication Regulations preserved the license requirement for any company that engages in Internet publication activities which includes the provision of online games through Internet; therefore, an online game operator must obtain an Internet Publishing Services License (網絡出版服務許可證) so that it can directly offer its online games to the public in the PRC. The New Internet Publication Regulations specify foreign enterprises are prohibited to invest in the Internet publications business.

COMPLIANCE WITH THE RELEVANT SIGNIFICANT LAWS AND REGULATIONS (continued)

Regulations Relating to Internet Publication Business (continued)

On July 6, 2005, five PRC government authorities, including the MOC and the GAPP, jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》), pursuant to which foreign enterprises are prohibited to invest in the business of audio/visual programs provision via the information network and Internet publications.

Hantang obtained an Internet Publishing License for the publication of online games and mobile phone games in 2013 and renewed on November 26, 2015.

Regulations Relating to Online Games

On June 3, 2010, the Interim Measures on Administration of Online Games (《網絡遊戲管理暫行辦法》) (the "**Online Game Measures**") were promulgated which require that a company engaging in the operation of online games, including operation of online games, issuance of virtual currency and/or provision of virtual currency transaction services, must have a registered capital of at least RMB10 million and obtain a Network Cultural Business Permit from the provincial counterpart of the MOC. For online games developed in the PRC, the online game operators are required to complete filing procedures with the MOC and comply with other relevant requirements. Online game operators shall indicate the filing numbers at the designated places of their websites and in the games. Online game operators are also required to establish self-censorship systems and have dedicated personnel for the purpose to ensure the lawfulness of the content of online games.

According to the New Internet Publication Regulations, games are not allowed to put online for operation without obtaining pre-approval from GAPP. We are in the process of applying for approval from GAPP and filing with the MOC for most of the online games we currently operate. The GAPP Online Game Notice requires an online game operator to obtain an Internet Publication License and further prohibits any direct foreign investment in online games operation business or foreign control or participation in domestic companies' online game operation business in an indirect way such as establishing other joint ventures, entering into relevant agreements or providing technical support, or in any other disguised manner.

COMPLIANCE WITH THE RELEVANT SIGNIFICANT LAWS AND REGULATIONS (continued)

Regulations Relating to Virtual Currency

To curtail online games that involve online gambling while addressing concerns that virtual currency might be used for money laundering or illicit trade, on January 25, 2007, the Ministry of Public Security, the MOC, the MIIT and the GAPP jointly issued the Notice on Regulating Operation Order of Online Games and Prohibition of Gambling via Online Games (《關於規範網絡遊戲經營秩序查禁利用網絡遊戲賭博的通知》). On February 15, 2007, fourteen PRC government authorities jointly issued the Notice on Further Strengthening Administration of Internet Cafes and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》). In accordance with this notice, the People's Bank of China (the "**PBOC**") shall strengthen the administration and regulation on virtual currency to prohibit the virtual currency from impacting the real currency system.

On June 4, 2009, the MOC and the MOFCOM jointly issued the Notice on Strengthening the Administration of Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the "**Virtual Currency Notice**"). The Virtual Currency Notice requires the entities engaging in businesses that (i) issue online game virtual currency (in the form of prepaid cards and/or pre-payment or prepaid card points), or (ii) offer online game virtual currency transaction services to apply for approval from the MOC through its provincial counterparts. The online game operators that issue virtual currency are prohibited from providing services that would enable the trading of such virtual currency. Any online game operator that fails to submit the requisite application will be subject to sanctions, including, without limitation, mandatory corrective measures and fines.

In addition to the Virtual Currency Notice, the Online Game Measures promulgated by the MOC effective on June 3, 2010 further provide that (i) virtual currency may only be used to purchase services and products provided by the online game operator that issues the currency; (ii) the purpose of issuing virtual currency shall not be malicious appropriation of the user's advance payment; (iii) the storage period of online game players' purchase record shall not be shorter than 180 days from last time the player receives the service provided by the online game operator; (iv) the types, price and total amount of virtual currency shall be filed with the cultural administration department at the provincial level. Moreover, the Online Game Measures stipulate that virtual currency transaction service providers may not provide virtual currency transaction services to minors or for online games that fail to obtain the necessary approval or filings, and that such providers should keep transaction records, accounting records and other relevant information for its users for at least 180 days.

POTENTIAL RISK FACTORS

The live social video community industry is an evolving industry, its growth and the level of demand of Tian Ge's products and services are subject to uncertainty. The Company's growth will depend on a number of factors, some of which are beyond our control. These factors include:

Economic Environment

Many factors affect the level of consumer spending, including the state of the economy as a whole, stock market performance, interest rates, recession, deflation and other factors that influence consumer confidence. The Group's business performance might be negatively affected by uncertainties regarding future economic prospects in China. A significant decline in Chinese economy could have an adverse effect on the Group's business.

Market Acceptance

Tian Ge's success depends on the Company's ability to originate and identify market trends, and also to anticipate and respond timely to the changing consumer preferences. The Group foresees the shifting user trends from PCs to mobile devices, and hence devotes more resources in enhancing our core live social video products towards mobile. The Group will spare no effort to stay abreast of emerging trends, however, if the Group fails to identify and respond to the market trends, there might be significant adverse effects on Tian Ge's business and financial performance.

Content Monitoring

Due to the immense quantity of user-generated content on our platform, our system may not be able to detect all violations of our terms of service and inappropriate content streamed or displayed over our platform. We may be held liable for information or content displayed on, retrieved from or linked to our platform, or distributed to our users, and PRC authorities may impose legal sanctions on us.

Changing of Technologies

Our business and future success depend on our ability to adapt to rapidly changing of technologies, and our ability to provide new products and services through using new technologies plays an important role on our future performance. In recent years, the development of mobile technology resulted users shifting from PC to mobile device, which also demands more innovation and diversification in technology application. If we fail to keep pace with rapid technological changes, our future success may be adversely affected.

Contractual arrangements

We rely on contractual arrangements with our PRC Operating Entities (as defined below) and their shareholders for the operation of our business, which may not be as effective as direct ownership. If our PRC Operating Entities (as defined below) and their shareholders fail to perform their obligations under these contractual arrangements, we may have to resort to litigation to enforce our rights, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation. For details, please refer to the section "Contractual Arrangements" on page 56.

POTENTIAL RISK FACTORS (continued)

Investment and New Business Development

To date, we had entered into strategic alliances, including joint ventures or minority equity investments, with various third parties to further our business purpose from time to time. These alliances could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the third party and increased expenses in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have limited ability to monitor or control the actions of these third parties and, to the extent any of these strategic third parties suffers negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third party. Moreover, these new opportunities come with associated uncertainties and risks, especially when the business is based on a relatively new business model that may not be successful and encounters large scale competitors with strong innovation and technological capabilities.

Foreign Exchange Risk

Most of our subsidiaries' functional currencies are RMB, as the majority of the revenues of these companies are derived from our operations in mainland China. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to foreign currency denominated financial assets as at December 31, 2016. We do not hedge against any fluctuation in foreign currency.

SOCIAL RESPONSIBILITIES AND HUMAN RESOURCES

In fulfillment of corporate social responsibilities, Tian Ge is committed to environmental sustainability. Tian Ge archived paperless business operation in running live social video platforms in China. The Group also actively implements the concept of "green office" by increasing employees' awareness about the importance of energy saving, recycling and waste reduction.

Tian Ge views employees as our most valuable asset. Tian Ge recognizes that the skill, dedication and enthusiasm of our team is critical to our success in the face of ever-evolving market challenges. We strive to build an energetic working environment and to offer competitive remuneration packages, various incentives, promotion opportunities and training courses to its staff.

As one of the leading social media platform operators in China, the Group has maintained sound business relationships with our core live social ecosystem partnership as well as other stakeholders, which include but not limited to our distributors, hosts, sales agents, users and shareholders. We aim to improve the live social environment and ensure we provide the best value to our robust and solid loyal stakeholders.

DIVIDEND

The Board has proposed a final dividend of HK$0.07 per share for the year ended December 31, 2016 (2015: HK$0.06 per share). Subject to the approval at the forthcoming AGM to be held on 1 June 2017, the final dividend will be payable on 20 June 2017 to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on 8 June 2017.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year 2016 are set out in note 25 to the financial statements.

EQUITY-LINKED AGREEMENTS

Other than the Share Incentives Schemes as disclosed in this report and note 27 to the Consolidated Financial Statements, no equity-linked agreements were entered into by the Company during the Reporting Period or subsisted at the end of the Reporting Period.

RESERVES

Details of movements in the reserves of the Group and the Company for the year ended December 31, 2016 are set out in the consolidated statement of changes in equity and note 26 and note 40 to the financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of Cayman Companies Law, amounted to approximately RMB1.6 billion (as at December 31, 2015: RMB1.5 billion).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended December 31, 2016 are set out in note 15 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the Group's five largest distributors accounted for approximately 48.1% of the Group's total cash proceeds received from sales of our virtual currency and game coins for the year ended December 31, 2016 and among which our top distributor accounted for approximately 23.2% of the Group's total cash proceeds received from sales of our virtual currency and game coins for the year ended December 31, 2016.

The Group's five largest suppliers for the year 2016 were distribution channels, promotion channels and server provider. The aggregate charges from the Group's five largest suppliers accounted for approximately 12.6% of the Group's cost of revenues and expenses attributable to suppliers for the year ended December 31, 2016 and among which our top supplier accounted for approximately 2.9% of the Group's cost of revenues and expenses attributable to suppliers for the year ended December 31, 2016.

None of the Directors or any of their close associates, or any Shareholders which to the knowledge of the Directors own more than 5% of the Company's issued shares have any interests in the Group's five largest suppliers or distributors.

DONATIONS

During the year ended December 31, 2016, the Company did not make any charitable contributions and other donations (2015: Nil).

DIRECTORS

The Directors for the year ended December 31, 2016 and up to the date of this report are:

Executive Directors

Mr. Fu Zhengjun *(Chairman and chief executive officer)*
Mr. Mai Shi'en *(Chief operating officer and acting chief financial officer)*

Non-Executive Directors

Mr. Mao Chengyu
Mr. Herman Yu

Independent Non-Executive Directors

Ms. Yu Bin
Mr. Wu Chak Man
Mr. Chan Wing Yuen Hubert

DIRECTORS (continued)

In accordance with article 84 of the Company's articles of association passed on June 16, 2014 (the "**Articles**"), one-third of the Directors shall retire from office by rotation at AGM and be eligible for re-election. Accordingly, Mr. Fu Zhengjun, being an executive Director, Mr. Wu Chak Man, being an independent non-executive Director and Mr. Chan Wing Yuen Hubert, being an independent non-executive Director, shall retire from office at the forthcoming AGM and, being eligible, will offer themselves for re-election at the forthcoming AGM.

The Board has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Rules governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Board considers all independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors of the Company has entered into service agreement with the Company for a term of three years, commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant service agreements). The Company is in the process of renewing the service agreements with the executive Directors.

Each of the non-executive Directors of the Company and the independent non-executive Directors of the Company has entered into letters of appointment with the Company on June 16, 2014 for a term of three years (subject to termination in certain circumstances as stipulated in the relevant letters of appointment). The Company is in the process of renewing the letters of appointment with the non-executive Directors and the independent non-executive Directors.

None of the Directors has or is proposed to have entered into any service agreement of our Group (excluding agreements expiring or determinable by any member of our Group within one year without payment of compensation, other than statutory compensation).

The procedures and process of appointment, re-election and removal of directors are set out in the Articles. The nomination committee of the Company (the "**Nomination Committee**") is responsible for reviewing the Board composition and recommending to the Board on the appointment or reappointment of Directors and succession planning for the Directors, in particular the Chairman and chief executive officer.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

None of the Directors or any entity connected with the Directors has or had a material beneficial interest, whether directly or indirectly, in any transaction, arrangement or contract which is significant in relation to the Group's business to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was a party during the year ended December 31, 2016.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the Controlling Shareholders (as defined below) or its subsidiary has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended December 31, 2016.

ENFORCEMENT OF THE DEED OF NON-COMPETITION

Pursuant to the deed of non-competition dated June 16, 2014 ("**Non-Competition Deed**") entered into by Mr. Fu Zhengjun, Mr. Fu Yanchang, Three-Body Holdings Ltd, Star Wonder Holding Ltd, Blueberry Worldwide Holdings Limited and Cloud Investment Holding Limited (the "**Covenantors**" or "**Controlling Shareholders**"), each of the Covenantors has jointly and severally, unconditionally and irrevocably undertaken with our Company that he/it will not (except through the Group and any investment or interests held through the Group), and will procure his/its associates (other than any member of our Group) not to, directly or indirectly (including through nominees), carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or connected with, any business which is in competition with or similar to or is likely to be in competition with the business referred to in the prospectus of the Company dated June 25, 2014 (the "**Prospectus**") that is carried on or contemplated to be carried on by any member of our Group (the "**Restricted Business**"). In addition, the Covenantors also granted the Company options for new business opportunities related to the Restricted Business. For details of the Non-Competition Deed, please refer to the Prospectus.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Non-Competition Deed for disclosure in this annual report during the Reporting Period.

The Company and its Directors have made market enquiries and nothing has come to the attention of the Company or its Directors that the Controlling Shareholders are engaging in any business that may compete with that of the Group in contravention of the terms of the Non-Competition Deed. The independent non-executive Directors of the Company have also reviewed the compliance and enforcement status of the Non-Competition Deed, and are of the view that the Controlling Shareholders have abided by the undertakings contained in the Non-Competition Deed during the Reporting Period.

DIRECTORS' EMOLUMENTS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Particulars of the Directors' emoluments and five highest paid individuals for the year ended December 31, 2016 are set out in note 41 and note 9 respectively to the financial statements and the emolument policy of the Company is set out in the Corporate Governance Report on pages 73 to 83 of this annual report.

No Director has waived or has agreed to waive any emoluments during the year ended December 31, 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2016, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in any business which were in competition or were likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of December 31, 2016, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") are as follows:

Interests in ordinary shares of the Company:

Name of director	Nature of interests	Number of shares held	Approximate percentage of shareholding as at December 31, 2016
Mr. Fu Zhengjun ("**Mr. Fu**")	Founder of a discretionary trust *(Note 1)*	306,000,000	23.55%
	Beneficiary of a trust *(Note 2)*	21,260,000	1.64%

Notes:

1. *UBS Trustees (BVI) Limited, the trustee of Mr. Fu's Trust (as defined below), holds the entire issued share capital of Three-Body Holdings Ltd through its nominee, UBS Nominee Limited. Three-Body Holdings Ltd holds the entire issued share capital of Blueberry Worldwide Holdings Limited. Blueberry Worldwide Holdings Limited in turn holds 306,000,000 Shares in our Company. Mr. Fu's trust ("**Mr. Fu's Trust**") is a discretionary trust established by Mr. Fu (as the settlor) and the discretionary beneficiaries of which are Mr. Fu and his family members. Accordingly, each of Mr. Fu, UBS Trustees (BVI) Limited, Three-Body Holdings Ltd and Blueberry Worldwide Holdings Limited is deemed to be interested in the 306,000,000 Shares held by Blueberry Worldwide Holdings Limited.*

2. *UBS Trustees (BVI) Limited is also the trustee of Mr. Fu Yanchang's Trust ("**Mr. Fu Yanchang's Trust**") and holds the entire issued share capital of Star Wonder Holding Ltd through its nominee, UBS Nominee Limited. Star Wonder Holding Ltd holds the entire issued share capital of Cloud Investment Holding Limited. Cloud Investment Holding Limited in turn holds 21,260,000 shares in our Company. Mr. Fu Yanchang's Trust is a discretionary trust established by Mr. Fu's father, Mr. Fu Yanchang (as the settlor) and the discretionary beneficiaries of which are Mr. Fu Yanchang and his family members. Accordingly, each of Mr. Fu Yanchang, Mr. Fu, UBS Trustees (BVI) Limited, Star Wonder Holding Limited and Cloud Investment Holding Limited is deemed to be interested in the 21,260,000 shares held by Cloud Investment Holding Limited.*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Interest in underlying shares of the company:

Name of director	Position held within our Group	Nature	Number of shares represented by options or RSUs	Exercise price (US$)	Approximate percentage of shareholding as at December 31, 2016
Mr. Fu Zhengjun	Chairman, executive Director and chief executive officer	RSUs *(Note 1)*	10,000,000	Nil	0.77%
		Interest of Spouse *(Note 4)*	20,000,000	Nil	1.54%
Mr. Mai Shi'en	Executive Director, chief operating officer and acting chief financial officer	RSUs *(Note 2)*	4,800,000	Nil	0.37%
Mr. Mao Chengyu	Non-executive Director	Options *(Note 3)*	200,000	0.35	0.02%
Mr. Herman Yu	Non-executive Director	Options *(Note 3)*	200,000	0.35	0.02%
Ms. Yu Bin	Independent Non-executive Director	Options *(Note 3)*	200,000	0.35	0.02%
Mr. Wu Chak Man	Independent Non-executive Director	Options *(Note 3)*	200,000	0.35	0.02%
Mr. Chan Wing Yuen, Hubert	Independent Non-executive Director	Options *(Note 3)*	200,000	0.35	0.02%

Notes:

1. *Mr. Fu is interested in 1,000,000 Pre-IPO RSUs granted to him on May 22, 2014 under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 shares subject to vesting.*

2. *Mr. Mai Shi'en is interested in 480,000 Pre-IPO RSUs granted to him on May 22, 2014 under the Pre-IPO RSU Scheme entitling him to receive 4,800,000 shares subject to vesting.*

3. *Mr. Mao Chengyu, Mr. Herman Yu, Ms. Yu Bin, Mr. Wu Chak Man and Mr. Chan Wing Yuen, Hubert are each interested in 20,000 Pre-IPO options granted to each of them on May 22, 2014 under the Pre-IPO share Option Scheme entitling each of them to receive 200,000 shares subject to vesting.*

4. *Ms. Hong Yan is Mr. Fu's spouse and she is interested in 2,000,000 Pre-IPO RSUs granted to her on May 22, 2014 under the Pre-IPO RSU Scheme entitling her to receive 20,000,000 shares subject to vesting. Accordingly, Mr. Fu is deemed to be interested in the 20,000,000 shares which are interested by Ms. Hong Yan under the SFO.*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Save as disclosed above, as at December 31, 2016, none of the Directors and chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which was required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which was required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2016, the following persons (other than the Directors or chief executives of the Company), had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Nature of interests	Number of Shares or securities held	Approximate percentage of interest as at December 31, 2016
UBS Trustees (BVI) Limited	Trustee *(Note 1)*	327,260,000	25.19%
Three-Body Holdings Ltd	Interest in Controlled Corporation *(Note 1)*	306,000,000	23.55%
Blueberry Worldwide Holdings Limited	Beneficial Owner *(Note 1)*	306,000,000	23.55%
Sina Hong Kong Limited	Beneficial Owner	300,000,000	23.09%
Ho Chi Sing	Interest in Controlled Corporation *(Note 2)*	150,000,000	11.54%
Zhou Quan	Interest in Controlled Corporation *(Note 2)*	150,000,000	11.54%
IDG-Accel China Growth Fund GP II Associates Ltd.	Interest in Controlled Corporation *(Note 2)*	150,000,000	11.54%
IDG-Accel China Growth Fund II Associates L.P.	Interest in Controlled Corporation *(Note 2)*	138,660,000	10.67%
IDG-Accel China Growth Fund II L.P.	Beneficial Owner *(Note 2)*	138,660,000	10.67%
Li Jingyi	Beneficial Owner	116,782,000	8.99%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Notes:

1. *UBS Trustees (BVI) Limited, the trustee of Mr. Fu's Trust and Mr. Fu Yanchang's Trust (as defined below), holds the entire issued share capital of Blueberry Worldwide Holdings Limited and Cloud Investment Holding Limited through Three-Body Holdings Ltd and Star Wonder Holding Ltd, respectively. Blueberry Worldwide Holdings Limited and Cloud Investment Holding Limited hold 306,000,000 shares and 21,260,000 shares in our Company, respectively. Mr. Fu's Trust is a discretionary trust established by Mr. Fu (as the settlor) and the discretionary beneficiaries of which are Mr. Fu and his family members. Accordingly, each of Mr. Fu, UBS Trustees (BVI) Limited, Three-Body Holdings Ltd and Blueberry Worldwide Holdings Limited is deemed to be interested in the 306,000,000 shares held by Blueberry Worldwide Holdings Limited. Mr. Fu Yanchang's trust is a discretionary trust established by Mr. Fu Yanchang (as the settlor) and the discretionary beneficiaries of which are Mr. Fu Yanchang and his family members. Accordingly, each of Mr. Fu Yanchang, UBS Trustees (BVI) Limited, Cloud Investment Holding Limited and Star Wonder Holding Ltd is deemed to be interested in the 21,260,000 shares held by Cloud Investment Holding Limited.*

2. *IDG-Accel China Growth Fund II L.P. is wholly owned by IDG-Accel China Growth Fund II Associates L.P., which is in turn wholly owned by IDG-Accel China Growth Fund GP II Associates Ltd. Accordingly, each of IDG-Accel China Growth Fund II L.P., IDG-Accel China Growth Fund II Associates L.P. and IDG-Accel China Growth Fund GP II Associates Ltd. is deemed to be interested in the 138,660,000 shares held by IDG-Accel China Growth Fund II L.P.. Separately, IDG-Accel Growth Investors II L.P. is wholly owned by IDG-Accel China Growth Fund GP II Associates Ltd., therefore IDG-Accel China Growth Fund GP II Associates Ltd. is deemed to be interested in the 11,340,000 shares held by IDG-Accel Growth Investors II L.P*

   Each of Ho Chi Sing and Zhou Quan holds 50% of the issued share capital of IDG-Accel China Growth Fund GP II Associates Ltd., therefore both Ho Chi Sing and Zhou Quan are deemed to be interested in the 150,000,000 shares which IDG-Accel China Growth Fund GP II Associates Ltd. is interested in total.

Save as disclosed above, as at December 31, 2016, the Directors and the chief executives of the Company are 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 which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Incentive Schemes" in this report and in note 27 to the financial statements, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE INCENTIVE SCHEMES

In order to incentivize our Directors, senior management and other employees for their contribution to the Group and to attract and retain suitable personnel to our Group, the Company adopted the Pre-IPO Share Option Scheme on December 9, 2008 (amended and restated on October 21, 2011 and May 22, 2014) and the Pre-IPO RSU Scheme on May 22, 2014. We also conditionally adopted the Post-IPO RSU Scheme and the Post-IPO Share Option scheme on June 16, 2014.

The principal terms of the Pre-IPO Share Option Scheme, the Post-IPO Share Option Scheme (collectively, the "**Share Option Schemes**"), the Pre-IPO RSU Scheme and Post-IPO RSU Scheme (collectively, the "**RSU Schemes**") are summarized in the section headed "Statutory and General Information – D. Share Incentive Schemes" in Appendix IV to the Company's Prospectus.

Pre-IPO Share Option Scheme

The purposes of the Pre-IPO Share Option Scheme are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected employees, directors and consultants and to promote the success of the Company's business by offering these individuals an opportunity to acquire a proprietary interest in the success of the Company or to increase this interest, by issuing them shares or by permitting them to purchase shares.

(i) The maximum aggregate number of shares that may be issued under the Pre-IPO Share Option Scheme shall not exceed 8,845,575 shares as at the date of the Prospectus. But following the capitalization issue (as defined in the Prospectus), it has been adjusted to 88,455,750 shares, which represented 6.81% of the total number of issued shares of the Company as at the date of this report;

(ii) The exercise price of any option shall be determined by the Administrator (as defined hereinafter) in its sole discretion, except that the exercise price of an incentive stock option shall not be less than 100% of the fair market value on the date of grant;

(iii) The Pre-IPO Share Option Scheme shall remain in effect for a term of ten (10) years subject to any amendments, alterations, suspension or termination by the Board or any of its committee (the "**Administrator**") and the remaining life of this scheme is around 1 year and 9 months; and

(iv) Any share option granted under the Pre-IPO Share Option Scheme shall automatically expire if it is not taken up within 30 days after the date of grant.

SHARE INCENTIVE SCHEMES (continued)

Post-IPO Share Option Scheme

The purposes of the Post-IPO Share Option Scheme are to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

(i) The participants can be an employee (whether full time or part time) or a director of a member of our Group or associated companies of our Company ("**Eligible Persons**");

(ii) The maximum number of shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 121,706,700, representing 9.4% of the total number of shares in issue as at the date of this report. As at December 31, 2016, 4,000,000 options have been granted by us pursuant to the Post-IPO Share Option Scheme;

(iii) No options shall be granted to any Eligible Person under the Post-IPO Share Option Scheme and any other schemes of our Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the shares in issue at such date;

(iv) An amount of HK$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price;

(v) The exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option; (b) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and (c) the nominal value of the shares;

(vi) The Post-IPO Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date and the remaining life of this scheme is around 7 years and 3 months; and

(vii) Any option which remains unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option.

SHARE INCENTIVE SCHEMES (continued)

Outstanding Share Options

As disclosed in the section headed "Statutory and General Information – D. Share Incentive Schemes – 1. Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus, prior to the Listing, options representing a total of 15,648,000 shares were granted to 490 grantees under the Pre-IPO Share Option Scheme. Our Company adopted the Pre-IPO RSU Scheme to partially replace the options granted under the Pre-IPO Share Option Scheme. Options representing a total of 4,280,000 shares, which were granted to 5 persons including 2 executive Directors, 1 senior management, 1 connected person and 1 other employee of our Group, were replaced by Pre-IPO RSUs. No consideration was paid by any of the grantees of the options under the Pre-IPO Share Option Scheme for any options granted to them. Although the Company determines the vesting period of each option-holder on a case-by-case basis, the general vesting period for the option-holders are as follows: 25% of the shares subject to the Pre-IPO Share Option shall vest on the first anniversary of the granting date, and 1/48 of the shares subject to the Pre-IPO Share Option shall vest each month thereafter over the next three years on the same day of the month as the granting date (such day to be deemed to be the last day of the month, when necessary), subject to the option-holders continuing to be a service provider through these dates.

As at December 31, 2016, options representing a total of 44,238,886 shares (taking into account the 27,830,385 options which have lapsed and options in respect of an aggregate of 41,610,729 shares which have been exercised in accordance with the terms of the Pre-IPO Share Option Scheme) were outstanding. If all the options under the Pre-IPO Share Option Scheme are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 3.4% as at December 31, 2016. However, as the options are exercisable over a 10-year period from the date of grant, any such dilutive effect on earnings per share may be staggered over several years.

No other share options have been granted by us after the Listing pursuant to the Pre-IPO Share Option Scheme.

The Company has appointed The Core Trust Company Limited (匯聚信託有限公司) as the trustee and Happy88 Holdings Limited, a company incorporated in the British Virgin Islands and an independent third party, as the nominee to administer the Pre-IPO Share Options Scheme pursuant to its scheme rules. During the Reporting Period, no shares have been issued and allotted to Happy88 Limited.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 121,706,700, representing 10.0% of the total number of shares in issue as at the Listing Date.

As at December 31, 2016, 4,000,000 options have been granted by us pursuant to the Post-IPO Share Option Scheme, representing approximately 0.3% of the issued shares of the Company.

The options granted on September 22, 2015 were or will be vested on December 22, 2015, September 22, 2016, September 22, 2017 and September 22, 2018, respectively and the number of options granted for the respective vesting dates is 1,625,000, 1,125,000, 875,000 and 375,000. The closing price of the shares immediately before the date of grant was HK$3.31.

SHARE INCENTIVE SCHEMES (continued)

Pre-IPO RSU Scheme

The purposes of the Pre-IPO RSU Scheme are to recognize the contributions by grantees and to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

(i) the total number of shares underlying RSUs under the Pre-IPO RSU Scheme shall not exceed 7,280,000 shares;

(ii) the participants of the scheme are existing employees, Directors or officers of the Group, and any other person selected by the Board or the RSUs and option committee at its sole discretion from time to time; and

(iii) the duration of the Pre-IPO RSU Scheme is 10 years commencing on May 22, 2014 and the remaining life of this scheme is around 7 years and 2 months.

Post-IPO RSU Scheme

The scheme rules of the Post-IPO RSU Scheme are substantially similar to the Pre-IPO RSU Scheme. The purposes of the Post-IPO RSU Scheme are to incentivize directors, senior management, consultants and employees of the Company for their contribution to the Company, to retain them for continual operation and development of the Company and to attract suitable personnel for further development of the Company.

(i) the maximum aggregate number of shares underlying all grants of RSUs pursuant to the Post-IPO RSU Scheme will not exceed 24,341,340 shares, representing approximately 2.0% of the total number of shares in issue as at the Listing Date;

(ii) the participants of the scheme are existing employees, Directors or officers of the Group, and any other person selected by the Board or the RSUs and option committee at its sole discretion from time to time; and

(iii) the duration of the Post-IPO RSU Scheme is 10 years commencing on June 16, 2014 and the remaining life of this scheme is around 7 years and 3 months.

SHARE INCENTIVE SCHEMES (continued)

Outstanding RSUs

A total of 7,280,000 Pre-IPO RSUs (which includes the 4,280,000 Pre-IPO RSUs which were granted to partially replace the options granted under the Pre-IPO Share Option Scheme) have been granted on May 22, 2014 to 17 grantees, including 2 executive Directors, 3 senior management members, 1 connected person of the Group and 11 other employees. The 4,280,000 Pre-IPO RSUs that were granted to replace the Pre-IPO Share Option Scheme have the same vesting period as the Pre-IPO Share Options. For the Pre-IPO RSUs granted to the remaining Pre-IPO RSU grantees, 25% shall vest on the first anniversary of the date of the grant letter, and 1/48 shall vest each month thereafter over the next three years on the same day of the month as the date of the grant letter (such day to be deemed to be the last day of the month, when necessary).

On July 9, 2014, upon the Company's IPO on the Main Board of the Stock Exchange, the Company's ordinary shareholders received 9 bonus shares for every registered ordinary share that they already held. As a result, the 7,280,000 ordinary shares of the Company underlying the RSUs were adjusted to 72,800,000 ordinary shares on a one-to-ten basis. As at the date of this report, the total number of shares underlying the RSUs represents approximately 5.6% of the total number of shares of the Company.

We have appointed The Core Trust Company Limited (匯聚信託有限公司) as the trustee and Tangguo Limited, a company incorporated in the British Virgin Islands and an independent third party, as the nominee to administer the Pre-IPO RSU Scheme pursuant to its scheme rules.

During the Reporting Period, RSUs in respect of an aggregate of 18,517,000 shares have been exercised by grantees under the Pre-IPO RSU Scheme and no RSUs have lapsed. As a result, as at December 31, 2016, 47,281,000 shares have been issued and allotted to Tangguo Limited.

As of December 31, 2016, RSUs in respect of a total of 7,267,688 shares pursuant to the Company's Post-IPO RSU Scheme have been granted on April 20, 2015, September 15, 2015 and April 1, 2016.

The RSUs granted on April 20, 2015 were vested on August 16, 2015 and August 16, 2016, respectively and the number of RSUs granted for the respective vesting date is 1,749,500 and 1,749,500. The closing price of the shares immediately before the date of grant was HK$5.48.

The RSUs granted on September 15, 2015 were or will be vested on December 15, 2015, September 15, 2016 and September 15, 2017, respectively and the number of RSUs granted for the respective vesting date is 1,646,000, 930,000 and 144,000. The closing price of the shares immediately before the date of grant was HK$2.90.

The RSUs granted on April 1, 2016 were or will be vested on August 3, 2016 and August 3, 2017, respectively and the number of RSUs granted for the respective vesting date is 524,350 and 524,338. The closing price of the shares immediately before the date of grant was HK$4.96.

The Company appointed The Core Trust Company Limited (匯聚信託有限公司) as the trustee and Xinshow Limited, a company incorporated in the British Virgin Islands and an independent third party, as the nominee to administer the Post-IPO RSU Scheme. During the Reporting Period, RSUs in respect of an aggregate of 4,121,309 shares have been exercised by grantees under the Post-IPO RSU Scheme and 90,000 RSUs have lapsed, as a result, as at December 31, 2016, 2,985,748 shares have been allotted and issued to Xinshow Limited.

SHARE INCENTIVE SCHEMES (continued)

Details of the options granted under the Share Option Schemes and the RSUs granted under the RSU Schemes

The following table shows the details of the options and/or the RSUs granted and outstanding under the Share Option Schemes and the RSU Schemes to, on an individual basis, the Directors, chief executive members and other connected person of the Group as at December 31, 2016.

Name of Grantee	Position Held within Our Group	Nature	Number of Shares Represented by Option or RSUs	Date of Grant	Outstanding as at January 1, 2016	Exercise Price (US$)	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at December 31, 2016
Director of our Company										
Mr. Fu Zhengjun	Chairman, executive Director and chief executive officer	RSUs	10,000,000	22 May 2014	10,000,000	Nil	0	0	0	10,000,000
Mr. Mai Shi'en	Executive director, chief operating officer and acting chief financial officer	RSUs	4,800,000	22 May 2014	5,000,000	Nil	200,000	0	0	4,800,000
Mr. Mao Chengyu	Non-executive Director	Options	200,000	22 May 2014	200,000	0.35	0	0	0	200,000
Mr. Herman Yu	Non-executive Director	Options	200,000	22 May 2014	200,000	0.35	0	0	0	200,000
Ms. Yu Bin	Independent Non-executive Director	Options	200,000	22 May 2014	200,000	0.35	0	0	0	200,000
Mr. Wu Chak Man	Independent Non-executive Director	Options	200,000	22 May 2014	200,000	0.35	0	0	0	200,000
Mr. Chan Wing Yuen, Hubert	Independent Non-executive Director	Options	200,000	22 May 2014	200,000	0.35	0	0	0	200,000
Other connected persons of our Group										
Ms. Hong Yan	Vice president of Tiange Technology (Hangzhou) Co., Ltd. (天格科技（杭州）有限公司) ("**Hangzhou Tiange**")	RSUs	20,000,000	22 May 2014	20,000,000	Nil	0	0	0	20,000,000
Seven Directors and one connected person		Options	1,000,000							
		RSUs	34,800,000							
		Sub-total	35,800,000							

SHARE INCENTIVE SCHEMES (continued)

Details of the options granted under the Share Option Schemes and the RSU Schemes

The following is a summary table showing further details of the options and/or the RSUs granted and outstanding under the Share Option Schemes and the RSU Schemes to individuals who are neither a Director, chief executive member nor a connected person of the Group as at December 31, 2016.

Rank/Position Held with Our Group	Nature	Number of Shares Represented by Option or RSUs	Date of Grant	Outstanding as at January 1, 2016	Exercise Price (US$/HK$)	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at December 31, 2016
239 other employees and 27 other consultants *(Note 1)*	Options	11,811,000	January 14, 2009	12,914,000	US$0.01	1,103,000	0	0	11,811,000
		2,160,000	July 23, 2009	2,552,000	US$0.021	392,000	0	0	2,160,000
		3,848,540	July 23, 2009	5,403,540	US$0.03	1,555,000	0	0	3,848,540
		2,231,380	June 17, 2010	2,816,380	US$0.06	585,000	0	0	2,231,380
		300,000	September 6, 2010	800,000	US$0.06	500,000	0	0	300,000
		6,601,000	September 6, 2010	8,971,000	US$0.035	2,370,000	0	0	6,601,000
		2,859,050	December 20, 2010	3,169,050	US$0.06	310,000	0	0	2,859,050
		35,000	December 20, 2010	142,000	US$0.03	107,000	0	0	35,000
		1,600,000	December 26, 2011	2,000,000	US$0.06	400,000	0	0	1,600,000
		1,184,000	December 26, 2011	1,545,000	US$0.1	361,000	0	0	1,184,000
		908,439	December 26, 2011	1,419,814	US$0.12	511,375	0	0	908,439
		1,931,100	October 14, 2012	3,502,940	US$0.15	1,566,000	0	5,840	1,931,100
		1,045,570	September 14, 2013	1,794,540	US$0.2	700,000	0	48,970	1,045,570
		6,723,807	May 22, 2014	8,817,205	US$0.35	1,671,458	0	421,940	6,723,807
		3,358,000	September 22, 2015	4,000,000	HK$3.50	642,000	0	0	3,358,000
	Options total	**46,596,886**		**59,847,469**	**–**	**12,773,833**	**0**	**476,750**	**46,596,886**
	RSUs	12,481,000	May 22, 2014	30,798,000	Nil	18,317,000	0	0	12,481,000
		1,823,197	April 20, 2015	3,428,369	Nil	1,605,172	0	0	1,823,197
		393,833	September 15, 2015	2,720,000	Nil	2,236,167	0	90,000	393,833
		768,718	April 1, 2016	1,048,688	Nil	279,970	0	0	768,718
	RSUs total	**15,466,748**		**36,946,369**		**22,438,309**	**0**	**90,000**	**15,466,748**
	Sub-total	**62,063,634**							

Note:

1. *Consultants are third party agents who provided our Group with business consultancy services on financial management, research and development, human resources and sales. Pursuant to the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, a total of 12,323,200 options have been granted to 27 consultants.*

2. *The weighted average closing price of the shares immediately before the dates on which the options were exercised during the Reporting Period was approximately HK$5.34.*

3. *The weighted average closing price of the shares immediately before the dates on which the RSUs were exercised during the Reporting Period was approximately HK$4.89.*

CONNECTED TRANSACTIONS

Subscription of Interest in Limited Partnerships

On January 28, 2016, the Company entered into the limited partnership agreement and the subscription agreement with Yun Qi Partners I GP, Ltd. ("**Yun Qi**") to invest US$5 million (approximately RMB33 million) in Yun Qi Partners I, L.P. (the "**USD Fund**") as a limited partner. On the same day, Jinhua99, an operating company of the Group and controlled by the Group through contractual arrangements, entered into the limited partnership agreement and the subscription confirmation letter with Shanghai Yunqi Wangchuang Asset Management Center (Limited Partnership) ("**Shanghai Yunqi**") to invest RMB33 million in the Hangzhou Yunjia Chuangye Investment Partnership (Limited Partnership) (the "**RMB Fund**") as a limited partner (collectively, the "**Investments**").

The Company subscribed for and agreed to purchase a limited partnership interest in the USD Fund, while Jinhua99 confirmed that it would subscribe for and agreed to purchase a limited partnership interest in the RMB Fund. The aggregate capital commitment for USD Fund and RMB Fund were of US$5 million (approximately RMB33 million) and RMB33 million, respectively.

As Mr. Mao Chengyu, being a non-executive Director, is interested in approximately 50% of the equity interest in Yun Qi and approximately 99% of the equity interest in Shanghai Yunqi, Yun Qi and Shanghai Yunqi are associates of Mr. Mao and are connected persons of the Company under the Listing Rules. As such, the Investments constituted connected transactions of the Company under Rule 14A.23 of the Listing Rules.

As the percentage ratios (as defined in the Listing Rules) applicable to the Investments exceed 0.1% but do not exceed 5% and the Investments are conducted on normal commercial terms, therefore, pursuant to Rule 14A.76(2) of the Listing Rules, the Investments are only subject to the reporting and announcement requirements set out in Rules 14A.68 and 14A.71 of the Listing Rules and are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For further details of the Investments, please refer to the Company's announcement dated January 28, 2016.

CONNECTED TRANSACTIONS (continued)

Connected Transactions since Listing

We have also entered into a number of agreements and arrangements with our connected persons (as set out below) in our ordinary and usual course of business which are not exempted from reporting.

The table below sets forth the connected persons of our Company who conduct connected transactions with our Group since Listing and the nature of their connection with our Group:

Name	Connected Relationship
Mr. Fu	Mr. Fu is our Director and is therefore our connected person pursuant to Rule 14A.07(1) of the Listing Rules.
SINA HK	SINA HK is a substantial shareholder of our Company and is therefore our connected person pursuant to Rule 14A.07(1) of the Listing Rules.
Beijing SINA Internet Information Service Co., Ltd. ("**Beijing SINA**")	Beijing SINA is a subsidiary of SINA HK and is therefore our connected person pursuant to Rule 14A.07(4) of the Listing Rules.
Hantang	Hantang is owned as to 98% by Mr. Fu and is therefore our connected person pursuant to Rule 14A.07(4) of the Listing Rules.
Jinhua9158	Jinhua9158 is owned as to 98% by Mr. Fu and is therefore our connected person pursuant to Rule 14A.07(4) of the Listing Rules.
Jinhua99	Jinhua99 is owned as to 98% by Mr. Fu and is therefore our connected person pursuant to Rule 14A.07(4) of the Listing Rules.
Xingxiu	Xingxiu is owned as to 98% by Mr. Fu and is therefore our connected person pursuant to Rule 14A.07(4) of the Listing Rules.

CONNECTED TRANSACTIONS (continued)

Framework Cooperation Agreement

To facilitate the sharing of technical resources, and give our business complementary strengths, on June 10, 2014, the Company entered into a business cooperation agreement with SINA HK (the "**Framework Cooperation Agreement**"), which is valid until December 31, 2016. The Framework Cooperation Agreement serves as a framework agreement containing the scope of services, transaction principles, and pricing terms and policies for those services. Pursuant to the Framework Cooperation Agreement, the SINA Group agrees to provide a range of services to our Group, including (i) advertising or related marketing for our Group, our customers or in relation to business collaborations between the SINA Group and our Group; (ii) technical development or consultation; and (iii) provision of wireless messaging channels for delivering messages the content of which are supplied by us. Our Group shall provide certain services to members of SINA Group, including (i) advertising or related marketing for SINA Group, customers represented by it or in relation to business collaborations between the SINA Group and us; and (ii) technical development or consultation.

The agreements underlying the Framework Cooperation Agreement which are still valid and existing between members of the SINA Group and members of our Group are set out below:

1. *Advertising – Advertisement Cooperation Agreement*

   On September 1, 2011, Hantang entered into an advertising cooperation agreement (the "**Advertising Cooperation Agreement**") with Beijing SINA, Beijing Sina Advertisement Co., Ltd. (北京新浪廣告有限公司), Jinzhuo Hengbang Technology (Beijing) Co., Ltd. (金卓恒邦科技(北京)有限公司) and Shanghai Sina Advertising Co., Ltd. (上海新浪廣告有限公司) (together, the "**Original Sina Parties**"). Subsequently, the parties entered into three supplemental agreements on September 1, 2012, April 1, 2013 and September 1, 2014, respectively. As a result of these supplemental agreements: (a) the term of the Advertising Cooperation Agreement has been further extended to August 31, 2015; (b) Beijing MicroDream TechnoInnovation IT Technology Co. (北京微夢創科網絡技術有限公司) (together with the Original Sina Parties, the "**Sina Parties**") was added as a party to the agreement; and (c) Income generated from the services under the Advertising Cooperation Agreement is split in half by Hantang and the Sina Parties, after deduction of a 15% agent commission (instead of a 12% agent commission under the Advertising Cooperation Agreement) by the Sina Parties. Pursuant to the Advertising Cooperation Agreement, the Sina Parties are responsible for the sales and marketing, while Hantang is responsible for placing advertisements on Sina Show platform for customers recruited by the Sina Parties and for providing technical and operational support.

CONNECTED TRANSACTIONS (continued)

Framework Cooperation Agreement (continued)

2. *Wireless Payment Services – Wireless Payment Services Agreement*

On October 1, 2012, Jinhua9158 and Beijing SINA entered into a cooperation agreement (the "**Wireless Payment Services Agreement**") which should be valid until September 30, 2014. The parties entered into a supplemental agreement on January 1, 2013 pursuant to which Xingxiu replaced Jinhua9158 as a party to the Wireless Payment Services Agreement and assumed all of Jinhua9158's obligations thereunder. On April 1, 2015, Xingxiu and Beijing SINA entered into another supplemental agreement which extended the term of the Wireless Payment Services Agreement to September 30, 2015. And the term would automatically extend one year after September 30, 2015. Pursuant to the Wireless Payment Services Agreement, the parties launched wireless payment services including pre-paid cards, mobile banking, online banking. Xingxiu is responsible for providing technical support and services while Beijing SINA is responsible for operation and settlement. Accordingly, Xingxiu pays a service fee to Beijing SINA amounting to 2% or 3.5% of the payments collected from users, depending on the method of payment used by users.

3. *Wireless Payment Services – Sina Show Wireless Payment Services Agreement*

On September 1, 2010, Hantang, Beijing SINA and Beijing Star Online Cultural Development Co., Ltd. (北京星潮在線文化發展有限公司) entered into a cooperation agreement (the "**Sina Show Wireless Payment Services Agreement**"). Subsequently, the parties entered into three supplemental agreements on March 1, 2011, March 1, 2013 and March 1, 2014, respectively. As a result of these supplemental agreements: (a) Shenzhen Wangxing Technology Co., Ltd. (深圳市網興科技有限公司) became a party to the Sina Show Wireless Payment Services Agreement, (b) Xingxiu replaced Hantang as a party to the Sina Show Wireless Payment Services Agreement and assumed all of Hantang's obligations under the agreement, and (c) the term of the Sina Show Wireless Payment Services Agreement was extended to February 28, 2015 and would automatically extend one year after February 28, 2015. Pursuant to the Sina Show Wireless Payment Services Agreement, Beijing SINA, Beijing Star Online Cultural Development Co., Ltd and Shenzhen Wangxing Technology Co., Ltd. provide wireless channels to users of Sina Show to "top-up" their virtual currency used on Sina Show. Accordingly, Hantang (and later Xingxiu) pays to each of those parties a portion of the net income generated from the relevant top-up services.

CONNECTED TRANSACTIONS (continued)

Framework Cooperation Agreement (continued)

4. *Wireless Messaging – Mobile Messaging Agreement*

On April 18, 2013, Xingxiu and Beijing SINA entered into a wireless platform business cooperation agreement (the "**Mobile Messaging Agreement**"), which took effect on February 1, 2013, and two supplemental agreements on February 1, 2014 and February 1, 2015. As a result, the term of the Mobile Messaging Agreement has been extended to April 30, 2015. Pursuant to the Mobile Messaging Agreement, Beijing SINA provides wireless messaging channels to Xingxiu to deliver wireless messages to users and Xingxiu supplies the content of the messages. For the services provided by Beijing SINA, Xingxiu pays a service fee of RMB0.06 per message successfully delivered. On May 1, 2015, Beijing MicroDream TechnoInnovation IT Technology Co. replaced Beijing SINA as a party to the Mobile Messaging Agreement and the service fee would remain RMB0.06 per message as successfully delivered. The term of the Mobile Messaging Agreement has been further extended to April 30, 2016. On May 1, 2016, Xingxiu and Beijing MicroDream TechnoInnovation IT Technology Co. entered into a supplemental agreement to extend the term of the Mobile Messaging Agreement to April 30, 2017. The parties are in the process of renewing the Mobile Messaging Agreement to December 31, 2018.

For details, please refer to the section headed "Connected Transactions" in the Prospectus.

For the year ended December 31, 2016, the total amount paid for services provided by us to SINA Group was RMB78,000, which did not exceed the annual cap of RMB18,144,000. The total amount paid for services provided by SINA Group to us was RMB147,000, which did not exceed the annual cap of RMB25,200,000.

Contractual Arrangements

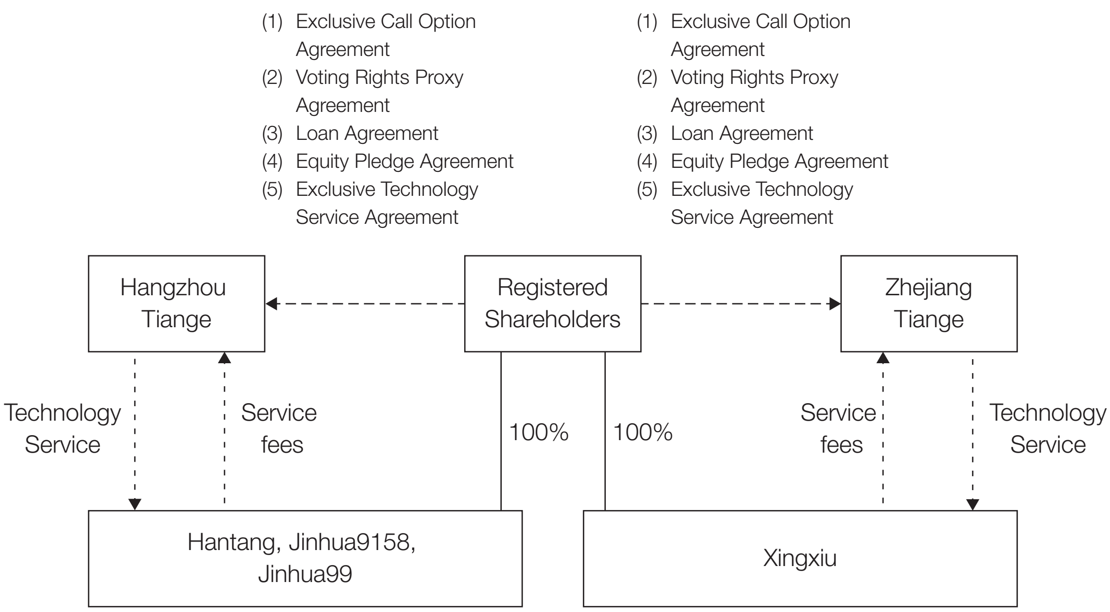
The Company is primarily engaged in the operations of live social video communities, online and mobile games (the "**Principal Business**"), which is considered to be value-added telecommunications services, a sector where foreign investment is subject to significant restrictions under PRC laws and regulations. Accordingly, we, as foreign investors, cannot acquire equity interest in Hantang, Jinhua9158, Jinhua99 and Xingxiu (the "**PRC Operating Entities**", each a "**PRC Operating Entity**"), which hold certain licenses and permits required for the operation of our Principal Business. Therefore, our Group, through our WFOEs, Hangzhou Tiange and Zhejiang Tiange, has entered into the contractual arrangements ("**Contractual Arrangements**") with our PRC Operating Entities and their shareholders in order to conduct the Principal Business in the PRC and to assert management control over the operations of, and enjoy all economic benefits of, each of the PRC Operating Entities.

CONNECTED TRANSACTIONS (continued)

Contractual Arrangements (continued)

As part of the reorganization, Hangzhou Tiange and Zhejiang Tiange, the PRC Operating Entities, Mr. Fu and Mr. Fu Yanchang as the registered shareholders of the PRC Operating Entities (the "**Registered Shareholders**") entered into a series of agreements (the "**New Agreements**") underlying the Contractual Arrangements. Each of the PRC Operating Entities, the relevant WFOE and the Registered Shareholders (where applicable) entered into a set of underlying agreements with substantially identical terms, being (i) Exclusive Technology Service Agreement (獨家技術服務協議); (ii) Exclusive Call Option Agreement (獨家購買權協議); (iii) Voting Rights Proxy Agreement (股東表決權委託協議); (iv) Loan Agreement (借款協議); and (v) Equity Pledge Agreement (股權質押協議).

The following simplified diagram illustrates the Contractual Arrangements under the New Agreements:



Notes:

1. *Please refer to the section headed "Exclusive Call Option Agreement" below.*

2. *Please refer to the section headed "Voting Rights Proxy Agreement" below.*

3. *Please refer to the section headed "Loan Agreement" below.*

4. *Please refer to the section headed "Equity Pledge Agreement" below.*

5. *The registered shareholders are Mr. Fu and Mr. Fu Yanchang.*

6. *Please refer to the section headed "Exclusive Technology Service Agreement" below.*

CONNECTED TRANSACTIONS (continued)

Contractual Arrangements (continued)

Exclusive Technology Service Agreements

Each of our PRC Operating Entities and the relevant WFOE entered into an amended and restated Exclusive Technology Service Agreement in June 2014, pursuant to which the relevant PRC Operating Entity agrees to engage the relevant WFOE as its exclusive provider of technology services related to its business. In addition, the relevant WFOE has exclusive and proprietary rights to all intellectual properties arising from the performance of these services.

Pursuant to each Exclusive Technology Service Agreement, the relevant PRC Operating Entity shall pay to the relevant WFOE a service fee at 95% of the PRC Operating Entity's net revenue, i.e. revenue less any costs and expenses (except the service fee) necessary for such PRC Operating Entity's business operations and any taxes (except enterprise income tax) and accumulated losses in a given year, plus extra service fee for additional services provided by the relevant WFOE upon request of the relevant PRC Operating Entity, within three months after each calendar year for the services provided in the preceding year. Each Exclusive Technology Service Agreement has a term of twenty years and will be automatically renewed on a yearly basis after expiration unless otherwise notified by the relevant WFOE, and shall be terminated when the operating term of the relevant WFOE or the relevant PRC Operating Entity expires. To the extent permitted by law, each PRC Operating Entity is not contractually entitled to terminate relevant Exclusive Technology Service Agreement with the relevant WFOE. Further, without the prior written approval from the relevant WFOE, the relevant PRC Operating Entity (i) shall not enter into any transactions that may result in conflicts with the relevant Exclusive Technology Service Agreement or adversely affect the relevant WFOE's interests thereunder, and (ii) shall not dispose of any of its material assets or change its existing shareholding structure.

Exclusive Call Option Agreements

Each of our PRC Operating Entities, the Registered Shareholders, and the relevant WFOE entered into an amended and restated Exclusive Call Option Agreement in June 2014, pursuant to which (i) the Registered Shareholders irrevocably grant the relevant WFOE an exclusive and unconditional option to purchase their equity interests in the relevant PRC Operating Entity to the extent permitted under PRC law at a purchase price equal to the higher of the capital contribution paid to the registered capital by the respective Registered Shareholder for such interests or the lowest price permitted under PRC law, and (ii) the relevant PRC Operating Entity irrevocably grants the relevant WFOE an exclusive and unconditional option to purchase all or part of its assets to the extent permitted under PRC law at a purchase price equal to the higher of the net book value of such assets or the lowest price permitted under PRC law. The relevant WFOE may also designate a third party to purchase all or part of the interests and assets of the relevant PRC Operating Entity, subject to the call option. Such third party shall be (i) a direct or indirect shareholder of the relevant WFOE (when exercising equity purchase option or assets purchase option), or (ii) a director of the relevant WFOE or the relevant WFOE's direct or indirect shareholder who is a PRC citizen (when exercising equity purchase option).

CONNECTED TRANSACTIONS (continued)

Contractual Arrangements (continued)

Exclusive Call Option Agreements (continued)

Pursuant to each Exclusive Call Option Agreement, the Registered Shareholders and the relevant PRC Operating Entity each have undertaken to perform certain acts or refrain from performing certain acts until they obtain written consent from the relevant WFOE.

Each Exclusive Call Option Agreement expires when all the equity interests in and assets of the relevant PRC Operating Entity have been transferred to the relevant WFOE or its designated entities or individuals. To the extent permitted by law, each PRC Operating Entity and its Registered Shareholders are not contractually entitled to terminate relevant Exclusive Call Option Agreement with relevant WFOE.

In addition, the respective Registered Shareholders undertake that (i) in case they receive any dividends or other profit distributions from the PRC Operating Entities, they shall return the same to the WFOEs, with deduction of applicable taxes and governmental fees; and (ii) in case they receive any proceeds from transfer of equity interests in the PRC Operating Entities, or any distributions upon liquidation of the PRC Operating Entities, and if the amount of such proceeds or distribution is higher than the loans owed by the Registered Shareholders respectively to the WFOEs under the relevant Loan Agreements, they shall return to the relevant WFOE such proceeds or distribution they receive, with deduction of applicable taxes and governmental fees, and the amounts of relevant loans.

Equity Pledge Agreements

Each of the PRC Operating Entities, the Registered Shareholders and the relevant WFOE entered into an amended and restated Equity Pledge Agreement in June 2014, pursuant to which, the Registered Shareholders will pledge all their equity interests in the PRC Operating Entities to the relevant WFOE to secure their performance, as well as the performance of the PRC Operating Entities, of the relevant (i) Exclusive Technology Service Agreement; (ii) Exclusive Call Option Agreement; (iii) Voting Rights Proxy Agreement; and (iv) Loan Agreement. If any of the Registered Shareholders or PRC Operating Entities breaches or fails to fulfill the obligations under any of the aforementioned agreements, the relevant WFOE, as the pledgee, will be entitled to foreclose the pledge over the equity interests, entirely or partially.

Pursuant to each Equity Pledge Agreement, any dividend or bonus arising from the pledged equity interests shall be deposited into the relevant WFOE's designated bank account, and shall be used in discharge of the collateralized obligations with first priority. Under each Equity Pledge Agreement, the Registered Shareholders warrant to the relevant WFOE that all appropriate arrangements have been made and all necessary documents have been executed to ensure that none of their successors, guardians, creditors, spouses and other third parties will adversely impact or hinder the enforcement of the relevant Equity Pledge Agreement in the event of death, loss of legal capacity, bankruptcy, divorce or any other situation of the Registered Shareholders.

CONNECTED TRANSACTIONS (continued)

Contractual Arrangements (continued)

Equity Pledge Agreements (continued)

Pursuant to each Equity Pledge Agreement, the Registered Shareholders shall not obtain any dividend or bonus or (in the event of liquidation or termination of the relevant PRC Operating Entity) receive any distribution of properties or assets of the relevant PRC Operating Entity in respect of the pledged equity interests without prior consent from the relevant WFOE, and such dividend, bonus or remaining assets of the relevant PRC Operating Entity shall be deposited into the relevant WFOE's designated bank account, and shall be used in discharge of the secured debts with first priority. Each Equity Pledge Agreement will remain in full effect until all the contractual obligations have been performed or all the secured debts have been discharged.

Voting Rights Proxy Agreements

Each of the PRC Operating Entities, the Registered Shareholders and the relevant WFOE entered into an amended and restated Voting Rights Proxy Agreement in June 2014, pursuant to which, each Registered Shareholder, through the Power of Attorney, irrevocably appoints the person designated by the relevant WFOE as his attorney-in-fact to exercise the shareholder's rights in the relevant PRC Operating Entity. Pursuant to each Voting Rights Proxy Agreement, the appointee appointed by the relevant WFOE as the Registered Shareholder's power of attorney should be a director of the relevant WFOE or the relevant WFOE's direct or indirect shareholder, or such director's successor (including a liquidator replacing the director or its successor), and such appointee should be a PRC citizen and should not be either of the Registered Shareholders or any of their "connected person" as defined in the Listing Rules.

Each Voting Rights Proxy Agreement has a term of twenty years and will be extended for one year after expiration unless otherwise notified by the relevant WFOE. In case that (i) the operating term of the relevant WFOE or the relevant PRC Operating Entity expires, or (ii) the parties thereto mutually agree on an early termination, the relevant Voting Rights Proxy Agreement may be terminated. To the extent permitted by law, each PRC Operating Entity and its Registered Shareholders are not contractually entitled to terminate relevant Voting Rights Proxy Agreement with the relevant WFOE.

Powers of Attorney

Each of the Registered Shareholders executed an irrevocable Power of Attorney in June 2014, appointing Mai Shi'en as his proxy to exercise on his behalf all of his shareholder rights in the relevant PRC Operating Entity. The Power of Attorney shall remain in effect until the expiration or early termination of the relevant Voting Rights Proxy Agreement, unless otherwise the relevant WFOE to the Voting Rights Proxy Agreement designates another appointee. Mr. Mai Shi'en, being an executive Director of our Company, also being the chief operating officer and the acting chief financial officer, has the duty to act in the best interest of our Company.

CONNECTED TRANSACTIONS (continued)

Contractual Arrangements (continued)

Loan Agreements

Each of the relevant WFOEs and the Registered Shareholders entered into a Loan Agreement in February and March 2014 and an amendment agreement to the respective Loan Agreement in June 2014, pursuant to which the relevant WFOE provided an interest-free loan facility to each of the Registered Shareholders for his investment in the relevant PRC Operating Entity. Under each of the Loan Agreements regarding the investment in Jinhua9158, Jinhua99 and Xingxiu, the relevant WFOE has lent to each of the Registered Shareholders amounts equal to his respective capital contribution to the registered capital of the relevant PRC Operating Entity, i.e. RMB9,800,000 to Mr. Fu and RMB200,000 to Mr. Fu Yanchang. Under the Loan Agreement regarding the investment in Hantang, Hangzhou Tiange has lent to the Registered Shareholders a total amount of RMB9,000,000 in proportion to their respective shareholding percentage, i.e. RMB8,820,000 to Mr. Fu and RMB180,000 to Mr. Fu Yanchang

Each Loan Agreement has a term of twenty years, or the operating term of the relevant PRC Operating Entity, whichever is shorter. To the extent permitted by law, the Registered Shareholders are not contractually entitled to terminate the Loan Agreements with the relevant WFOE. The relevant WFOE is entitled to accelerate the repayment of loan at any time at its sole discretion. In addition, pursuant to each Loan Agreement, if the relevant WFOE requests early repayment of all or part of the principal, the relevant WFOE shall have the right to acquire, or designate a third party to acquire, the Registered Shareholders' equity interests in the relevant PRC Operating Entity at a price equal to the amount that should be repaid.

Please refer to the section headed "Contractual Arrangements" in the Prospectus for detailed terms of these agreements.

As of December 31, 2016, to comply with the restrictions of foreign investment under the PRC laws and regulations, four PRC operating entities, Zhejiang Genxuan Investment Management Co., Ltd ("**Genxuan**", formerly known as Jinhua Tianchuang Investment Management Co., Ltd), Jinhua Chaduan Investment Management Co., Ltd ("**Chaduan**"), Jinhua Duance Investment Management Co., Ltd ("**Duance**") and Jinhua Xuance Investment Management Co., Ltd ("**Xuance**") were established. These four PRC operating entities were the wholly-owned subsidiaries of Jinhua99. The Company, through a set of Contractual Arrangements, has asserted management control over the operation of Jinhua99 and in turn has taken effective control over the wholly-owned subsidiaries of Jinhua99.

CONNECTED TRANSACTIONS (continued)

Contractual Arrangements (continued)

As of December 31, 2016, due to the restrictions of foreign investment under PRC laws and regulations, two another PRC operating entities, Zhejiang Genfan Investment Management Co., Ltd ("**Genfan**", formerly known as Jinhua Tianxiang Investment Management Co., Ltd) and Jinhua9158 Investment Management Co., Ltd ("**Jinhua9158 Investment Management**") were established for the segments other than the Principal Business. Each of Genfan and Jinhua9158 Investment Management has entered into a set of contractual agreements with their registered shareholders and Zhejiang Tiange, which consist of substantially identical structure and terms with the New Agreement. The Company considers these are not material changes and have no significant influences on the organization of the Contractual Agreements. As at the date of this annual report, Genfan and Jinhua9158 Investment Management have become the wholly-owned subsidiaries of Jinhua 99.

Save as disclosed in the Prospectus and above, as at the date of this 2016 annual report, there has not been any material change in the Contractual Agreements and/or the circumstances under which they were adopted.

Our independent non-executive Directors have reviewed the New Agreements and confirmed that as of the date of this report: (i) the transactions carried out have been entered into in accordance with the relevant provisions of the New Agreements, have been operated so that the profit generated by each of our PRC Operating Entities has been substantially retained by Hangzhou Tiange and Zhejiang Tiange (as the case may be), (ii) no dividends or other distributions have been made by any of our PRC Operating Entities to the relevant holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) no new contracts have been entered into, renewed or reproduced between our Group and our PRC Operating Entities as of the date of this report.

Our independent non-executive Directors have reviewed the nature, the implementation of the pricing policy and the internal control procedure of the continuing connected transactions described above and confirmed that the transactions have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better and are in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

CONNECTED TRANSACTIONS (continued)

Contractual Arrangements (continued)

The auditor of the Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions:

1. Nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board;

2. For transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. Nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

4. With respect to the aggregate amount of the continuing connected transactions described above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap set by the Company; and

5. Nothing has come to their attention that causes them to believe that there were dividends or other distributions made by Hantang, Jinhua9158, Jinhua99, Xingxiu during the year ended December 31, 2016 to the holders of their equity interests which were not otherwise subsequently assigned or transferred to the Group.

Save as disclosed in the annual report, the Board confirmed that none of the related party transactions set out in note 36 to the financial statements constituted non-exempt connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. During the Reporting Period, save as disclosed above, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report pursuant to the Listing Rules.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT

As set out in the section headed “Contractual Arrangements – Introduction” in the Prospectus, a foreign investor who invests in a value-added telecommunications business in the PRC must demonstrate a good track record and experience in providing value-added telecommunications services (the “**Qualification Requirement**”). The Company noticed that on January 19, 2015, the Ministry of Commerce of the PRC published a discussion draft of the proposed new Foreign Investment Law (the “**Draft FIL**”) for public comments which for the first time introduced the concept of actual controller from the foreign investment prospective. It might have potential impact on our contractual arrangement. We will closely monitor the progress of the Draft FIL and inform the public in due course.

Despite the lack of clear guidance or interpretation on the Qualification Requirement, we have been gradually building up our track record of overseas business operations to comply with the Qualification Requirement. As at December 31, 2016, the Company has no further update to disclose in relation to the Qualification Requirement.

Save as disclosed in the Prospectus and in this report, currently, as advised by the Company’s PRC legal advisers, there have been no change in the PRC laws and regulations in the sector of our Principal Business except the Notice of the MIIT on liberalization of proportion of foreign investment of online data processing and transactions processing business (E-commerce business) in China (Shanghai) Pilot Free Trade Zone(《關於在中國(上海)自由貿易試驗區放開在線數據處理與交易處理業務(經營類電子商務)外資股權比例限制的通告》), effective from January 13, 2015, stipulates that the proportion of foreign investment in on-line data processing and transactions processing business (E-commerce business) was raised to 100% and foreign invested enterprises could participate in the competition. However, this liberalization of foreign investment has no effect on our business.

As of the date of this annual report, there has been no material change in the Contractual Arrangements and/or the circumstances under which they had been adopted by our Group prior to our listing. Therefore, for the year ended December 31, 2016, none of the Contractual Arrangements have been unwound.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT (continued)

Information about the PRC Operating Entities

Name of the PRC Operating Entity	Type of legal entity/ place of establishment and operation	Registered owners	Business activities
As at December 31, 2016			
Hantang	Limited liability company/ the PRC	98% by Mr. Fu and 2% by Mr. Fu Yanchang	Online entertainment service and advertising
Jinhua9158	Limited liability company/ the PRC	98% by Mr. Fu and 2% by Mr. Fu Yanchang	Online entertainment service
Jinhua99	Limited liability company/ the PRC	98% by Mr. Fu and 2% by Mr. Fu Yanchang	Online entertainment service
Xingxiu	Limited liability company/ the PRC	98% by Mr. Fu and 2% by Mr. Fu Yanchang	Online entertainment service

As the PRC government restricts foreign investment in telecommunications and online cultural businesses, we conduct the operations of our Principal Business through our PRC Operating Entities, Hantang, Jinhua9158, Jinhua99 and Xingxiu. Please refer to the section headed "Business" in the Prospectus for more details of our core business. We generate revenues primarily through sales of virtual currency to our distributors on our live social video platforms and also generate revenues from sales of virtual items in our mobile game. Although the Company does not have any equity interest in our PRC Operating Entities, it is able to exercise effective control over our PRC Operating Entities and receive substantially all of the economic benefits of their operations through the Contractual Arrangements with our PRC Operating Entities and their shareholders. Consequently, the PRC Operating Entities are the core structure of our group. Both the current operation and further development of our business are largely dependent on our PRC Operating Entities, Hantang, Jinhua9158, Jinhua99 and Xingxiu.

In addition, the PRC Operating Entities are significant to the Group as they hold most of the intellectual property rights, licenses and permits that are essential to the operation of the business of the Group. The revenue and the total asset value of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB698.3 million (2015: RMB574.8 million) for the year ended December 31, 2016 and approximately RMB423.6 million (2015: RMB343.6 million) as at December 31, 2016, respectively.

Each of the PRC Operating Entities has undertaken to the Company that, for so long as the shares of the Company are listed on the Stock Exchange, they will provide the Group's management and the auditors of the Company with full access to its relevant records for the purpose of procedures to be carried out by the auditors of the Company on the transactions as contemplated under the Contractual Arrangements.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT (continued)

Requirements related to Contractual Arrangements (other than relevant foreign ownership restrictions)

As advised by the Company's PRC legal advisers, requirements related to Contractual Arrangements (other than relevant foreign ownership restrictions) include:

1. Legality, validity and binding effect – The Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on parties thereto, and do not individually or collectively, constitute a breach of any PRC laws and regulations and will not be deemed invalid or ineffective under those laws and regulations; in particular, the Contractual Arrangements would not violate the provisions of the PRC Contract Law, including "concealing an illegitimate purpose under the guise of legitimate acts" under Article 52 of the PRC Contract Law, the General Principles of the PRC Civil Law and other applicable PRC laws and regulations.

2. Enforceability – The Contractual Arrangements are in full compliance with and enforceable under applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the equity interest or assets of each of the PRC Operating Entity and to grant injunctive relief against each of the PRC Operating Entity, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitration, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets or equity interests in each of the PRC Operating Entity in case of dispute. In addition, interim remedies granted by courts in an overseas jurisdiction, may not be recognized or enforceable in China.

For more details of the legality of the Contractual Arrangements, please see the section headed "Contractual Arrangements" in the Prospectus.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT (continued)

Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks

No.	Risks associated with the Contractual Arrangements	Mitigation actions taken by the Company
1.	If the relevant PRC authorities find that the agreements that establish the structure for operating our live social video communities, online and mobile games in China do not comply with PRC laws and regulations, or if these laws or regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interests in the PRC Operating Entities.	Pursuant to the Exclusive Technology Service Agreement, at any time after the date of such agreements, in the event of any promulgation or change of any law, regulation or rule of China or any interpretation or applicable change on such laws, regulations or rules, the following agreement shall be applicable: if the economic interests of any party under the agreements suffer a significant adverse effect directly or indirectly due to above change of laws, regulations or rules, the agreements should continue to operate pursuant to the original terms. Each of the parties shall obtain a waiver for complying on such change or rule via all legal channels. If any adverse effect on the economic interests of any party may not be eliminated according to this agreement, upon the receipt by other parties of such notice from the affected party, all the parties shall promptly discuss and make all necessary modification to the agreements to maintain the economic interests of the affected party under the agreement.
2.	Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. PRC Operating Entities or their shareholders may fail to perform their obligations under our Contractual Arrangements and certain terms of the Contractual Arrangements may not be enforceable under PRC laws.	Each of the New Agreements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute relating to the Contractual Arrangements, arbitrators may award remedies over the equity interests or assets of PRC Operating Entities and courts of competent jurisdiction may grant interim remedies over the equity interest or assets of PRC Operating Entities.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT (continued)

Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks (continued)

No.	Risks associated with the Contractual Arrangements	Mitigation actions taken by the Company
3.	We may lose the ability to use and enjoy assets held by the PRC Operating Entities that are material to our business operations if the PRC Operating Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.	According to the Exclusive Call Option Agreement, in the event of a mandatory liquidation required by PRC laws, all of the remaining assets and residual interests of the PRC Operating Entities shall be transferred through a non-reciprocal transfer to Hangzhou Tiange and Zhejiang Tiange or its appointee after such liquidation at the lowest transfer price permitted by PRC laws. In such case, if the Registered Shareholders receive any payment after the liquidation, they shall return in full such payment to Hangzhou Tiange and Zhejiang Tiange or its appointee, after the deduction of relevant taxes or payments pursuant to applicable PRC laws.
4.	Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and any finding that we or the PRC Operating Entities owe additional taxes could substantially reduce our consolidated net income and the value of your investment.	As advised by the Company's PRC legal advisers, who took the view that the Contractual Arrangements will not be challenged by the PRC tax authorities or other government authorities, provided that Hangzhou Tiange, Zhejiang Tiange and the PRC Operating Entities implement the Contractual Arrangements in accordance with the terms thereof, unless the PRC tax authorities determine that such transactions are not conducted on an arm's length basis.
5.	The Group may be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase the tax expenses and decrease the new profit margin.	Hangzhou Tiange and Zhejiang Tiange are qualified as the software enterprises recognized by the relevant authorities in Zhejiang and enjoy the preferential tax treatment. Hangzhou Tiange enjoys a reduced income tax rate of 15% from 2014 to 2017. Zhejiang Tiange enjoys a preferential tax rate of 12.5% from 2014 to 2015 and will enjoy a reduced income tax rate of 15% from 2016 to 2017. As the new high-tech enterprises, both of them will use their reasonable endeavors to take all necessary actions to maintain its status as "software enterprise". Please also refer to paragraph 4 above.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT (continued)

Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks (continued)

No.	Risks associated with the Contractual Arrangements	Mitigation actions taken by the Company
6.	Shareholders of the PRC Operating Entities may have conflicts of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.	Each of the Registered Shareholders have undertaken that during the period when the Contractual Arrangements remain effective, (i) unless a prior written consent is obtained from the PRC Operating Entities, such shareholder will not engage in, conduct, participate in or use the information obtained from the PRC Operating Entities or any of its affiliates to participate in, directly or indirectly, any business or activity which competes or is likely to compete with the business of the PRC Operating Entities or its subsidiaries (if any), nor will he acquire, hold any interests in or derive any interests from any business which competes or is likely to compete with the business of the PRC Operating Entities or its subsidiaries (if any); (ii) such shareholder will not take any action deviating from the intention and purposes of the New Agreements which may lead to any conflict of interests between Hangzhou Tiange and Zhejiang Tiange and the PRC Operating Entities or its subsidiaries (if any); and (iii) if any conflict of interests occurs during the performance of the New Agreements by such shareholder, he will act in favor of Zhejiang Tiange and Hangzhou Tiange as set forth under the New Agreements and in accordance with the directions of Zhejiang Tiange and Hangzhou Tiange.
7.	We depend on the PRC Operating Entities to provide certain services that are critical to our business. The breach or termination of any of our service agreements with PRC Operating Entities or any failure of or significant quality deterioration in these services could materially and adversely affect our business, financial condition and results of operations.	To ensure sound and effective operation of the Group after the adoption of the Contractual Arrangements, the relevant business units and operation divisions of the Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the Contractual Arrangements and other related matters. In addition, pursuant to the Exclusive Technology Service Agreement and the Exclusive Call Option Agreement, to the extent permitted by law, each PRC Operating Entity and its Registered Shareholders are not contractually entitled to terminate relevant Exclusive Technology Service Agreement and Exclusive Call Option Agreement with Hangzhou Tiange and/or Zhejiang Tiange.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT (continued)

Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks (continued)

No.	Risks associated with the Contractual Arrangements	Mitigation actions taken by the Company
8.	If we exercise the option to acquire equity ownership and assets of PRC Operating Entities, the ownership or asset transfer may subject us to substantial costs.	According to the Exclusive Call Option Agreement, in the event that the option is exercised by Hangzhou Tiange and/or Zhejiang Tiange, the transfer price of equity interests and/or assets shall be the higher of the capital contribution paid to the registered capital by the respective Registered Shareholder for such interest/net book value of such assets or the lowest price permitted under the PRC laws, and the Registered Shareholders shall return any proceeds received from transfer of equity interest in the PRC Operating Entities, or any distributions upon liquidation of the PRC Operating Entities, and if the amount of such proceeds or distribution is higher than the loans owed by the Registered Shareholders respectively to the Hangzhou Tiange and/or Zhejiang Tiange under the relevant Loan Agreements, they shall return to the Hangzhou Tiange and/or Zhejiang Tiange such proceeds or distribution they receive, with deduction of applicable taxes and governmental fees, and the amounts of relevant loans. Therefore, If Hangzhou Tiange and/or Zhejiang Tiange exercise this option, all or any part of the equity interests of the PRC Operating Entities acquired would be transferred to Hangzhou Tiange and/or Zhejiang Tiange and the benefits of equity ownership would flow to the Company and our shareholders.
9.	Certain terms of the Contractual Arrangements may not be enforceable under PRC laws	As advised by the Company's PRC legal advisers, the Contractual Arrangements were narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations.

For more information relating to the Contractual Arrangements, including the risks associated with the arrangements and the actions taken by us to mitigate the risks, please refer to the Prospectus.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands being the jurisdiction in which the Company is incorporated under which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

USE OF PROCEEDS FROM GLOBAL OFFERING

The net proceeds from the global offering (after the exercise of the over-allotment option and after deducting the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the global offering) amounted to approximately HK$1,725.0 million (equivalent to approximately RMB1,376.0 million). As at December 31, 2016, approximately HK$1,515.6 million (equivalent to approximately RMB1,240.0 million) had been used in investing in potential acquisitions, expanding our marketing and promotion activities, developing our mobile applications and enhancing our research and development efforts. We have utilized, and will continue to utilize the net proceeds from the IPO for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" contained in the Prospectus. The unutilized net proceeds had been deposited into term deposits in the bank account maintained by the Group as well as used in money markets principal protected instruments as classified under available-for-sale financial assets in our consolidated balance sheet.

AUDIT COMMITTEE

The Company has established an Audit Committee since July 9, 2014 with written terms of reference and the duties of the Audit Committee include reviewing the Company's annual reports and interim reports and providing advice and comments to the Directors. The Audit Committee is also responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

As at the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely Ms. Yu Bin (chairman of the Audit Committee), Mr. Wu Chak Man and Mr. Chan Wing Yuen Hubert.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this report, the Company has maintained the public float of the issued shares of the Company as required under the Listing Rules.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 25 of this annual report. This summary does not form part of the audited consolidated financial statements.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2016.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles and subject to the provisions of the Companies Law of the Cayman Islands, the Directors, auditor and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses incurred or sustained by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year in respect of any legal actions which may be taken against the Directors and officers in the execution and discharge of their duties or in relation thereto.

AUDITOR

PricewaterhouseCoopers has acted as auditor of the Company for the year ended December 31, 2016.

PricewaterhouseCoopers shall retire in the AGM and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for the reappointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming AGM.

For and on behalf of the Board
Fu Zhengjun
Chairman & Executive Director

Hong Kong, March 24, 2017

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining high standards of corporate governance practices to enhance the corporate performance accountability and safeguard Shareholders' interests. The Board is also committed to comply with the principles of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. Save and except for the deviation disclosed in this annual report, the Directors are of the opinion that the Company has complied with the code provisions set out in the CG Code throughout the year ended December 31, 2016. The Company will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code.

THE BOARD OF DIRECTORS

Board Composition

The Board currently comprises seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors. The brief biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 26 to 29 of this annual report. Details regarding the term of appointment of the non-executive Directors are set out in the section headed "Directors Service Contracts" on page 39 of this annual report. The overall management and supervision of the Company's operation and the function of formulating overall business strategies were vested in the Board.

During the Reporting Period, the Board has at all times met the requirements of Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board and at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received annual confirmation from each of the independent non-executive Directors of his/her independence pursuant to the requirements of the Listing Rules. The Company considers that each of the independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

THE BOARD OF DIRECTORS (continued)

Role and Function and Delegation by the Board

The Board is responsible for and has general powers for the management and conduct of the business of the Company. It delegates day to day management of the Company to two executive Directors and the senior management of the Company, within the control and authority framework set by the Board. The delegated functions and responsibilities are periodically reviewed by the Board.

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

In addition, the Board has also delegated to the Audit Committee, the Remuneration Committee and the Nomination Committee various responsibilities as set out in their respective terms of reference. Further details of these committees are set out in this annual report.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interest of the Company and its shareholders at all times.

The Company has arranged appropriate liability insurance to indemnify its Directors in respect of legal actions against them.

Board Meetings

The Company adopts the practice of holding Board meetings for at least four times a year at approximately quarterly intervals pursuant to code provision A.1.1 of the CG Code. Notice of not less than fourteen days is given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting pursuant to code provision A.1.3 of the CG Code.

All Directors are provided with agenda and relevant information related to the agenda in advance before the meeting. They can access to the senior management and the joint company secretaries of the Company at all time and, upon reasonable request, seek independent professional advice at the Company's expense.

Minutes of the meetings are kept by the joint company secretary, Mr. Chen Shi, with copies circulated to all Directors for information and records. Minutes of the Board meetings and committee meetings are recorded in sufficient detail of the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by Directors.

THE BOARD OF DIRECTORS (continued)

Board Meetings (continued)

During the Reporting Period, four Board meetings were held on March 23, 2016, May 24, 2016, August 25, 2016 and November 24, 2016, respectively. The attendance of the Directors at the Board meetings is presented hereinafter.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, to handle particular responsibilities of the Board and the Company's affairs. All Board committees of the Company are established with defined written terms of reference which have been uploaded to the website of the Stock Exchange and that of the Company, and are provided with sufficient resources to discharge their duties.

Audit Committee

The Company established the Audit Committee on July 9, 2014 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules and the roles and the responsibilities delegated to the Audit Committee by the Board. The primary duties of the Audit Committee are to review the financial information of the Company, to review the financial reporting process and internal control system of our Group, to oversee the audit process, to make recommendation on the appointment, re-appointment and removal of external auditor and to perform other duties and responsibilities as assigned by our Board.

The Audit Committee consists of three independent non-executive Directors, being Ms. Yu Bin, Mr. Chan Wing Yuen Hubert and Mr. Wu Chak Man. Ms. Yu Bin has been appointed as the chairman of the Audit Committee, and is our independent non-executive Director with the appropriate professional qualifications. During the Reporting Period, four Audit Committee meetings were held, in which the members of the Audit Committee discussed with PricewaterhouseCoopers about the arrangements of the Company's annual audit work and reviewed the annual results, interim results and quarterly results of the Group and the relevant financial statements and reports and significant financial reporting judgments contained therein, as well as the internal control system and the Group's financial and accounting policies and practices. The attendance of the Directors at the Audit Committee meetings is presented hereinafter.

BOARD COMMITTEES (continued)

Remuneration Committee

The Company established the Remuneration Committee on July 9, 2014 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules and the roles and the responsibilities delegated to the Remuneration Committee by the Board. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations on employee benefit arrangement.

The Remuneration Committee comprises two independent non-executive Directors, being Mr. Wu Chak Man and Mr. Chan Wing Yuen Hubert and one non-executive Director, being Mr. Mao Chengyu. Mr. Wu Chak Man, our independent non-executive Director, has been appointed as the chairman of the Remuneration Committee. One Remuneration Committee meeting was held during the Reporting Period to, among other matters, discuss and review the remuneration policy and packages for Directors and senior management, and to assess performance of executive Directors. The attendance of the Directors at the Remuneration Committee meeting is presented hereinafter.

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance. The remuneration package includes basic salary, performance and/or discretional bonus, participation in the Share Incentive Schemes and other benefits. Remuneration of the non-executive Directors includes mainly the director's fee which is a matter for the Board to decide by reference to the duties and responsibilities of the non-executive Directors. Remuneration of the independent non-executive Directors includes the director's fee which is determined by the Board based on the duties and responsibilities of independent non-executive Directors and their participation in the Share Incentive Schemes.

The emoluments of each Director and senior management for the year ended December 31, 2016 are set out in note 41 and note 9, respectively to the consolidated financial statement.

BOARD COMMITTEES (continued)

Nomination Committee

The Company established the Nomination Committee on July 9, 2014 with written terms of reference in compliance with the requirements of the CG Code as set out in the Appendix 14 to the Listing Rules and the roles and the responsibilities delegated to the Nomination Committee by the Board. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment and removal of Directors. In the nomination procedures, the Nomination Committee makes reference to criteria including reputation of candidates for integrity, accomplishment and experience, professional and educational background.

The Nomination Committee consists of two independent non-executive Directors, being Ms. Yu Bin and Mr. Wu Chak Man and one executive Director, being Mr. Fu. Mr. Fu has been appointed as the chairman of the Nomination Committee. During the Reporting Period, one meeting of the Nomination Committee was held to assess the independence of independent non-executive Directors, to review the board diversity policy of the Company, to consider the re-appointments of the retired Directors, and to discuss matters relating to procedure of nomination of Director candidate by Shareholders, Directors' evaluation and succession plan.

The Nomination Committee has formulated a board diversity policy, in which the Company recognizes the benefits of having a diverse board to enhance the quality of its performance. According to the policy, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The attendance of the Directors at the Nomination Committee meeting is presented hereinafter.

The composition of the Board and the Board members' respective attendance in Board meetings, general meeting, the Audit Committee meetings, the Remuneration Committee meeting and the Nomination Committee meeting during the year ended December 31, 2016 are as follows:

BOARD COMMITTEES (continued)

No. of meeting attended/held

Directors	Board meeting	General meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting
Executive Directors					
Mr. Fu Zhengjun	4/4	1/1	0/4	0/1	1/1
Mr. Mai Shi'en	4/4	1/1	0/4	0/1	0/1
Non-executive Directors					
Mr. Mao Chengyu	3/4	0/1	0/4	1/1	0/1
Mr. Herman Yu	2/4	0/1	0/4	0/1	0/1
Independent non-executive Directors					
Ms. Yu Bin	2/4	0/1	2/4	0/1	1/1
Mr. Wu Chak Man	1/4	0/1	1/4	1/1	1/1
Mr. Chan Wing Yuen Hubert	4/4	0/1	4/4	1/1	0/1

CHANGES IN INFORMATION OF DIRECTORS

Save as disclosed in this annual report, the Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. According to the records of the Company, all Directors attended training sessions on duties and obligations of directors of companies listed on the Stock Exchange, including connected transactions and corporate governance, which were conducted by the Company's legal advisers as to Hong Kong laws. The Company also provided periodic legal updates and developments on the Listing Rules, the Hong Kong Companies Ordinance, news updates from the Stock Exchange and Securities & Futures Commission of Hong Kong and other relevant legal and regulatory requirements to all of the Directors, as well as regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set forth in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Fu is our Chairman and chief executive officer and has been a Director of our Board since July 28, 2008. He was re-designated to our Board as an executive Director on March 11, 2014. Mr. Fu is the founder of our Group and has served as the chief executive officer of all our WFOE and PRC Operating Entities since their respective incorporation. With extensive experience in the Internet industry, Mr. Fu is responsible for the overall strategic planning, management and operation of our Group and is instrumental to our growth and business expansion since our establishment in 2008. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board, which comprises experienced and high-calibre individuals. Our Board currently comprises two executive Directors (including Mr. Fu), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Code provision A.2.7 of the CG Code stipulates that the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. During the Reporting Period, the Chairman met with the independent non-executive Directors and other non-executive Directors to understand their concerns and to discuss pertinent issues.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct applicable to employees and Directors; and

(e) to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code and Corporate Governance Report).

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2016 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding its reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 98 to 104 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control of the Group, and continuously monitors and reviews the effectiveness of its operation. A defined management structure with specified limits of authority and responsibilities is developed for promoting the effectiveness of operations, ensuring the reliability of financial reporting, complying with applicable laws, rules and regulations, and safeguarding assets of the Group.

Characteristics of Risk Management and Internal Control Organization System

The Company has been equipped with sufficient resources, staff qualifications and experience, sufficient training courses and relevant budgets in risk management and internal control to establish the risk management and internal control organization system, which includes the Board, the Audit Committee, internal audit department, the Company's management, and all the departments of the organization. All departments and the Company's management are the first line of defense for risk management and internal control, which are responsible for identification, reporting and preliminary management of risks. The internal audit department is the second line of defense. It is responsible for the overall organization, coordination and planning of risk management and internal control work, and monitors the first line of defense. The Audit Committee is the third line, which is responsible for monitoring the work of the first and second lines of defense. As the highest decision-making body of the Company's risk management and internal control, the Board takes ultimate responsibility for the sound and effective implementation of the Company's risk management and internal control system.

Work Carried Out and Reviewed of Risk Management and Internal Control

The Company conducts annual reviews of the effectiveness of the risk management and internal control organization system and evaluates all key monitoring aspects, including financial monitoring, operational monitoring, compliance monitoring and risk management.

Internal audits carried out by the internal audit department, with the assistance of internal and external monitoring consultants, ensure that the monitoring is carried out properly and functioning according to the intended function. The results of the internal audits and review are reported to the executive Directors and the Audit Committee at least once a year. In 2016, around the overall business objectives, the Company sorted out and identified the possible risks from four levels of the strategic-business-reputation, compliance monitoring, financial, organization and operation, which formed the risk management framework as the basis for risk management. The internal audit department discussed with all the responsible departments to analyze and evaluate the risk identified, and submitted the assessment and measures to be taken for major risks to the Company's management for review, and to Audit Committee and Directors for consideration and approval. The Board has reviewed the effectiveness of the risk management and internal control organization system and confirmed that the system is effective during the Reporting Period, and there are no significant monitoring errors or significant monitoring weaknesses.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Processing and Publishing of Inside Information

The Company has established procedures on disclosure of inside information to ensure that inside information is promptly identified, assessed and submitted, where appropriate, for the attention of the Board.

To manage the risks regarding inside information, we have adopted the Model Code as the Company's own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all members of the Board complied with the Model Code during the year ended December 31, 2016. Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended December 31, 2016.

INDEPENDENT AUDITOR'S REMUNERATION

The Group's independent auditor is PricewaterhouseCoopers.

For the year ended December 31, 2016, the fees paid/payable to PricewaterhouseCoopers for the audit and review of the financial statements of the Group were RMB5.8 million.

Fees paid/payable to PricewaterhouseCoopers for non-audit services provided to the Group for the year were RMB0.

JOINT COMPANY SECRETARIES

Mr. Chen Shi and Ms. Ng Sau Mei of KCS Hong Kong Limited, an external service provider, have been appointed by the Company as the joint company secretaries. The primary contact person of Ms. Ng Sau Mei at the Company is Mr. Chen Shi, the joint company secretary and general counsel of the Company.

During the year ended December 31, 2016, each of Mr. Chen Shi and Ms. Ng Sau Mei has undertaken no less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONSHIP

The Company believes that effective communication with Shareholders and other investment community is essential. Since the Listing Date, the executive Directors, chief financial officer/ acting chief financial officer and head of investor relations of the Group held regular briefings, press conferences and analysts meetings of annual results, attended investor forums and participated in roadshows and conducted meetings with the institutional investors and financial analysts in mainland China, Hong Kong and overseas countries to keep them abreast of the Group's business and development. Investors can also communicate with the Company through email at IR@tiange.com.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONSHIP (continued)

Shareholders' meetings provide a useful forum for the Shareholders to exchange views with the Board. The Directors and the acting chief financial officer of the Group will attend the Shareholders' meetings to answer the questions raised by the Shareholders. Published documents together with the latest corporate information and news are available on the Company's website at www.tiange.com.

SHAREHOLDERS' RIGHTS

Besides the request of the Board, extraordinary general meetings can be convened through the following measures:

(a) on the written requisition of any two or more Shareholders who hold as at the date of deposit of the requisition of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by such shareholders, provided that such shareholders held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company; or

(b) on the written requisition of any one Shareholder which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the Shareholder, provided that such Shareholder held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Shareholders may put forward proposals for consideration at a general meeting according to the applicable laws and the Articles. If a Shareholder, who is entitled to attend and vote at the relevant general meeting, wishes to nominate a person (not being the nominating Shareholder) to stand for election as a Director, he or she should give to the secretary of the Company notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his or her willingness to be so elected, commencing no earlier than the day after the dispatch of the notice of the relevant general meeting and ending no later than seven days prior to the date of such general meeting.

As regards proposing a person for election as a Director, the procedures are available on the websites of the Company and the Stock Exchange.

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company in Hangzhou at Room 3A09 Sunshine International Business Center No. 186 South Hushu Road, Hangzhou, PRC (email address: IR@tiange.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the Reporting Period, there were no significant changes in the constitutional documents of the Company.

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

Tian Ge, headquartered in Hangzhou, is a leader in online interactive entertainment service industry with a sharp focus on live social video community platforms and online games. The Group operate a series of popular "many-to-many" and "one-to-many" live social video communities, including 9158 Video Community and Sina Show with the mission to bring optimism and joy to the masses through live social video interaction.

This is our first ever environmental, social and governance report (the "**Report**") aiming to outline our approaches, commitments and strategies in pursuit of sustainable development during the Reporting Period. Unless otherwise stated, this Report covers the sustainability initiatives and performances of our core businesses in live social videos communities during the Reporting Period. Employees of our distributors and sales agents, hosts and room managers are not counted as part of the Company's employees as we do not enter into any employment agreement with them. In preparation of this Report, we strictly follow the disclosure requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules.

We sincerely welcome your comments and suggestions with regard to this Report and our sustainability performance. Please send your feedback to us at IR@tiange.com.

2. ABOUT TIAN GE

Vision

Tian Ge is here to make the world smile every day.

Mission

Our mission is to bring optimism and joy to the masses by building technologies and platforms that enable live social video interaction.

- Showcase the power of youth through every video window.
- Break geographic boundaries and share the world's sparkle and vitality through the global network.
- Establish harmonious online ecosystems with an ever-changing horizon.
- Meet and exceed each and every customer's needs.
- Maintain a consistent focus on corporate responsibility by introducing programs and activities that create a better and healthier society.

2. ABOUT TIAN GE (continued)

Core Values

- Integrity & Honesty – Preserve the virtues of honesty and integrity throughout our business practices.

- Optimism and Dedication – Conscientious with self-regulation, dedicated to maintaining best practices.

- Open Communication & Innovation – Consistently and proactively innovate and share with the world at large.

Business

The Company focuses our principal business on our live social video platforms, comprising "many-to-many" and "one-to-many" communities. With the leading position in the industry, our core business is further complemented by online and mobile games as well as other related services.

3. OUR APPROACH TO SUSTAINABILITY

Our vision "making the world smile every day", a driving principle that underpins our approach to sustainability, best describes our commitment to being a responsible corporate citizen as we continuously seek ways to better serve our stakeholders. The Company upholds that sustainable development not only encapsulates our environmental performance but is also rooted in our core business practices and our relationship with our shareholders, employees, users and suppliers. To achieve sustainable growth, we are dedicated to integrating environmental, social and governance considerations into the way we operate our businesses with an aim to be a positive force to our environment and the wider community. Details of our management approach in environmental and social aspects can be found in the corresponding sections of this Report.

Stakeholder Engagement

We firmly believe that the support from stakeholders lays a solid foundation to the long-term growth and success of the Company. We strive to maintain a close and harmonious relationship with our stakeholders on a regular basis with the goal to reinforce mutual trust and respect. Ongoing engagement, both formally and informally, with stakeholders allows us to better shape our business strategies to respond to their needs and expectations, anticipate risks and strengthen key relationships. We have identified employees, end-users, suppliers and business partners (including distributors, sales agents, hosts and room managers), Shareholders, government and the community at large as our key stakeholder groups. The information collected throughout the stakeholder engagement process serves as an underlying basis for the structure of this Report.

4. MAKING OUR PEOPLE SMILE

Our employees form the cornerstone of our success in the online entertainment industry. In addition to strict compliance with the Labor Law of the PRC, we spare no efforts in our aspiration to be the preferred employer by offering a safe, diverse, fair, non-discriminating, harmonious and inclusive working environment that offers satisfying career path, satisfying growth opportunities and competitive remuneration packages.

(a) Attracting and Sourcing Talent

Tian Ge attaches great importance to talent acquisition procedures to ensure the competencies and capabilities of our talents that are of the essence to our long-term success. We recruit through campus recruitment, online recruitment, internal referral and head hunting firms or agents to satisfy the needs for different types of talents. By attracting the best, developing the best and establishing a dedicated, diverse and high-performing workforce, we can ensure continuing product innovation and emerging leadership in the market. To keep attracting the best talent, we have established a comprehensive recruitment management policy to systemize the process and procedure from job posting to interviewing candidates and from signing contracts with new employees to assisting their smooth transition from probation. We have also established a comprehensive performance appraisal system based on a set of quantifiable key performance indicators to regularly review and assess the performance of all employees. We will take into account the performance appraisal for decisions on promotion and salary adjustment.

(b) Equal Opportunities and Employee Inclusion

We regard equal opportunities and inclusion as value drivers and aim to create a vibrant and inclusive workforce. With the expansion and diversification of the virtual world of entertainment, we recognize the competitive edge and intangible value brought by diversity regardless of ages, gender, religion and ethnicity. Our employee code of conduct and anti-discrimination practices guide our employees in the areas of ethical business conduct and equal opportunity. We pursue diverse candidates who are able to bring in new ideas to keep up with the waves of innovation. Our employee demography displays our approach to equal opportunities and diversity. Our recruitment team also identifies and interviews skilled people with disabilities. We support them by providing disabled-friendly facilities in washrooms and helping them to proceed to conference room and canteen.

We adopt a zero tolerance approach to unethical labor practices including employing child labor and forced labor. We strive not only to comply stringently with the Labor Law of the PRC and other applicable legal requirements but to exemplify best practice as a responsible employer. During the Reporting Period, we did not identify any issue with child labor and forced labor.

4. MAKING OUR PEOPLE SMILE (continued)

(c) Developing Talent

The skills, knowledge and capabilities of our employees are the pillars of the sustainable development of our Company. They transform our visions into actions. Seeing employees as part of our family, we are dedicated to unlock their potential to the fullest in their life-long pursuit for excellence through both internal and external training and development programs. The Group believes that investing in our people is not only advantageous to their personal and career development but also to the sustainable and healthy growth of our businesses. Our training programs can be summarized in four dimensions: i) new staff orientation; ii) professional skills; iii) career development; and iv) operation and management. In 2016, 32 training courses were delivered to 160 employees and a total of over 1,300 training hours were recorded.

Below are the examples of training course offered during the Reporting Period:

- From logical thinking to clear expression
- Structured thinking
- New employee sharing
- New staff orientation
- Technological advancement and security risk of mobile Internet
- Software testing training
- Creating virtual reality games using Unity
- Elementary class for Unity engine
- Cocos2dx technology development training
- Team management with multiple roles

(d) Competitive Benefits and Remuneration

To continue introducing products that make the world smile every day, Tian Ge strives to foster the virtue of optimism and dedication in our workplace. Our salary package is made up of basic salary, special bonus and allowances. On top of various standard employee benefits including social security scheme (pensions, unemployment, medical, work-related injury and maternity insurance along with housing provident fund (五險一金)), we offer a wide array of fringe benefits, for example, annual travel, overtime meals, reimbursement for purchasing reference literature and festival bonus. We are, in particular, concerned about the well-being of our people in that we offer pre-employment health examination, annual medical check-up, weekly doctor consultation session and Chinese chiropractic for our staff. In accordance with applicable labor laws including Labour Contract Law in the PRC, our employee handbook sets out the standard working hours, paid leaves, rest periods, and dismissal policy to safeguard the rights of our people which has been regularly reviewed.

4. MAKING OUR PEOPLE SMILE (continued)

(e) Health and Safety

Although Tian Ge's operation is predominantly office-based, we adhere to Labor Law of the PRC and other applicable laws and regulations to provide a safe and healthy workplace by protecting them from occupational hazards. We recognize the importance of enhancing our employees' safety knowledge and awareness in case of any emergency like fire accidents. We are committed to conducting fire drills regularly. In addition, our safety equipment, which includes first-aid kits, fire sprinkler system, fire extinguishers, fire alarm system and emergency exit, is inspected annually with the standard required by the Fire Protection Law of the PRC.

5. MAKING OUR CUSTOMER SMILE

As a pioneer and leader in live social video industry with the mission of bringing optimism and joy to the masses, Tian Ge has been dedicated to sustainable development of our products that are fun, innovative, convenient, and interactive. Leveraging our industry savvy and technological knowhow, our research and development teams strive to enhance our product quality and diversity over the years. In the meantime, we rigorously abide by all applicable laws and regulations of the PRC, including but not limited to the Telecom Regulations, the Catalogue of Telecommunication Business (《電信業務分類目錄》), an appendix to the Telecom Regulations and The Administrative Measures on Internet Information Services (《互聯網資訊服務管理辦法》).

(a) Internet Safety Maintenance

As a socially responsible corporate citizen, Tian Ge regards the development of safe and healthy online platforms on the Internet as our top priority. In accordance with the Provisions on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》) and Regulations on Online Live Webcasting (《互聯網直播服務管理規定》), we are obliged to maintain the appropriateness of the interactive contents shared on our platforms. In a bid to root out improper content or information governed by various laws and regulations, such as dissemination of obscenity or pornography, encouragement of gambling, violence, murder or fear or incitation of the commission of a crime, a comprehensive content monitoring system has been established in place to regulate the content within our social ecosystems. The components of the system are as below:

i) Terms of service: It stringently prohibits inappropriate content and actions subdivided into vulgar content, proscribed performance and other violations, across our platforms with user-generated and real-time content, in which all participants, comprising hosts, room managers, sales agents, users on air and viewers, are required to abide by our terms of service.

5. MAKING OUR CUSTOMER SMILE (continued)

(a) Internet Safety Maintenance (continued)

ii) Automatic content detection system: For visual content, our proprietary "smart" screenshot filtering system, granted the patent of "method for automatic filtering disqualified image based on multilayer characteristics" (《基於多層特徵的不良圖像自動過濾方法》) (patent No.: ZL201110048284.8), is capable of automatically identifying multiple features of indecent or inappropriate images, for example full nudity or sexually-suggestive partially nudity of the chest, lower body or other areas. For text content, we have an automatic system for detection of sensitive or inappropriate words, phrases or languages. Content containing certain keywords is automatically filtered and cannot be successfully posted or entered on our platforms. For audio content, our patented technology is able to automatically distinguish inappropriate content through audio feeds. Suspected inappropriate contents in all forms are delivered to our content monitoring department for further scrutiny by content monitoring staff on duty. Our patented automated chat robot will automatically remind users of our terms of service.

iii) Content monitoring team: Our dedicated and well-trained content monitoring team, is responsible for accurate and timely detection of violation of terms of services and enforcement of our internal policies to ensure the content across our platforms is in compliance with applicable laws and regulations. All our video rooms are randomly checked 24 hours a day, seven days a week for potential violations as an additional layer of manual monitoring.

iv) Self-regulation by room participants: Hosts and room managers are responsible for ensuring their rooms' content conforms to our terms of service. With the administrative account, they are given the authority to "squelch" users (removing their ability to chat) and forcibly remove or ban users from the room. Rooms repeatedly violating our terms of service may be closed temporarily or even permanently. In addition, the users can report any inconformity with our terms of service of each community.

v) Disciplinary actions taken: In accordance with our strict policies and applicable laws, we penalize participants' violations depending on the levels of severity. Penalties range from warnings, cutting off the stream feed temporarily and suspension of the stream and/or account for minor breach, to permanent deletion of account with forfeiture of virtual currency as well as items and permanent room closure for serious violation like pornographic performances, to report to local public security bureau for severe infringement like drug use. Summary of all violations of our terms of service will be reported to the relevant local authority on a weekly basis.

5. MAKING OUR CUSTOMER SMILE (continued)

(b) User Experience Enhancement

We firmly believe that our ability to develop Internet and mobile applications and services catering to the ever-changing needs of our user has been the cornerstone for the success of our business. Born to bring optimism and joy to the masses, Tian Ge has developed innovative real-time video technologies that empower users to engage and interact with each other through video, voice, text and exchange of virtual items. As of December 31, 2016, our platform has over 65,000 real-time video rooms spanning across a wide variety of live social video communities with user-generated content broadcasted to viewers. Our users meet and stay connected with others who may share similar backgrounds, interests, culture and dialects. Our communities offer a diverse range of room genres including music, talk show, social networking, finance and education. Users may join and engage in real-time activities including karaoke, birthday parties, talent contests, and annual celebrations to display their unique talents and share knowledge. Since inception, we have enriched our user experience with the aid of various features and some of them are outlined as below:

(i) "Mobile + PC" Dual Live Streaming

In response to the rapidly-growing market demand for mobile entertainment, Tian Ge strives to enhance users' experiences by actively expanding its product lines to cover mobile audiences. We have launched and operated numbers of distinctive streaming mobile applications, namely Miao Broadcasting (喵播), Crystal Live Broadcasting (水晶直播), Happy Live Broadcasting (歡樂直播), Feng Broadcasting (瘋播) and "9158 Live Streaming", which are innovatively incorporated with the Group's "many to many" concept. During the Reporting Period, we spared no effort in enhancing and upgrading our products. These five mobile applications have been seamlessly integrated with their original PC platforms where users may enjoy live streaming content with more features via both mobile and PC application.

(ii) Beautifying effect

To echo with the call for image editing, Tian Ge has developed and introduced more beauty makeover related applications, making instant "Edit and Share" function much easier.

5. MAKING OUR CUSTOMER SMILE (continued)

(b) User Experience Enhancement (continued)

(iii) Video and audio quality

Our real-time online video rooms leverage sophisticated distributed video multicast technology and enable best-in-class video quality in line with the latest industry standards and audio effects approaching offline KTV hardware quality.

(iv) Advanced streaming capabilities

Our technology infrastructure enables real-time multicast video streaming and communication between users across multiple devices. We have advanced proprietary technologies such as synchronous multi-microphone support, which supports up to ten audio feeds into the same video stream, and latency-reducing technology to lower our bandwidth costs, decrease user lag and load times, and optimize performance. We have also enhanced the real time digital audio/visual CDN (proprietary technology) to allow our users to select and connect to the fastest server based on various benchmark analyses.

(v) Strong technology infrastructure

As one of few companies in the PRC with expertise in live video streaming media processing, we have established a strong technology infrastructure that currently supports up to 100,000 concurrent users per room and up to 50,000 live video streams per community at once, via servers at over 20 Internet data centers and cloud-based remote-access servers throughout China.

(c) Intellectual Property Protection

We deem our proprietary domain names, copyrights, trademarks, trade secrets and other intellectual property critical to our business operations. We rely on a combination of patents, copyrights, trademarks and trade secret laws to protect our intellectual property. As at December 31, 2016, we have registered:

- 89 trademarks in China;
- 60 domain names;
- 11 patents in China; and
- 236 copyrights in China, relating to all of our online communities, games and other products.

5. MAKING OUR CUSTOMER SMILE (continued)

(d) User Privacy Protection and Information Security

Ensuring the privacy of our users' personal information and other data is critical in maintaining our reputation for good governance and establishing the trust that underpins lasting relationships. We have implemented measures in user data protection. Our database administration department is responsible for ensuring that collection, storage and use of player data comply with our internal rules and applicable laws and regulations. It also supervises the protection of data privacy. We provide training to our database administrators to enhance their technical skills and conduct regular reviews of their performance. Further, our database administration department holds weekly meetings to review information technology issues, assess work progress and make plans for upcoming work streams.

We place information security as one of our top priorities. We have established information security objectives, complemented by an information security management system which made reference to ISO/IEC 27001:2005 and corresponding incident handling strategies depending on the level of severity. Besides, we seek to provide a safe environment for our users by implementing sophisticated security mechanisms and robust content filters. For example, we can auto-detect and block the appearance of phone numbers or bank account numbers in our online communication interfaces. Moreover, all of our user data is encrypted and saved in at least two different places within our internal servers rather than client-based servers, protected by access control, and further backed up in our long-distance disaster recovery system, so as to minimize the possibility of data loss. Once a hacking attack is detected, our technical team will immediately coordinate with the local supporting staff of the relevant server provider to diagnose and solve the technical problems.

(e) Customer Service Excellence and Interest Protection

We believe that outstanding customer service plays a significant role in retaining users and differentiating us from our competitors as they are the foundation and motivation for our sustainable development and the stimulus for our product innovations. Tian Ge collects valuable first-hand customer experience and feedback through our 24-7 customer service system. We use this information to better understand customer preferences and further enhance our services and products. Our customer service representatives also assist our customers in dealing with their technical difficulties and in the payment process. We keep records of system bugs and customer feedback for our technology department to enhance our products and services. Complaints are required to be resolved within one to three business days. We have dedicated customer service representatives to cater to the needs of our high-consumption VIP customers.

With regard to placing advertisements of our products and services, our policy is to promote our business in strict compliance with relevant applicable laws and regulations including Advertisements Law of the PRC and The Interim Measures for the Administration of Internet Advertising to protect the legitimate rights and interests of consumers.

6. WORKING WITH OUR SUPPLIER AND BUSINESS PARTNER

Since our incorporation, we have been dedicated to doing business with honesty and integrity in stringent compliance with applicable local laws and regulations. By the same token, we expect our suppliers and business partners (including distributors, sales agents, hosts and room managers) to operate in a manner that demonstrates best practices in connection with environmental and social matters as how we work with them has a significant impact on the quality of our products and services and our reputation. Our code of conduct on suppliers has clearly set out our expectations on suppliers and business partners for environmental, social and ethical standards including but not limited to treating their employees fairly, maintaining a safe and healthy workplace, upholding strong business ethics to root out copyright infringement, corruption and frauds. Suppliers and business partners are required to act according to the code of conduct before entering into agreement with us.

7. IMPLEMENTING CORPORATE GOVERNANCE

As part of Tian Ge's DNA, we attach great importance to our core values of honesty and integrity. To enhance internal governance and risk management, improve management efficiency, and prevent fraud, corruption, extortion and money laundering within the Group, in compliance with applicable laws, we have structured solid internal control system and governance frame. These procedures guide our daily business conduct, employee policies, supply chain management, environmental protection, commitment to social responsibility and eventually, our society. An internal control team is built to further strengthen internal control system and monitor company activities in term of anti-corruption. All employees are expected to strictly follow Tian Ge Code of Conduct, which clearly details ethical issues and professional conduct in the Company.

8. MAKING OUR EARTH SMILE

The Group believes that combating global climate change is a collective responsibility that cannot be neglected despite that we do not operate in an environmentally sensitive business and is predominantly offering virtual product and services. Our operations are nevertheless in stringent compliance with applicable local laws and regulations concerning environmental protection such as the Law of the PRC on Prevention and Control of Water Pollution. We are committed to improving our awareness of green issues with dedication to enhancing energy efficiency, reducing water consumption and waste volume as well as conserving resources throughout our operations. Environmental considerations are taken into account in our decision-making processes and are the integral parts of our corporate culture. We have propagated environmental protection concepts, spread awareness among our employees and advocated energy-saving as well as a low carbon lifestyle.

8. MAKING OUR EARTH SMILE (continued)

(a) Waste Management

We are committed to reducing waste across our departments in our business operations by upholding the environmental-friendly principles of "reuse, reduce and recycle". We provide appropriate waste disposal and recycling receptacles to encourage our staff to recycle and reuse. We classify daily garbage according to its nature. Hazardous solid waste such as demolished equipment is separated from non-hazardous waste and recyclable waste is separated from non-recyclable waste. We engage qualified third parties when it comes to the disposal of hazardous e-waste as well as the assessment of the recyclability of the other waste. While recyclable waste would be collected and processed by professionals, we entrust the local garbage disposal department to ensure the non-recyclable waste is properly handled.

To further minimize the disposal of waste, we impose strict requirement on the disposal of office electronic appliances, with the hope to extend their life spans.

(b) Energy Efficiency

We seek to continue with our energy-saving, targeting to improve energy and water efficiency through strengthening control and upgrading technologies. Major measures to conserve electricity taken place in 2016 are as follows:

- A data analysis system was established to provide statistical support for energy conservation. Consumption of electricity has been included as a departmental performance indicator to encourage energy savings across departments.
- Metal halide light has been gradually replaced with LED light source since 2015.
- Servers with lower utilization rate were consolidated to reduce the total number of servers in use.
- Security guards were assigned to conduct inspection three times per day to make sure temperature of air-conditioners is at optimal level and those located in idle area are completely switched off. Reward system was also implemented to motivate the security guards to monitor the use of air conditioning and lighting system regularly in office building.
- Employees were required to properly switch off the electronic appliances during out of office hours.
- Procurement department was required to give priority to the purchase of the electrical appliances and electronic devices with Grade 1 Energy Label.

8. MAKING OUR EARTH SMILE (continued)

(c) Water Conservation

Though our water consumption is relatively minimal, we identify and implement opportunities to reduce and recycle the amount of water we consume. Tian Ge does not engage in any intentional discharge of wastewater other than municipal wastewater, fuel, chemicals or other potentially harmful substances at Tian Ge' s facilities during the year.

We manage water use in our daily operation with the aim of achieving water efficiency. We also incorporate various water conservation measures in our office, including:

- Sprinkler irrigation system was adopted along greenbelt, which automatically and directionally activated as programmed in the system. 300 tons of water are expected to be conserved every year.

- Time-delayed sensor faucets were installed in toilets.

(d) GHG Emissions

To take a further step to alleviate our impact to the environment, we have adopted the below measures:

- Free shuttle buses are provided to staff during commuting hours to reduce energy consumption.

- Paper consumption volume has become one of the indicators to evaluate the management performance of each department.

- Green office is advocated by going paperless with the aid of advanced technology, for example, saving electronic version documents in lieu of hard copies.

- Unnecessary business trips have been reduced.

9. MAKING OUR COMMUNITY SMILE

The Group firmly believes that business development is inseparable from the support and help of the government, the community and the general public. Adhering to our Group's culture of "maintain a consistent focus on corporate responsibility by introducing programs and activities that create a better and healthier society", we pay equal attention to the development and the improvement of people's livelihood. We are committed to building a sustainable community by leveraging our business resources to support the needy and nurture the youth. We give full play to our advantages, devoting ourselves in aiding people in need and strive for harmonious development between the Group and society.

Advocating Volunteer Work

Throughout the year, Tian Ge has made continued efforts to improve the volunteer service system. We strengthened the construction of volunteer teams and engaged members of the Group in the participation of various volunteer activities. Employees were encouraged and supported to devote their time, skills and expertise to take part in community services.

Highlight of Community Services in the year 2016

(a) Snow Clearance in Civic Square

Public area covered with heavy snow could be particularly annoying for the passengers to take a walk in winter. In late January 2016, we volunteered to clear the clustered slushy snow in Civic Square in Hangzhou.

(b) Elderly Home Visit in Houzhai Village

To show our care to the elderly who have been devoting themselves to the society for the entire lives, elderly visit was held once a quarter throughout the year 2016. This year, one of the visits took place in Houzhai Village, Tangxi Town, Jinhua. An 8-person team of our staff was formed to visit a total of 15 units. They distributed many bottles of oil, packs of rice and bags of flour to the elderly in the village, offering a little warmth particularly during the freezing winter season.

9. MAKING OUR COMMUNITY SMILE (CONTINUED)

Highlight of Community Services in the year 2016 (continued)

(c) "The Civilized City – Garbage Clearing Campaign"

"The Civilized City – Garbage Clearing Campaign" involved more than 30 participants including top and middle level management of the Group. The campaign aimed at improving the hygiene as well as the general appearance of the public area, providing a cleaner and better place for people to live in. The campaign was also a good opportunity for the members across different levels of the Group to join their hands in community service.

(d) Nurturing the Youth

Our corporate sustainability activities place high importance on empowering and inspiring the youth. The aspirations, innovations and social engagement of today's youngsters will play a crucial role in the future development of our society.

To support the education development of the Zhejiang University of Technology by actively encouraging students to make their robust business plan into reality, we established the "Tian Ge Foundation" for the School of Computer Science and Technology of the Zhejiang University of Technology in the year of 2016. One of the major events sponsored by the foundation was "Tian Ge Cup" mobile application development contest of the School of Computer Science and Technology of the Zhejiang University of Technology. By encouraging young people to explore their interests, discover new talents, and unlock their potential and passion for making positive contributions, we hope to nurture well-rounded young adults with the values and skills to become competent future leaders.

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF TIAN GE INTERACTIVE HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tian Ge Interactive Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 105 to 230, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition from operation of live social video platforms
- Purchase price allocation related to business combination

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition from operation of live social video platforms *Refer to note 2.24 and note 6 to the consolidated financial statements* Revenue from operation of live social video platforms for the year ended 31 December 2016 amounted to RMB643,559 thousand which represented 77% of total revenues. Such revenue derives from sales of virtual currency which can be used to exchange virtual gifts or purchase virtual items. The revenue is recognised at the reduction of virtual currency during the exchange of virtual gifts, or when the consumable virtual items are consumed, or ratably over the beneficial period of the durable virtual items on the platforms. We focused on this area as significant efforts were spent on auditing the accuracy of revenue recognized from live social video platforms due to the magnitude of revenue amount and the huge volume of revenue transactions generated from the application systems and billing systems.	Our procedures in relation to the revenue recognition from operation of live social platforms included: • We tested the general control environment of the information technology systems in which the virtual currency was sold and reduced, the virtual gifts were exchanged and the virtual items were consumed; • We tested the system automated controls, including checking top up of virtual currencies with payment collection channels, as well as calculating reduction of virtual currency, consumption of virtual items and amortization of virtual items in accordance with pre-set system logic. We also tested the interface between the application systems and billing systems; • We tested management's key controls in respect of revenue recognition from sales of virtual currency, including management review and approval of changes in the discount rate offered on the platforms based on the updated contract entered into with distributors; • We reconciled the cash collection recorded in the general ledger to the sold virtual currency recorded in the billing systems. We tested, on sample basis, the amount and the timing of cash collection by checking to the evidence of cash receipts; • We tested the accuracy of revenue from operating major platforms by testing the system logic for generation of revenue reports. By using the computer-assisted audit techniques, we tested the accuracy of computation of revenue recognised on reduction of virtual currency, consumption and amortization of virtual items, which are generated directly from the application systems and billing systems. We found that the results of our procedures performed to be materially consistent with management's supporting documentation.

KEY AUDIT MATTERS (continued)

Key Audit Matter

Purchase price allocation related to business combination

Refer to note 32 to the consolidated financial statements

During the year, the Group completed the acquisition of Chengdu Happy Alliance Technology Co., Ltd. ("Happy Alliance") for an aggregated consideration of RMB49,289 thousand and the acquisition of Jinhua Pangu Information Technology Co., Ltd. and Poon Ku International (Macau) Co., Ltd. (collectively "Pangu Group") for a consideration of RMB105,234 thousand.

For these acquisitions, the Group is required to determine the fair values of the identifiable assets and liabilities acquired at the date of acquisition. Management engaged an independent professional valuer to assist them to perform such exercise using the income approach based on the discounted future cash flow of those assets. The purchase prices were allocated to the identifiable assets and liabilities acquired under IFRS 3. As a result, the Group recognised RMB21,166 thousand (identified intangible assets) and RMB30,370 thousand (goodwill) for the acquisition of Happy Alliance, and RMB27,432 thousand (identified intangible assets) and RMB75,623 thousand (goodwill) for the acquisition of Pangu Group.

We focused on this area because identification of acquired assets and liabilities and determination of the valuation of identified intangible assets required significant management judgement and estimates.

How our audit addressed the Key Audit Matter

Our procedures included:

- We assessed the competence and objectivity of the independent professional valuer engaged by the Group.

- We assessed management's identification of the acquirees' identifiable assets acquired at the acquisition date based on investment contracts, other legal documents, the relevant accounting standards and the acquirees' financial information.

- We assessed management's valuation in determining the fair value of identified intangible assets in the following aspects:

  – With assistance of our internal valuation specialist, we assessed the reasonableness of the valuation methodology adopted by the Group, and challenged management on the reasonableness of key parameters used, e.g. remaining useful life, attrition rate, contributory asset charge rate and discount rate, through comparing and analysing the information independently gathered from similar transactions in the market.

  – We also tested the logic of the cash flow forecast models built by the Group and assessed the reasonableness of the key assumptions used in the models, e.g. sales growth rate and gross profit margin, by comparing such key assumptions to the Group's historical performance and market data.

Based on the above, we found management's judgement and estimate in identification of acquired assets and liabilities and determination of the valuation of identified intangible assets were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chui Yin Wong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2017

Consolidated Statement of Comprehensive Income

(All amounts in RMB unless otherwise stated)

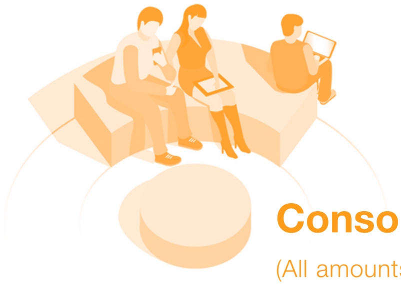
	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	6	**834,185**	677,543
Cost of revenue	7	**(188,098)**	(151,335)
Gross profit		**646,087**	526,208
Selling and marketing expenses	7	**(206,375)**	(191,353)
Administrative expenses	7	**(122,272)**	(115,735)
Research and development expenses	7	**(87,152)**	(83,628)
Other gains, net	8	**59,360**	53,032
Operating profit		**289,648**	188,524
Finance income	10	**1,150**	4,338
Finance costs	10	**(2,498)**	(1,030)
Finance income/(costs), net	10	**(1,348)**	3,308
Share of loss of investment accounted for using the equity method	14	**(5,110)**	(4,389)
Impairment of investment accounted for using the equity method	14	**–**	(2,985)
Profit before income tax		**283,190**	184,458
Income tax expense	11	**(52,481)**	(34,708)
Profit for the year		**230,709**	149,750
Other comprehensive income:			
Items that may be reclassified to profit and loss			
Changes in value of available-for-sale financial assets		**26,677**	–
Currency translation differences		**63,680**	62,009
Total comprehensive income for the year		**321,066**	211,759
Profit/(Loss) attributable to:			
– Shareholders of the Company		**233,213**	151,792
– Non-controlling interests		**(2,504)**	(2,042)
		230,709	149,750
Total comprehensive income/(loss) attributable to:			
– Shareholders of the Company		**323,133**	213,587
– Non-controlling interests		**(2,067)**	(1,828)
		321,066	211,759
Earnings per share (expressed in RMB per share)	12		
– Basic		**0.183**	0.122
– Diluted		**0.175**	0.116

The notes on pages 112 to 230 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
Assets			
Non-current assets			
Property and equipment	*15*	**182,908**	190,843
Investment property	*16*	**27,748**	–
Intangible assets	*17*	**251,003**	121,312
Investment accounted for using the equity method	*14*	**55,497**	52,078
Deferred income tax assets	*31*	**74,583**	33,460
Available-for-sale financial assets	*22*	**304,478**	100,008
Prepayments and other receivables	*20*	**191,601**	154,917
Term deposits with initial term over 3 months	*23*	**–**	168,138
		1,087,818	820,756
Current assets			
Inventories	*21*	**1,082**	10,307
Trade receivables	*19*	**25,834**	32,006
Prepayments and other receivables	*20*	**115,090**	247,501
Available-for-sale financial assets	*22*	**610,954**	370,058
Term deposits with initial term over 3 months	*23*	**775,958**	786,732
Cash and cash equivalents	*24*	**290,306**	232,848
		1,819,224	1,679,452
Total assets		**2,907,042**	2,500,208
Equity and liabilities			
Equity attributable to Shareholders of the Company			
Share capital	*25*	**804**	797
Share premium	*25*	**2,250,388**	2,305,423
Shares held for RSU Scheme	*25*	**(7)**	(14)
Other reserves	*26*	**426,403**	273,425
Accumulated deficits	*28*	**(89,257)**	(292,919)
		2,588,331	2,286,712
Non-controlling interests		**35,641**	21,960
Total equity		**2,623,972**	2,308,672



Consolidated Balance Sheet

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2016 RMB'000	 2015 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	*31*	**14,948**	5,148
Other non-current liabilities		**1,304**	1,347
		16,252	6,495
Current liabilities			
Trade payables	*29*	**29,435**	23,212
Other payables and accruals	*30*	**61,407**	63,451
Income tax liabilities		**117,088**	48,554
Customer advance and deferred revenue		**53,888**	43,824
Provisions for other liabilities and charges	*34*	**5,000**	6,000
		266,818	185,041
Total liabilities		**283,070**	191,536
Total equity and liabilities		**2,907,042**	2,500,208

The notes on pages 112 to 230 are integral parts of these consolidated financial statements.

The financial statements on pages 105 to 230 were approved for issue by the Board of Directors on 24 March 2017 and were signed on its behalf.

Fu Zhengjun	**Mai Shi'en**
Director	*Director*

Consolidated Statement of Changes in Equity

(All amounts in RMB unless otherwise stated)

		Attributable to Shareholders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Other reserves RMB'000	Accumulated deficits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2015		779	2,381,529	(19)	122,473	(421,073)	2,083,689	4,799	2,088,488
Comprehensive income/(loss)									
Profit/(loss) for the year		–	–	–	–	151,792	151,792	(2,042)	149,750
Other comprehensive income									
Currency translation differences	*26*	–	–	–	61,795	–	61,795	214	62,009
Total other comprehensive income, net of tax		–	–	–	61,795	–	61,795	214	62,009
Total comprehensive income/(loss)		–	–	–	61,795	151,792	213,587	(1,828)	211,759
Transactions with Shareholders in their capacity as owners									
Share-based payments	*9*	–	–	–	65,942	–	65,942	–	65,942
Proceeds from share issued under employee share option plan	*25*	20	8,405	–	–	–	8,425	–	8,425
Vest and transfer of RSUs	*25*	–	(9)	9	–	–	–	–	–
Issuance of shares held for Post-IPO RSU Scheme	*25*	4	–	(4)	–	–	–	–	–
Repurchase and cancellation of ordinary shares	*25*	(6)	(24,929)	–	–	–	(24,935)	–	(24,935)
Non-controlling interests arising from acquisition and establishment of subsidiaries		–	–	–	–	–	–	18,989	18,989
Step-acquisition of an associate		–	–	–	1,813	(2,236)	(423)	–	(423)
Appropriation of special dividends	*13*	–	(59,573)	–	–	–	(59,573)	–	(59,573)
Profit appropriations to statutory reserves	*26*	–	–	–	21,402	(21,402)	–	–	–
Total transactions with Shareholders in their capacity as owners		18	(76,106)	5	89,157	(23,638)	(10,564)	18,989	8,425
Balance at 31 December 2015		797	2,305,423	(14)	273,425	(292,919)	2,286,712	21,960	2,308,672

Consolidated Statement of Changes in Equity

(All amounts in RMB unless otherwise stated)

		Attributable to Shareholders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Other reserves RMB'000	Accumulated deficits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2016		797	2,305,423	(14)	273,425	(292,919)	2,286,712	21,960	2,308,672
Comprehensive income/(loss)									
Profit/(loss) for the year		–	–	–	–	233,213	233,213	(2,504)	230,709
Other comprehensive income									
Currency translation differences	26	–	–	–	63,243	–	63,243	437	63,680
Changes in value of available-for-sale financial assets		–	–	–	26,677	–	26,677	–	26,677
Total other comprehensive income, net of tax		–	–	–	89,920	–	89,920	437	90,357
Total comprehensive income/(loss)		–	–	–	89,920	233,213	323,133	(2,067)	321,066
Transactions with Shareholders in their capacity as owners									
Share-based payments	9	–	–	–	31,790	–	31,790	–	31,790
Proceeds from share issued under employee share option plan	25	6	10,606	–	–	–	10,612	–	10,612
Vest and transfer of RSUs	25	–	(8)	8	–	–	–	–	–
Issuance of shares held for Post-IPO RSU Scheme	25	1	–	(1)	–	–	–	–	–
Non-controlling interests arising from acquisition and establishment of subsidiaries		–	–	–	–	–	–	16,655	16,655
Non-controlling interests arising from disposal of a subsidiary		–	–	–	–	–	–	(3,920)	(3,920)
Step-acquisition of an associate		–	–	–	–	–	–	4,730	4,730
Appropriation of final dividends	13	–	(65,633)	–	–	–	(65,633)	–	(65,633)
Profit appropriations to statutory reserves	26	–	–	–	29,551	(29,551)	–	–	–
Changes in ownership interests in subsidiaries without change of control	36	–	–	–	1,717	–	1,717	(1,717)	–
Total transactions with Shareholders in their capacity as owners		7	(55,035)	7	63,058	(29,551)	(21,514)	15,748	(5,766)
Balance at 31 December 2016		804	2,250,388	(7)	426,403	(89,257)	2,588,331	35,641	2,623,972

The notes on pages 112 to 230 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in RMB unless otherwise stated)

		Year Ended 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash generated from operations	*33*	**391,187**	193,191
Income tax paid		**(30,401)**	(39,184)
Net cash generated from operating activities		**360,786**	154,007
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(100,494)**	(37,878)
Step acquisition of a subsidiary, net of cash acquired	*32*	**(25,605)**	–
Proceeds from disposal of a subsidiary, net of cash disposed		**2,212**	–
Payment for acquisition of investment in associates and joint ventures		**(17,248)**	(35,379)
Step acquisition of an associate		**–**	(16,000)
Cash contribution to associates	*14*	**–**	(32)
Purchase of and prepayment for property and equipment and investment property		**(33,224)**	(49,825)
Proceeds from reduced interests in an associate	*14*	**–**	8,400
Proceeds from disposal of property and equipment	*33(a)*	**912**	38
Purchase and prepayment for intangible assets and game licenses		**(12,605)**	(11,185)
Payment of term deposits with initial term over 3 months and available-for-sales financial assets		**(3,303,810)**	(1,638,267)
Proceeds from disposal of term deposits with initial term over 3 months and available-for-sales financial assets		**3,167,908**	1,720,525
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	117,410
Interest received		**3,208**	7,223
Proceeds from return of prepayment for investments		**181,266**	–
Cash paid for prepayments of investments	*20*	**(116,195)**	(173,000)
Loans granted to third parties		**(32,635)**	(62,464)
Loans granted to a related party		**–**	(17,669)
Repayment of loans granted to third parties and a related party		**36,000**	45,328
Loans granted to borrowers through investment and financing platforms		**(323,128)**	–
Repayment of loans from borrowers through financial platforms		**154,019**	–

Consolidated Statement of Cash Flows

(All amounts in RMB unless otherwise stated)

		Year Ended 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
Net cash used in investing activities		**(419,419)**	(142,775)
Cash flows from financing activities			
Funds from individual investors		**169,109**	–
Proceeds from exercise of share options		**10,567**	8,425
Payment for repurchase of shares	*25*	**–**	(24,935)
Proceeds from capital injection of non-controlling interests		**–**	1,953
Dividends paid to the Company's shareholders	*13*	**(65,633)**	(59,573)
Net cash generated from/(used in) financing activities		**114,043**	(74,130)
Net increase/(decrease) in cash and cash equivalents		**55,410**	(62,898)
Cash and cash equivalents at beginning of year		**232,848**	289,083
Exchange gain on cash and cash equivalents		**2,048**	6,663
Cash and cash equivalents at end of year		**290,306**	232,848

The notes on pages 112 to 230 are integral parts of these consolidated financial statements.

1 GENERAL INFORMATION

Tian Ge Interactive Holdings Limited (the 'Company') was incorporated in the Cayman Islands on 28 July 2008 as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands as an investment holding company. The address of the Company's registered office is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands.

On 9 July 2014, the Company consummated its initial public offering (the 'IPO') on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The Company and its subsidiaries (collectively the 'Group') are principally engaged in the operating of live social video platforms, mobile and online games, advertising and other services in the People's Republic of China (the 'PRC').

Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting value-added telecommunications services. In order to make investments into the business of the Group, the Company established the subsidiaries, Tiange Technology (Hangzhou) Co., Ltd. ('Hangzhou Tiange') and Zhejiang Tiange Information Technology Co., Ltd. ('Zhejiang Tiange'), which are wholly foreign owned enterprise incorporated in the PRC in November 2008 and September 2009 respectively.

The wholly-owned subsidiaries, Hangzhou Tiange and Zhejiang Tiange, entered into the Contractual Arrangements with Hangzhou Han Tang Cultural Communication Co., Ltd. ('Hantang'), Jinhua9158 Network Science and Technology Co., Ltd. ('Jinhua9158'), Jinhua99 Information Technology Co., Ltd. ('Jinhua99'), Jinhua Xingxiu Cultural Communication Co., Ltd. ('Xingxiu') and their respective equity holders, which enable Hangzhou Tiange, Zhejiang Tiange and the Group to:

– exercise effective financial and operational control over the Hantang, Jinhua9158, Jinhua99 and Xingxiu;

– irrevocably exercise equity holders' voting rights of Hantang, Jinhua9158, Jinhua99 and Xingxiu;

– receive substantially all of the economic returns generated by Hantang, Jinhua9158, Jinhua99 and Xingxiu by way of business support, technical and consulting services provided by Hangzhou Tiange and Zhejiang Tiange;

– obtain an irrevocable and exclusive right to purchase the entire equity interest in Hantang, Jinhua9158, Jinhua99 and Xingxiu from the respective shareholders;

– obtain a pledge over the entire equity interest of Hantang, Jinghua9158, Jinhua99 and Xingxiu from their respective equity holders as collateral for all accounts payable by Hantang, Jinghua9158, Jinghua99 and Xingxiu to Hangzhou Tiange and Zhejiang Tiange and to secure performance of Hantang, Jinghua9158, Jinghua99 and Xingxiu's obligations under the Contractual Arrangements.

1 GENERAL INFORMATION (continued)

The Group does not have any equity interest in Hantang, Jinghua9158, Jinghua99 and Xingxiu. As a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement in Hantang, Jinghua9158, Jinghua99 and Xingxiu and has the ability to affect those returns through its power over Hantang, Jinghua9158, Jinghua99 and Xingxiu, and is considered to control Hantang, Jinghua9158, Jinghua99 and Xingxiu. Consequently, the Company regards Hantang, Jinghua9158, Jinghua99 and Xingxiu as the structured entities under IFRSs (see also Note 2.2.1 and Note 5).

Similar Contractual Arrangements were also executed for other PRC operating companies established by the Group. All these PRC operating companies are treated as structured entities of the Company and their financial statements have also been consolidated by the Company.

The Group has included the financial position and results of the PRC operating companies in the consolidated financial statements for all the years presented.

These consolidated financial statements are presented in Renminbi ('RMB'), unless otherwise stated.

These consolidated financial statements of the Group have been approved for issue by the Board of Directors (the 'Board') on 24 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied for all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs'). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, available-for-sale financial assets and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosure

(a) New amendments and interpretation adopted by the Group in 2016

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

– IFRS 14, 'Regulatory Deferral Accounts'

– Amendment to IFRS 11, 'Accounting for acquisitions of interests in joint operations'

– Amendments to International Accounting Standard ('IAS') 16 and IAS 38, 'Clarification of acceptable methods of depreciation and amortisation'

– Amendment to IAS 27, 'Equity method in separate financial statements'

– Amendments from annual improvements to IFRSs – 2012 – 2014 Cycle, on IFRS 5, 'Non-current assets held for sale and discontinued operations', IFRS 7, 'Financial instruments: Disclosures', IAS 19, 'Employee benefits' and IAS 34, 'Interim financial reporting'

– Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment entities: applying the consolidation exception'

– Amendments to IAS 1 'Disclosure initiative'

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and amendments issued but are not yet effective for the financial year beginning on 1 January 2017, and have not been early adopted by the Group

A number of new standards and amendments to standards and interpretations to be adopted in future reporting periods, and have not been applied in preparing this consolidated financial information. None of these are expected to have a significant effect on the consolidated financial information of the Group, except the following set out below:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and amendments issued but are not yet effective for the financial year beginning on 1 January 2017, and have not been early adopted by the Group (continued)

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

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. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

IFRS 16, "Leases", will affect primarily the accounting for Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized in the consolidated balance sheet. The Group is in the process of assessing to what extent the operating lease commitments as disclosed in note 35(b) will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and amendments issued but are not yet effective for the financial year beginning on 1 January 2017, and have not been early adopted by the Group (continued)

On 13 January 2016, the International Accounting Standards Board (IASB) published a new standard for the accounting of leases, International Financial Reporting Standard 16 — Leases ("IFRS 16"). The Group is a lessee of various offices, warehouses and apartments which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 2.27 with the Group's future operating lease commitments, which are not reflected in the consolidated balance sheet, set out in note 35(b). IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the consolidated balance sheet. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated balance sheet. In the consolidated statement of comprehensive income, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase. This will lead to an improvement in earnings before interest, taxes, depreciation and amortisation. The new standard is not expected to apply until the financial year 2019, including the adjustment of prior years.

There are no other amendments and new or amended standards that are not yet effective that would be expected to have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of loss of investments accounted for using the equity method' in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income.

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the 'CODM'), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the Company and Week8 Holdings (HK) Limited is the United States dollar ('US$'). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. The Company's acquired subsidiaries were incorporated in the PRC and Hong Kong and these subsidiaries considered RMB as their functional currency. The Company's established subsidiaries were incorporated in Japan and the PRC and these subsidiaries considered Japanese Yen ('JPY') and RMB as their functional currency respectively. As the major operations of the Group for all the year presented are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income' or 'finance costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains, net'.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

– all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.7 Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property and equipment (continued)

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Building	33 – 58 years
– Decorations	2 – 5 years
– Furniture	5 years
– Office equipment	3 – 6 years
– Server and other equipment	3 – 6 years
– Motor vehicles	4 years
– Leasehold improvement	Shorter of remaining term of the lease and the estimated useful lives of the assets

The depreciation method, residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction-in-progress (the 'CIP') represents office buildings under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property and equipment and depreciated in accordance with the policy as stated above.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other gains, net' in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statement of comprehensive income as part of a valuation gain or loss in 'other gains – net'.

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and business represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ('CGUs'), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets (continued)

(b) Computer software, brand name, domain name and technology and platform, game and license

Separately acquired computer software, brand name, domain name and technology and platform, game and license are shown at historical cost. Computer software, brand name, domain name and technology and platform, game and license acquired in a business combination are recognised at fair value at the acquisition date. These intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of these intangible assets over their estimated useful lives, and recorded in amortisation within operating expenses and cost of sales in the consolidated statement of comprehensive income.

The useful lives of these intangible assets are estimated as follows:

– Computer software	3 – 20 years
– Brand name	6 years
– Domain name and technology	10 years
– Platform, game and license	6 – 20 years

(c) Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled. These criteria includes: (1)it is technically feasible to complete the software product and technology so that it will be available for use; (2) management intends to complete the software product and technology and use or sell it; (3)there is an ability to use or sell the software product and technology; (4)it can be demonstrated how the software product and technology will generate probable future economic benefits; (5)adequate technical, financial and other resources to complete the development and to use or sell the software product and technology are available; and (6)the expenditure attributable to the software product and technology during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. There were no development costs meeting these criteria and capitalised as intangible assets for all the years presented.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life or not ready to use, for example, goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU). Non-financial assets other than goodwill that suffered impairments are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

2.11.1 Classification (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'prepayments and other receivables', 'term deposits with initial term over 3 months' and 'cash and cash equivalents' in the balance sheet (Notes 19, 20, 23 and 24).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of them within 12 months of the end of the reporting period.

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'Other gains, net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

2.11.2 Recognition and measurement (continued)

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Inventories

Inventories, mainly consisting of merchandise for sale, are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade and other receivables

Trade receivables are primarily amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.11 for further information about the Group's accounting for trade receivables and Note 2.13 for description of the Group's impairment policies.

2.16 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other financial institutions and other short-term highly liquid investments with original maturity of three months or less.

2.17 Share capital and share premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's shareholders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Shares held for RSU Scheme

The consideration paid by the RSU Trustee (see Note 27(e)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as 'Shares held for RSU Scheme' and deducted from total equity as the directors are of the view that such shares are within the Company's control until the shares are vested unconditionally to the participants and hence are considered as treasury shares in substance.

When the RSU Trustee transfers the Company's shares to the grantees upon vesting, the related costs of the granted shares vested are credited to 'Shares held for RSU Scheme', with a corresponding adjustment to 'Share premium'.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the income tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current Income Tax

The current income tax charge is calculated on the basis of the tax laws, enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax (continued)

(b) Deferred Income Tax

Inside Basis Differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside Basis Differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax (continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

2.22 Share-based payments

(a) Equity-settled share-based payments transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (share options and restricted share units) of the Group. The fair value of the employee services received in exchange for the grant of the share options and restricted share units is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share options and restricted share units granted:

– including any market performance conditions;

– excluding the impact of any service and non-market performance vesting conditions; and

– including the impact of any non-vesting conditions.

At the end of each reporting period, the Group revises its estimates of the number of options and restricted share units that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Share-based payments (continued)

(a) Equity-settled share-based payments transactions (continued)

Service conditions are included in assumptions about the number of share options and restricted share units that are expected to vest. The total expense is recognised over the vesting period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

Where there is modification of terms and conditions which increase the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognised for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognised over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognised over the remainder of the original vesting period.

At the end of each reporting period, the Group revises its estimates of the number of share options and restricted share units that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the share options are exercised and the restricted share unites are granted, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Share-based payments (continued)

(b) Share-based payments transactions among group entities

The grant by the Company of share options and restricted share units over its equity instruments to the employees or other service providers of the subsidiaries and the PRC Operating Entities is treated as a capital contribution. The fair value of consulting and employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries undertakings, with a corresponding credit to equity in the separate financial statements of the Company.

2.23 Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied in the ordinary course of the Group's activities, stated net of discounted returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) Live social video platforms

The Group is principally engaged in the operation of live social video platforms (the 'Video Platform'), and derives revenue from the sale of virtual currencies which can be used to purchase virtual goods on the Group's Video Platform. The Group primarily operates four major live social video communities (the 'Community'), namely Sina Show, 9158, Crystal Live Broadcasting and Miao Broadcasting Video Community, and several other Communities. Each of these Communities contains thousands of real time video rooms (the 'Room') with user-created content provided by hosts and user on air, and broadcasted to the rooms' viewers. The Group is responsible for providing a technological infrastructure to allow the hosts, users on air and viewers to interact through video streams.

All the Communities and Rooms are free to access. The Group mainly derives the revenue from sales of virtual currency which can be used to purchase virtual goods in the Communities and Rooms.

The Group's PRC Operating Entities primarily cooperate with independent third-party distributors to sell the Group's virtual currency through the annual distribution agreements with these distributors. Pursuant to the distribution agreements with these distributors, each distributor is responsible for sales of virtual currency for one or more of the Group's communities through developing and engaging sale agents who directly sell the virtual currency to users. The Group does not determine the price of the virtual currency sold to sales agents or users. In addition, the Group does not take overall responsibility of the content of performances in the Group's communities. Consequently, the Group recognises revenue based on the net amount of proceeds received from the Group's distributors.

The Group also utilises third-party payment collection channels, which charges it the payment handling cost, for users to purchase the virtual currency directly from it. The payment handling costs are recorded in cost of sales.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

(a) Live social video platforms (continued)

Upon the sales of virtual currency, the Group typically has an implied obligation to provide the services which enable the virtual currency to be used in the Communities. As a result, the virtual currency are recorded as customer advance when they are sold to the distributors and are transferred to deferred revenue when they are subsequently activated and charged to the respective communities accounts by the users.

Users use virtual currency to purchase virtual goods in the Communities. Virtual goods include:

(i) Virtual gifts, which are given by users to hosts, performers or other users as a gesture of friendship or support. When a host, user on-air, or viewer receives a virtual gift, he/she will receive an amount of virtual currency equal to a percentage of the cost of the virtual gift. This percentage varies depending on the cost and rarity of the items received from the users. The reduced portion of the cost is considered as the actual consumption of the virtual currency and is immediately recognised as revenue.

(ii) Virtual items, which are used by users to grant themselves special privileges and abilities. Consumable virtual items will be extinguished shortly after consumption. As such, the users will not continue to benefit from the virtual items and the Group does not have further obligations to the user after the virtual items are consumed. Therefore, revenue is recognised immediately when the consumable virtual items are consumed. The Group also provides durable virtual items that enable the special privileges and abilities to paying users over an extended period of time. Revenue is recognised ratably over the beneficial period. The Group's revenue from durable virtual goods is insignificant for all the years presented.

The Group also offers membership programs to its users. The revenue generated from membership programs is recognised ratably over the membership period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

(b) Game operation

The Group primarily derives its mobile and online games revenue from the sales of in-game virtual items in its games through cooperation with third-party game developers and online application stores. Through exclusive or non-exclusive operation framework contracts with game developers who own the copyright of the game, the Group is responsible for marketing, distribution and operation of the game, as well as server maintenance, payer authentication and payment collections related to the game.

The Group's games are free to play and players can purchase in-game virtual items for better in-game experience. Players purchase the in-game virtual items through the payment systems on online application stores or other third party payment platforms, who collect the payments from the players and remit the cash net of the payment handling costs and the commission charges. The payment handling costs and the commission charges are pre-determined according to the relevant terms of the agreements entered into between the Group and game developers and online application stores or third party payment platforms.

Upon the sales of in-game virtual items, the Group typically has an implied obligation to provide the services which enable the in-game virtual items to be displayed or used in the games. As a result, the proceeds received from sales of in-game virtual items are initially recorded as deferred revenue and are recognised as revenue subsequently only when the services have been rendered. For the purpose of determining when services have been rendered to the respective paying players, the Group has determined the following:

(i) Consumable virtual items represent items that will be extinguished immediately after consumption by a specific game player action. The paying player will not continue to benefit from the virtual items thereafter. Revenue is recognised as a release from deferred revenue when the items are consumed.

(ii) Durable virtual items represent items that are accessible and beneficial to paying players over an extended period of time. Revenue is recognised ratably over the average playing period of paying player (the 'Player Relationship Period'), which represents the best estimate of the average life of durable virtual items for the applicable game.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

(b) Game operation (continued)

The Group estimates the Player Relationship Period on a game-by-game basis and re-assesses such periods quarterly. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by the Group or by third-party developers until the new game establishes its own patterns and history. The Group considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period.

If the Group does not have the ability to differentiate revenue attributable to durable virtual items from consumable virtual items for a specific game, the Group recognises revenue from both durable and consumable virtual items for that game ratably over the Player Relationship Period.

The Group has evaluated the roles and responsibilities of the Group and Platforms or third party payment vendors in the delivery of game experience to the paying players and concluded the Group takes the primary responsibilities in rendering services. The Group is determined to be the primary obligor and accordingly, the Group records revenue on a gross basis, and commission charges by Platforms or third party payment vendors are recorded as cost of revenue.

(c) ECommerce transactions

Revenues derived from eCommerce transactions business of the Group primarily arise from sale of merchandise through the Internet platforms. The Group recognises revenues from merchandise sales and related costs on a gross basis when it acts as a principal. Following the guidance under IAS 18 'Revenue', the Group acts as a principal based on a number of criteria, including whether it is a primary obligor, whether it is subject to inventory risk, whether it has latitude in establishing prices, whether it has latitude in selecting suppliers, in a transaction.

For merchandise sold under the eCommerce transactions business, the customers place their orders online with a commitment made at a fixed selling price. Payment for the purchased merchandise is made before delivery through the third party payment channels, who collect the payments from the customers and remit the cash net of the payment handling costs. When the Group is acting as a principal, revenues, net of discounts and return allowances and value-added tax, are recognised when the merchandise is physically delivered to the respective customers. Return allowances, which reduce the gross amount of revenues, are estimated based on historical experience.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

(d) Investment and financing platform

The Group operated investment and financing platform that matched borrowers with investors and executes loan transactions. The major deliverables provided by the Group were loan facilitation services, reserve fund guarantee, and post-origination services (e.g. automated investing tool, cash processing, collection, etc.). In order to be more competitive by providing a certain level of assurance to the investors, the Group set aside some cash as reserve fund and reimbursed the loan principal and interest to the investor first and then collected the amounts from borrowers subsequently. As the Group assumed the risks and rewards of the loans to borrowers and funds from investors, the loans and funds were recorded at their principal amounts on the balance sheet. Service fee is recognised in profit or loss when the corresponding service is provided.

(e) Advertising

The Group primarily derives its advertising revenue through advertising framework contract with advertising agencies that represent advertisers. The advertising agencies enter into framework agreements and place advertisements on particular areas of the Group's website in particular formats and over a specified period of time. The Group shares the revenue from the advertising agencies.

Revenue is recognised ratably over the contracted period of display. Where multiple advertising spaces are purchased with different display periods in the same agreement, the Group allocates the total consideration to the various advertising elements based on the relative fair value and recognises revenue for the different elements over their respective display periods.

As the advertising agency is viewed as the customers in these transactions, revenue is recognised based on the price charged to the agency, net of sales incentives provided to the agency. Sales incentives are estimated and recorded at the time of revenue recognition based on the contracted rebate rates and estimated sales volume based on historical experience.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

(f) Game licensing

The Group generates revenues from licensing its self-developed games and its own platforms for an agreed period. The revenue from licensing agreements is recognised when all the following criteria are met: persuasive evidence of an arrangement exists; the content has been delivered or is available for immediate and unconditional delivery and the Group has no further obligations; the price to the customer is fixed or determinable; and collectability is reasonably assured. The revenue is recognised based on an agreed percentage of the proceeds from the players over the period of the licensing agreement.

(g) Beauty clinical services

The Group offers various types of beauty clinic procedures including procedures which focus on individual parts of the body including face, nose, eye, skin, breast and etc. with different machinery, injections and beauty implants used to cater for the needs of different customers.

Revenue derived from the provision of beauty clinical service is recognised upon the completion of such service. Receipts of customers' prepaid cards for which the relevant services have not been rendered are deferred and recognised as customer advance in the balance sheet.

(h) Sale of software

The Group sells self-developed software to customers with exclusivity in certain geographical areas. Revenue is recognised when the software is delivered and accepted by customer.

(i) Rental income

Rental income from investment property is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

2.25 Interest income

Interest income mainly represents interest income from bank deposits, and is recognised using effective interest method. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

Except that the Group operates the business in Japan, most of the Company's subsidiaries' functional currencies are RMB as the majority of the revenues of these companies are derived from operations in mainland China. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to foreign currency denominated financial assets and net investments in foreign-operations as at 31 December 2016. The Group does not hedge against any fluctuation in foreign currency. Details of the Group's trade receivables, term deposits with initial term over 3 months, and cash and cash equivalents as at 31 December 2016, which are denominated in currencies other than RMB, are disclosed in Notes 19, 23 and 24 respectively.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Details of the Group's investments accounted for using equity method and available-for-sale financial assets, which are denominated in currencies other than RMB, are disclosed in Note 14 and 22, respectively.

For group companies outside the PRC whose functional currencies are US$, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the pre-tax profit for the year ended 31 December 2016 would have been RMB2,928 thousand lower/higher (2015: RMB484 thousand), mainly as a result of net foreign exchange gains/losses of monetary assets denominated in RMB.

For the PRC subsidiaries whose functional currencies are RMB and the subsidiary incorporated in Japan whose functional currency is JPY, the foreign exchange risk from the operation is not significant.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk mainly arises from structured deposits held by the Group and classified as available-for-sale, and the term deposits with initial term over 3 months held by the Group.

The sensitivity analysis is determined based on the exposure to interest risk of available-for-sale financial assets and term deposits with initial term over 3 months at the end of each reporting period. If the interest rate of the respective instruments held by the Group had been 100 base points higher/lower, the profit before income tax would have been RMB4,137 thousand higher/lower for the years ended 31 December 2016 (2015: RMB360 thousand).

(iii) Price risk

The Group is exposed to price risk because of investments held by the Group, classified as available-for-sale financial assets. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investments made by the Group are either for the purpose of improving investment yield and maintaining high liquidity level simultaneously or for strategic purpose. Each investment is managed by senior management on a case by case basis.

The available-for-sale financial assets are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 100 base points higher/lower, the other comprehensive income would have been approximately RMB3,045 thousand higher/lower for the year ended 31 December 2016 (2015: RMB1,000 thousand).

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The carrying amounts of cash and cash equivalents, available-for-sale financial assets, term deposits with initial term over 3 months, trade receivables, other receivables included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

To manage risk of bank deposits, deposits are mainly placed with national commercial banks in the PRC and reputable international financial institutions in Hong Kong. There has been no recent history of default in relation to these financial institutions.

The Group had made term deposits with initial term over 3 months in certain structured deposits with relatively higher interest rates with certain financial institutions. As at 31 December 2016, the Group had outstanding investments in structured deposits which were bought from reputable state-owned financial institutions and regional financial institutions in the PRC and Hong Kong. Management has exercised due care when making investment decision with focus only on low risk structured deposits. There has been no history of default in relation to these financial institutions.

For trade receivables, a significant portion of trade receivables at the end of each of the reporting period was due from third-party payment vendors that collaborate with the Group. If the strategic relationship with the third-party payment vendors is terminated, or if they alter the co-operative arrangements, or if they experience financial difficulties in paying the Group, the Group's trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with the third-party payment vendors to ensure the effective credit control. In view of the sound history of cooperation and collectability of receivables due from these vendors, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from these vendors is low.

For other receivables, management make periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The management of the Company believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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.

The table below analyses the Group and the Company's non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group	Less than 3 Months	3-6 Months	6 Months-1 Year	More than 1 Year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2015					
Trade payables	23,212	–	–	–	23,212
Other payables and accruals (excluding accrued payroll, government grant and other tax liabilities)	46,335	–	–	–	46,335
At 31 December 2016					
Trade payables	**29,435**	**–**	**–**	**–**	**29,435**
Other payables and accruals (excluding accrued payroll, government grant and other tax liabilities)	**39,885**	**–**	**–**	**–**	**39,885**

As at 31 December 2016 and 2015, the Group and the Company had no derivative financial liability.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital (including share capital, share premium and other reserves on an as-if converted basis) by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

In the opinion of the Directors of the Company, the Group's capital risk is low.

3.3 Fair value estimation

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

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

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's assets that are measured at fair value as at 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
– Available-for-sale financial assets	**–**	**–**	**915,432**	**915,432**
	–	**–**	**915,432**	**915,432**

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
– Available-for-sale financial assets	–	–	470,066	470,066
	–	–	470,066	470,066

As at 31 December 2016 and 2015, the Group had no liabilities that are measured at fair value.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

(b) Financial instruments in level 2 (continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

– Quoted market prices or dealer quotes for similar instruments.

– The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

– The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

– Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments as at 31 December 2016:

	Available-for-sale financial assets RMB'000
Opening balance	**470,066**
Additions	**2,272,255**
Disposals of available-for-sale financial assets	**(1,876,940)**
Investment interest income recognised in consolidated statement of comprehensive income under 'other gains, net'	**16,736**
Fair value gain recognised in consolidated statement of comprehensive income under 'other comprehensive income'	**26,677**
Exchange and currency translation difference	**6,638**
Closing balance	**915,432**

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments as at 31 December 2015.

	Available-for-sale financial assets RMB'000	Financial assets at fair value through profit or loss RMB'000
Opening balance	339,805	109,481
Additions	1,046,491	345,905
Disposals of available-for-sale financial assets and financial assets at fair value through profit or loss	(930,253)	(463,314)
Investment interest income recognised in consolidated statement of comprehensive income under 'Other gains, net'	12,282	–
Fair value gain recognised in consolidated statement of comprehensive income under 'other comprehensive income'	–	4,534
Exchange and currency translation difference	1,741	3,394
Closing balance	470,066	–

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimates of the Player Relationship Period in the Group's games revenue

As described in Note 2.24, the Group recognises revenue from durable virtual items ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a quarterly basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for prospectively as a change in accounting estimate.

(b) Fair value of share-based compensation expenses

As mentioned in Note 2.22, the Group has awarded share options under Global Share Option Plan ('Pre-IPO Share Option Scheme') and Post-IPO Share Option Scheme to eligible directors and employees, and used the Binomial option-pricing model to determine the total fair value of the share options awarded. Significant estimates on key assumptions, such as the underlying equity value, risk-free interest rate, expected volatility and dividend yield, is required to be made by the Company in applying the Binomial option-pricing model (Note 27).

In addition, the Group awarded restricted share units under the Pre-IPO RSU Scheme and Post-IPO RSU Scheme to eligible directors and employees, and used the fair value of underlying ordinary shares to determine the total fair value of the RSUs awarded.

The fair values of share options and RSUs granted are measured on the respective grant dates based on the fair value of the underlying shares. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group. The Group only recognises an expense for those share options and RSUs expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and RSUs and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(b) Fair value of share-based compensation expenses (continued)

The fair value of share options and RSUs at the time of grant is to be expensed over the vesting period of these share-based awards based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, each vesting installment of a graded vesting award is treated as a separate share-based award, which means that each vesting installment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expense.

Based on the fair value of the share-based awards, the expected turnover rate of grantees and the probability that the performance conditions for vesting are met, the corresponding share-based compensation expense recognised by the Group in respect of their services rendered for the years ended 31 December 2016 and 2015 was RMB31,790 thousand and RMB65,942 thousand respectively.

(c) Fair value for other financial instruments

The fair value for other financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(d) Current and deferred income tax

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(e) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment at cash-generating units level. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgement is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive income.

An impairment charge of RMB6,997 thousand arose in the eCommerce CGU in Uncle Sam (HK) Co. Limited ('Uncle Sam') during 2016, resulting in the carrying amount of the CGU being written down to its recoverable amount. If the budgeted gross margin used in the value-in-use calculation for the eCommerce CGU in Uncle Sam had been 10% lower than management's estimates at 31 December 2016, the Group would have recognised a further impairment of goodwill by RMB7,205 thousand.

If the estimated cost of capital used in determining the pre-tax discount rate for the eCommerce CGU in Uncle Sam had been 1% higher than management's estimates, the Group would have recognised a further impairment against goodwill of RMB1,975 thousand.

(f) Business combination

The Group accounts for its business combinations using the purchase method of accounting. This method requires that the acquisition cost to be allocated to the assets, including separately identifiable intangible assets, and liabilities the Company acquired based on their estimated fair values. The Company makes estimates and judgments in determining the fair value of the acquired assets and liabilities based on independent appraisal reports as well as its experience with similar assets and liabilities in similar industries. If different judgments or assumptions were used, the amounts assigned to the individual acquired assets or liabilities could be materially different.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Critical judgments in applying the Group's accounting policies

(a) Revenue presentation and recognition

(i) Live social video platforms

The Group sells virtual currency through its third party distributors. The Group has assessed the relationship and arrangements with the distributors as described in Note 2.24 regarding gross versus net reporting of revenue, and has concluded that reporting the net amount equivalent to the cash proceeds that the Group receives from the sale of virtual currency to distributors, because the Group does not determine the price of the virtual currency sold to sales agents or users and does not take overall responsibility of the content or performances in the Communities.

(ii) Games

For revenues relating to mobile games operated by the Group or by third-party developers which are published on third party platforms, the Group is able to make a reasonable estimate of the gross revenue because the Group's mobile games are published through a small number of platforms and the Group can obtain the data from these mobile platforms in determining the actual price of the virtual items purchased by the paying players. Accordingly, such revenue is recognised on a gross basis.

(b) Contractual arrangements

The Group primarily engages in the operations of live social video platforms, mobile and online games and advertising and other services, which is considered to be value-added telecommunications services, a sector where foreign investment is subject to significant restrictions under PRC laws and regulations. Accordingly, the wholly foreign-owned enterprises within the Group cannot acquire equity interest in the PRC Operating Entities, which hold certain licenses and permits required for the operation of the Group's business.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Critical judgments in applying the Group's accounting policies (continued)

(b) Contractual arrangements (continued)

As a result, the wholly foreign-owned enterprises, Hangzhou Tiange and Zhejiang Tiange, entered into Contractual Arrangements with the Group's PRC Operating Entities and their shareholders in order to conduct the Group's business in the PRC and to assert management control over the operations of, and enjoy all economic benefits of, each of the PRC Operating Entities. More specifically, the Contractual Arrangements are entered into between Hangzhou Tiange and each of Hantang, Jinhua9158 and Jinhua99 (the 'Hangzhou Contractual Arrangements') and between Zhejiang Tiange and each of Xingxiu, Genfan and Jinhua9158 Investment management (the 'Zhejiang Contractual Arrangements'). With respect to the Hangzhou Contractual Arrangements, Hanzhou Tiange, each of Hantang, Jinhua9158 and Jinhua99 and their respective registered shareholders (where applicable) have entered into a set of these underlying agreements: (i) Exclusive Technology Consulting and Service Agreement; (ii) Exclusive Call Option Agreement; (iii) Exclusive Intellectual Property Rights Call Option Agreement; (iv) Loan Agreement; and (v) Equity Pledge Agreement. With respect to the Zhejiang Contractual Arrangements, Zhejiang Tiange, each of Xingxiu, Genfan and Jinhua9158 Investment management and their respective registered shareholders (where applicable) have entered into these underlying agreements: (i) Exclusive Technology Service Agreement; (ii) Exclusive Call Option Agreement; (iii) Voting Rights Proxy Agreement; (iv) Loan Agreement; and (v) Equity Pledge Agreement.

Pursuant to these agreements and undertakings, notwithstanding the fact that the Group does not hold direct equity interest in the PRC Operating Entities, the Group considers that it has power over the financial and operating policies of the PRC Operating Entities and receives substantially all of the economic benefits from their business activities. Accordingly, the PRC Operating Entities have been treated as the Group's indirect subsidiaries for all the years presented.

5 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2016:

Company Name	Jurisdiction and Date of Incorporation/ Acquisition	Particulars of issued/ paid-in capital	Proportion of equity interest held by the Group	Principal Activities and Place of Operation
Directly held by the Company				
Week8 Holdings (HK) Limited ('Week8 HK')	Hong Kong/ 6 August 2008	Hong Kong Dollar ('HK$')1	100%	Investment holding, Hong Kong
Dimensional Media Inc. ('DMI')	Japan/ 31 March 2015	JPY94,080,000	68%	Investment management, Japan
Indirectly held by the Company				
Tiange Technology (Hangzhou) Co., Ltd. ('Hangzhou Tiange')	PRC/ 26 November 2008	US$18,000,000	100%	Software and internet development and consulting service, the PRC
Zhejiang Tiange Information and Technology Co., Ltd. ('Zhejiang Tiange')	PRC/ 25 September 2009	US$6,405,167/ US$18,000,000	100%	Software and internet development and consulting service, the PRC
Star Power Culture Media (Beijing) Co., Ltd. ('Star Power')	PRC/ 16 November 2010	US$16,866,600	100%	Software and internet development and consulting service, the PRC
Hangzhou Han Tang Cultural Communication Co., Ltd. ('Hantang')	PRC/ 14 September 2004	RMB10,000,000	100%	Online entertainment service and advertising, the PRC
Jinhua 9158 Network Science and Technology Co., Ltd. ('Jinhua9158')	PRC/ 18 November 2008	RMB10,000,000	100%	Online entertainment service and mobile games, the PRC
Jinhua 99 Information Technology Co., Ltd. ('Jinhua99')	PRC/ 18 November 2008	RMB10,000,000	100%	Online entertainment service, the PRC

5 SUBSIDIARIES (continued)

Company Name	Jurisdiction and Date of Incorporation/ Acquisition	Particulars of issued/ paid-in capital	Proportion of equity interest held by the Group	Principal Activities and Place of Operation
Indirectly held by the Company (continued)				
Jinhua Xingxiu Cultural Communication Co., Ltd. ('Xingxiu')	PRC/ 23 October 2012	RMB10,000,000	100%	Online entertainment service and mobile games, the PRC
Jinhua Tianhu Network Technology Co., Ltd. ('Tianhu')	PRC/ 29 August 2013	RMB10,000,000	51%	Online entertainment service, the PRC
Zhejiang Genfan Investment Management Co., Ltd. ('Genfan')	PRC/ 28 November 2014	RMB50,000,000	100%	Investment management, the PRC
Zhejiang Genxuan Investment Management Co., Ltd. ('Genxuan')	PRC/ 28 November 2014	RMB50,000,000	100%	Investment management, the PRC
Zhejiang Tian Yue Information Technology Co., Ltd. ('Tianyue')	PRC/ 14 January 2015	US$4,890,000/ US$16,000,000	100%	Software and internet development and consulting service, the PRC
Jinhua Shixun Network Technology Co., Ltd. ('Jinhua Shixun')	PRC/ 1 February 2015	RMB10,000,000	80%	Online live social video related technologies, the PRC
Jinhua Duance Investment Management Co., Ltd. ('Duance')	PRC/ 10 April 2015	Nil/ RMB1,000,000	100%	Investment management, the PRC
Jinhua Xuance Investment Management Co., Ltd. ('Xuance')	PRC/ 10 April 2015	Nil/ RMB1,000,000	100%	Investment management, the PRC
Jinhua Chaduan Investment Management Co., Ltd. ('Chaduan')	PRC/ 10 April 2015	Nil/ RMB1,000,000	100%	Investment management, the PRC
Jinhua9158 Investment Management Co., Ltd. ('Jinhua9158 Investment Management')	PRC/ 2 June 2015	Nil/ RMB1,000,000	100%	Investment management, the PRC

5 SUBSIDIARIES (continued)

Company Name	Jurisdiction and Date of Incorporation/ Acquisition	Particulars of issued/ paid-in capital	Proportion of equity interest held by the Group	Principal Activities and Place of Operation
Indirectly held by the Company (continued)				
Uncle Sam (HK) Co., Limited ('Uncle Sam')	Hong Kong/ 1 April 2015	RMB5,007,913	59.98%	Online trading of overseas health products and baby products, Hong Kong
Healthy One Co., Limited ('Healthy One')	Hong Kong/ 1 April 2015	HK$10,000	59.98%	Online trading of overseas health products and baby products, Hong Kong
Haisk (HK) Limited ('Haisk')	Hong Kong/ 1 April 2015	HK$10,000	59.98%	Online trading of overseas health products and baby products, Hong Kong
Hangzhou Junyi Network Technology Co., Ltd. ('Junyi')	PRC/ 27 August 2015	Nil/ HK$1,000,000	59.98%	Technology service, the PRC
Chengdu Yinyuehui Technology Co., Ltd. ('Yinyuehui')	PRC/ March 17, 2015	RMB2,500,000	60%	Sale of karaoke devices, the PRC
Beijing Zhongwu Network Technology Co., Ltd. ('Zhongwu')	PRC/ 7 September 2015	RMB1,000,000	100%	Software and internet development and consulting service, the PRC
Jinhua Huanchang Network Technology Co., Ltd. ('Huanchang')	PRC/ 23 September 2015	RMB3,000,000/ RMB15,000,000	80%	Online singing application software, the PRC
Chengdu Happy Alliance Technology Co., Ltd. ('Happy Alliance')	PRC/ 1 April 2016	RMB1,000,000	80%	Design and development of mobile games, the PRC
Hangzhou Tianjiong Industry Co., Ltd. ('Tianjiong')	PRC/ 18 October 2016	Nil/ RMB5,000,000	59.98%	Online trading of overseas health products and baby products, the PRC

5 SUBSIDIARIES (continued)

Company Name	Jurisdiction and Date of Incorporation/ Acquisition	Particulars of issued/ paid-in capital	Proportion of equity interest held by the Group	Principal Activities and Place of Operation
Indirectly held by the Company (continued)				
Jinhua Langqing Network Technology Co., Ltd. ('Langqing')	PRC/ 9 May 2016	Nil/ RMB1,000,000	80%	Operation and promotion of mobile games, the PRC
Jinhua Pangu Information Technology Co., Ltd ('Pangu') (i)	PRC/ 1 December 2016	RMB10,000,000	64%	Design and development of web-based and mobile casual games, the PRC
Jinhua Jingwei Information Technology Co., Ltd. ('Jingwei')	PRC/ 1 December 2016	Nil/ RMB1,000,000	64%	Design and development of web-based and mobile casual games, the PRC
Poon Ku International (Macau) Company Limited (i)	Macau/ 1 December 2016	Nil/ Macau Pataca ('MOP$')50,000	64%	Design and development of web-based and mobile casual games, Macau

(i) Jinhua Pangu Information Technology Co., Ltd. and Poon Ku International (Macau) Company Limited are collectively referred to as 'Pangu Group'.

The total comprehensive income/(loss) attributable to the non-controlling interest is summarized as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
DMI	**(561)**	(1,480)
Tianhu	**584**	112
Jinhua Shixun	**(181)**	288
Uncle Sam	**(1,410)**	10
Hangzhou Raily Tian Ge Beauty Clinic Co., Ltd. ('Hangzhou Raily') (c)	**(702)**	830
Yinyuehui	**(540)**	(1,286)
Huanchang	**101**	(302)
Langqing	**(50)**	–
Happy Alliance	**457**	–
Pangu Group	**235**	–
	(2,067)	(1,828)

5 SUBSIDIARIES (continued)

The non-controlling interests in respect of DMI, Tianhu, Jinhua Shixun, Uncle Sam, Yingyuehui, Huanchang, Langqing, Happy Alliance and Pangu Group are not material.

(a) *Significant restrictions*

Cash and cash equivalents and term deposits of the Group, amounting to RMB244,949 thousand are held in Mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on payment of dividends, share repurchase and offshore investments, etc.

(b) *Summarised financial information on subsidiaries with material non-controlling interests*

The directors of the Company considered that the non-controlling interests of any non-wholly owned subsidiaries are not significant to the Group, therefore, no summarised financial information of the relevant subsidiaries is presented separately.

(c) *Disposal of a subsidiary/business*

On 1 October 2016, the Group disposed its full equity interest in Hangzhou Raily, a company specialized in the provision of beauty clinic procedures, at a cash consideration of RMB11,100 thousand. The assets, liabilities and non-controlling interests relating to Hangzhou Raily at the disposal date were RMB19,894 thousand, RMB5,281 thousand, and RMB3,921 thousand, respectively. The revenue and net loss relating to Hangzhou Raily for the nine months ended 30 September 2016 were RMB15,316 thousand and RMB1,421 thousand, respectively. As of 31 December 2016, RMB2,212 thousand, net of cash disposed, had been received by the Group, and the remaining proceeds of the disposal of Hangzhou Raily was received by the Group in March 2017.

On the same day, the Group disposed the operation of investment and financing platform at a consideration of RMB1,299 thousand, the approximate carrying amount of the net assets of the platform. The assets and liabilities relating to the platform at the disposal date were RMB175,006 thousand and RMB173,707 thousand, respectively. The revenue and net income relating to the platform were RMB7,196 thousand and RMB1,299 thousand, respectively. The disposal did not result in any significant gains or losses for the Group.

6 SEGMENT INFORMATION

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the 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. The CODM considers the business primarily from product perspective.

The Group has following reportable segments for the years ended 31 December 2016 and 2015:

– Online interactive entertainment service;

– Others.

Online interactive entertainment service of the Group mainly comprises of the provision of live social video platforms and provision of online games. Other segments of the Group mainly comprise of the provision of eCommerce transactions, provision of beauty clinic service, sales of software and other services.

The CODM assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for the operating segments as a whole and therefore they are not included in the measure of the segments' performance which is used by the CODM as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains, net, finance income, net and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended 31 December 2016 and 2015. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated statement of comprehensive income.

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

6 SEGMENT INFORMATION (continued)

The segment information provided to the CODM for the reportable segments for the years ended 31 December 2016 and 2015 is as follows:

	Year Ended 31 December 2016		
	Online interactive entertainment service RMB'000	Others RMB'000	Total RMB'000
Segment Revenue (a)	759,336	74,849	834,185
Gross Profit	610,624	35,463	646,087
– Depreciation, amortization and impairment charges included in segment cost	(6,394)	(534)	(6,928)
Impairment of goodwill	–	(6,997)	(6,997)
Operating profit			289,648
Finance income			1,150
Finance costs			(2,498)
Shares of profit/(loss) of investments accounted for using the equity method	(5,373)	263	(5,110)
Profit before income tax			283,190

6 SEGMENT INFORMATION (continued)

	Year Ended 31 December 2015		
	Online interactive entertainment service RMB'000	Others RMB'000	Total RMB'000
Segment Revenue (a)	590,738	86,805	677,543
Gross Profit	482,999	43,209	526,208
– Depreciation, amortization and impairment charges included in segment cost	(4,702)	(1,450)	(6,152)
Operating profit			188,524
Finance income			4,338
Finance costs			(1,030)
Shares of profit/(loss) of investments accounted for using the equity method	664	(5,053)	(4,389)
Impairment of investments accounted for using the equity method	–	(2,985)	(2,985)
Profit before income tax			184,458

(a) The revenue from provision of live social video platforms and provision of online games for the year ended 31 December 2016 were RMB643,559 thousand and RMB115,777, respectively (2015: RMB526,514 thousand and RMB64,224, respectively).

6 SEGMENT INFORMATION (continued)

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC. For the year ended 31 December 2016 and 2015, the total geographic information on the total revenue is as follows:

	Year Ended 31 December 2016		
	PRC (Excluding Hong Kong)	**Other regions**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Segment Revenue	**828,434**	**5,751**	**834,185**

	Year Ended 31 December 2015		
	PRC (Excluding Hong Kong)	Other regions	Total
	RMB'000	RMB'000	RMB'000
Segment Revenue	665,259	12,284	677,543

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

Risk of Concentration

Management currently expects that the Company's operating results will, for the foreseeable future, continue to depend on the revenue from a relatively small number of distributors.

7 EXPENSES BY NATURE

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Employee benefit expenses (including share-based compensation expenses) *(Note 9)*	**166,350**	195,224
Promotion and advertising expenses *(a)*	**140,028**	117,923
Commission charges by platforms and game developers	**95,527**	46,484
Cost of inventories	**31,455**	42,645
Bandwidth and server custody fees	**30,620**	35,676
Provision of prepayments and other receivables impairment *(Note 20)*	**21,860**	–
Travelling and entertainment expenses	**18,862**	16,879
Depreciation and impairment charges of property and equipment *(Note 15)*	**14,905**	17,691
Game development costs	**13,145**	11,496
Amortisation and impairment charges of intangible assets *(Note 17)*	**11,380**	9,171
Impairment of goodwill *(Note 17)*	**6,997**	–
Operating lease rentals	**6,974**	7,304
Auditors' remuneration		
– Audit services	**6,021**	5,580
– Non-audit services	**–**	432
Others	**39,773**	35,546
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**603,897**	542,051

(a) Promotion and advertising expenses primarily consist of expenses for the promotion of the Group's business through different online and mobile channels which are settled based on the effective download and installation times.

8 OTHER GAINS, NET

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Investment interest *(a)*	**39,870**	38,321
Net gain from revaluation of investment property *(Note 16)*	**2,667**	–
Financial assets at fair value through profit or loss		
– Fair value gains	**–**	4,534
Government grants *(b)*		
– Tax based subsidy *(i)*	**8,036**	11,653
– Technology award *(ii)*	**11,677**	7,950
– Scientific project fund *(iii)*	**1,638**	4,678
Interest income on loans to third parties and loans to employees	**2,877**	–
Gain on deemed disposal of an investee company *(Note 32(a))*	**4,351**	–
Gain on disposal of a subsidiary *(Note 5(c))*	**408**	–
Foreign exchange losses on non-financing activity	**(14,379)**	(8,389)
Loss on disposal of property and equipment and intangible assets, net	**(289)**	(87)
Provisions of other liabilities and charges *(Note 34)*	**–**	(6,000)
Others	**2,504**	372
	59,360	53,032

(a) The amount represented the interest income gained from the Group's investment in term deposits with initial term over 3 months and available-for-sale financial assets included in current assets.

(b) For the years ended 31 December 2016 and 2015, government grants primarily consisted of:

(i) Tax based subsidies, amounting to RMB8,036 thousand (2015: RMB11,653 thousand) were granted by local government authorities in Hangzhou and Jinhua to incentivise the Group's business growth;

(ii) Technology award, amounting to RMB11,677 thousand (2015: RMB7,950 thousand) was granted by the local government authorities in Hangzhou, Jinhua and Chengdu to reward the Group's achievement and support the Group's development in information service industries;

(iii) Scientific project fund, amounting to RMB1,638 thousand (2015: RMB4,678 thousand) was granted by local government authorities in Hangzhou and Jinhua to fund the Group's qualified technology research projects.

9 EMPLOYEE BENEFIT EXPENSES

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**114,280**	111,498
Defined contribution plans *(a)*	**8,726**	8,397
Other social security costs, housing benefits and other employee benefits	**11,554**	9,387
Share-based compensation expenses *(Note 27)*	**31,790**	65,942
	166,350	195,224

(a) Defined contribution plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on fixed percentage (14% to 20% for Beijing, Zhejiang and Sichuan, respectively) of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees and the Group has no further obligations for the actual payment of pensions or post-retirements benefits beyond these contributions.

(b) Senior management's emoluments

Senior management includes directors, CEO and other senior executives. The aggregate emoluments paid and payable to senior management for employee services excluding the directors and the CEO whose emoluments have been reflected in Note 41 is as follows:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries and allowances	**483**	765
Discretionary bonus	**79**	99
Defined contribution plans	**72**	98
Other social security costs, housing benefits and other employee benefits	**457**	64
Share-based compensation expenses	**955**	1,285
	2,046	2,311

9 EMPLOYEE BENEFIT EXPENSES (continued)

(b) Senior management's emoluments (continued)

The emoluments of the senior management fell within the following bands:

	Year Ended 31 December	
	2016	2015
Emoluments band:		
Nil to RMB1,000,000	**1**	2
RMB1,000,001 to RMB5,000,000	**1**	1

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2015: one) director whose emoluments are reflected in the Note 41. The emoluments paid and payable to the remaining four (2015: four) individuals during the year are as follows:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries and allowances	**892**	830
Discretionary bonus	**146**	126
Defined contribution plans	**121**	118
Other social security costs, housing benefits and other employee benefits	**428**	103
Share-based compensation expenses	**16,144**	31,554
	17,731	32,731

9 EMPLOYEE BENEFIT EXPENSES (continued)

(c) Five highest paid individuals (continued)

The emoluments paid and payable to these individuals for the year ended 31 December 2016 and 2015 fell within the following bands:

	Year Ended 31 December	
	2016	2015
Emoluments band:		
RMB1,000,001 to RMB1,500,000	**1**	1
RMB3,500,001 to RMB4,000,000	**1**	–
RMB6,000,001 to RMB6,500,000	**1**	–
RMB6,500,001 to RMB7,000,000	**1**	–
RMB7,000,001 to RMB7,500,000	**–**	1
RMB10,000,001 to RMB10,500,000	**–**	1
RMB13,500,001 to RMB14,000,000	**–**	1

10 FINANCE INCOME/(COSTS), NET

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Finance income:		
– Interest income on cash and cash equivalents	**1,102**	4,338
– Others	**48**	–
	1,150	4,338
Finance costs:		
– Exchange loss on financing activities	**(2,498)**	(876)
– Interest expenses on borrowings	**–**	(154)
	(2,498)	(1,030)
Finance income/(costs), net	**(1,348)**	3,308

11 TAX EXPENSE

(a) Income tax expense

The income tax expense of the Group for the years ended 31 December 2016 and 2015 are analysed as follows:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax:		
– Enterprise income tax	**54,197**	36,236
– PRC withholding tax	**5,000**	–
Deferred income tax *(Note 31)*		
– Origination and reversal of temporary differences	**(6,716)**	(1,528)
	52,481	34,708

(i) 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.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided for as there was business operation that is subject to Hong Kong profits tax for all the years presented. It has been provided for at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2016 and 2015.

11 TAX EXPENSE (continued)

(a) Income tax expense (continued)

(iii) PRC enterprise income tax ('EIT')

For all the years presented, the Group's subsidiaries and the PRC Operating Entities are subject to enterprise income tax ('EIT') on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the Enterprise Income Tax Law ('EIT Law'). Pursuant to the EIT Law, the Group's subsidiaries and the PRC Operating Entities are generally subject to EIT at the statutory rate of 25%.

Happy Alliance qualified as 'Software Enterprise' under the EIT Law in 2015. Consequently, Happy Alliance is entitled to a two-year EIT exemption in 2015 and 2016 followed by a three-year 50% EIT rate reduction from 2017 to 2019.

Hangzhou Tiange and Zhejiang Tiange qualified as 'New High-tech Enterprise' under the EIT Law in 2014. Star Power qualified as 'New High-tech Enterprise' under the EIT Law in 2015. Accordingly, they were entitled to a preferential EIT rate of 15% for a three-year period since the qualification day. The applicable EIT rate of these entities was 15% in 2016.

In addition, a duly recognized Key Software Enterprise within China's national plan can enjoy a preferential EIT rate of 10%. The Key Software Enterprise status is subject to review and approval by the relevant authorities every year. The timing of the annual review and notification by the relevant authorities may vary from year to year, and the related tax adjustments in relation to the change in applicable EIT rate are accounted for in the period in which the Key Software Enterprise status is approved. In 2016, Hangzhou Tiange obtained approval on Key Software Enterprise status for the taxation year of 2015 and was thereby subject to an EIT rate of 10% in 2015, tax adjustment of RMB5,858 thousand was recognized in the year ended 31 December 2016.

11 TAX EXPENSE (continued)

(a) Income tax expense (continued)

(iii) PRC enterprise income tax ('EIT') (continued)

The following table sets out applicable EIT rate of Group's subsidiaries and the PRC Operating Entities in the PRC for the year ended 31 December 2016:

Name	Applicable EIT rate
Hangzhou Tiange	15%
Zhejiang Tiange	15%
Star Power	15%
Hantang	25%
Jinhua9158	25%
Jinhua99	25%
Xingxiu	25%
Genxuan	25%
Genfan	25%
Tianhu	25%
Tianyue	25%
Duance	25%
Xuance	25%
Chaduan	25%
Jinhua9158 Investment Management	25%
Huanchang	25%
Zhongwu	25%
Jinhua Shixun	25%
Yingyuehui	25%
Junyi	25%
Happy Alliance	0%
Langqing	25%
Tianjiong	25%
Pangu	25%
Jingwei	25%

11 TAX EXPENSE (continued)

(a) Income tax expense (continued)

(iii) PRC enterprise income tax ('EIT') (continued)

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ('Super Deduction'). The additional deduction of 50% of qualified research and development expenses can only be claimed directly in the annual EIT filing and subject to the approval from the relevant tax authorities. Hangzhou Tiange, Zhejiang Tiange, Star Power, Jinhua99 and Tianyue have claimed such Super Deduction for all the years presented and recognized the additional tax deduction upon approval.

(iv) 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% withholding tax rate. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

As approved by the State Administration of Taxation (the 'SAT') in 2014, Hangzhou Tiange and Zhejiang Tiange meets conditions or requirements stated in the Circular on the Non-residence Enterprise's Tax Treaty Under Double Taxation Agreement (Guoshui No. 124, 2009) issued by the SAT. Hence, the relevant withholding tax accrued and paid was reduced from 10% to 5% of the total dividends distributed by Hangzhou Tiange and Zhejiang Tiange.

11 TAX EXPENSE (continued)

(a) Income tax expense (continued)

(iv) PRC withholding tax ('WHT') (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to losses of the consolidated entities as follows:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**283,190**	184,458
Tax calculated at a tax rate of 25%	**70,798**	46,115
Tax effects of:		
Income not subject to tax	**(1,088)**	–
Different tax jurisdiction	**2,999**	(1,672)
Preferential income tax benefits applicable to subsidiaries in China	**(36,613)**	(25,102)
Withholding tax of appropriation of dividend (a)	**5,000**	–
Super deduction for research and development expenses	**(2,647)**	(3,286)
Expenses not deducted for income tax purposes	**14,032**	18,653
Income tax expense	**52,481**	34,708

(a) Pursuant to the resolutions of the board meeting of Hangzhou Tiange and Zhejiang Tiange in September 2016, the management plans to declare the dividend of RMB100,000 thousand from the profit of Hangzhou Tiange and Zhejiang Tiange for the year ended 31 December 2016 to Week8 Holdings (HK) Limited, which were subject to a 5% withholding tax rate at a total amount of RMB5,000 thousand. The remaining undistributed profits of the year ended 31 December 2016 are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future. As of 31 December 2016, the withholding tax of RMB5,000 thousand on the earnings of Hangzhou Tiange and Zhejiang Tiange for year ended 31 December 2016 was recognized.

11 TAX EXPENSE (continued)

(b) Value-added tax ('VAT')

The operation of the Group in the PRC primarily applies VAT as follows:

Category	Tax Rate	Basis of Levies
VAT	6%	Revenue from operation of live social video platforms and games
	6%	Other revenue

12 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the earnings of the Group attributable to the Shareholders of the Company by the weighted average number of ordinary shares in issue during each year.

	Year Ended 31 December	
	2016	2015
Profit attributable to shareholders of the Company (RMB'000)	**233,213**	151,792
Weighted average number of ordinary shares in issue (thousand shares)	**1,277,589**	1,245,562
Basic earnings per share (in RMB/share)	**0.183**	0.122

12 EARNINGS PER SHARE (continued)

(b) Diluted

Diluted earnings 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 years ended 31 December 2016 and 2015, the Company had two categories of dilutive potential ordinary shares, which are (i) share options granted to employees under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and (ii) restricted share units ('RSUs') granted to employees under Pre-IPO RSU Scheme and Post-IPO RSU Scheme. The share options and restricted share units are assumed to have been fully vested and released from restrictions with no impact on earnings.

	Year Ended 31 December	
	2016	2015
Profit attributable to shareholders of the Company (RMB'000)	**233,213**	151,792
Weighted average number of ordinary shares in issue (thousand shares)	**1,277,589**	1,245,562
Adjustments for share based compensation – share options (thousand shares)	**42,580**	56,086
Adjustments for share based compensation – RSUs (thousand shares)	**11,936**	12,155
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	**1,332,105**	1,313,803
Diluted earnings per share (in RMB/share)	**0.175**	0.116

13 DIVIDENDS

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Dividends paid by the Company	**65,633**	59,573

The dividends paid in 2016 and 2015 were RMB65,633 thousand (HK$0.06 per share) and RMB59,573 thousand (HK$0.06 per share) respectively. A final dividend in respect of the year ended 31 December 2016 of HK$0.07 per share, net of the Company's share premium account, was proposed pursuant to a resolution passed by the Board on 24 March 2017 and is subjected to the approval of the shareholders at the annual general meeting on 1 June 2017. These financial statements do not reflect this dividend payable.

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Associates	**39,993**	33,390
Joint ventures	**15,504**	18,688
	55,497	52,078

The share of profit/(loss) recognised in the consolidated statement of comprehensive income are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Associates	**120**	(2,677)
Joint ventures	**(5,230)**	(1,712)
	(5,110)	(4,389)

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(a) Investments in associates

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Beginning of the year	**33,390**	3,863
Additions *(Note iii, iv, v)*	**9,797**	25,979
Step acquisition from available-for-sale financial assets to investments in associates	**–**	17,578
Cash contribution to associates	**–**	32
Derecognition of Happy Alliance from an associate *(Note 32)*	**(3,328)**	–
Reduced interests in an associate	**–**	(8,400)
Share of profit/(loss) of investment accounted for using the equity method	**120**	(2,677)
Impairment of investment in an associate	**–**	(2,985)
Exchange and currency translation difference	**14**	–
End of the year	**39,993**	33,390

Set out below are the associates of the Group as at 31 December 2016, which, in the opinion of the directors, are not material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Details of investment in associates as at 31 December 2016

Name of entity	**Place of business**	**% of ownership interest**	**Measurement method**	**Nature of associate**
Hangzhou Seehealth Information Technology Co., Ltd. ('Seehealth') (formerly known as Hangzhou Xi He Technology Co., Ltd.) (杭州希和信息技術有限公司) (原名為杭州希禾資訊技術有限公司)	Hangzhou, PRC	18.6819%	Equity	Note i, vi
Zhejiang Sodao Network Technology Co., Ltd. ('Sodao') (浙江搜道網絡技術有限公司)	Hangzhou, PRC	31.9172%	Equity	Note ii
Winnine Interactive Co., Ltd. ('Winnine')	Bangkok, Thailand	35%	Equity	Note iii
Zhejiang Caigou Cultural Communication Co., Ltd. ('Caigou') (浙江彩狗文化傳播有限公司)	Hangzhou, PRC	19%	Equity	Note iv, vi
Zhejiang Weiyu Network Technology Co., Ltd. ('Weiyu') (浙江微魚網路科技限公司)	Hangzhou, PRC	19%	Equity	Note v, vi

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(a) Investments in associates (continued)

(i) Seehealth primarily engages in providing online health information services in Hangzhou, the PRC.

(ii) Sodao primarily engages in business promotion and trading via online female network community in Hangzhou, the PRC.

(iii) In August 2016, the Group and four other third parties together established Winnine, a company engaged in online social live broadcasting in Bangkok, Thailand. The Group subscribed 10 thousand shares at a cash consideration of BAHT100 thousand (approximately RMB20 thousand) or BAHT10 (approximately RMB2) per share and held 20% of its total equity interests.

In December 2016, the Group paid BAHT2,527,600 (approximately RMB489 thousand) to the selling shareholders of Winnine for additional 1,780 shares and made capital injection of BAHT12,496 thousand (approximately RMB2,388 thousand) into Winnine for the subscription of additional 8,800 shares. As at 31 December 2016, the Group held in aggregate 35% equity interests in Winnine on a fully-diluted basis.

(iv) In October 2016, the Group completed the acquisition of a 19% equity interest in Caigou, a third party company engaged in design and development of mobile casual games in the PRC, for a total amount of RMB5,000 thousand as capital injection made into Caigou.

(v) In November 2016, the Group and two other third parties together established Weiyu, a third party company engaged in the operation of internet financing platform in the PRC. The Group made a capital contribution of RMB1,900 thousand to hold 19% of its total equity interests.

(vi) Management has assessed the level of influence that the Group has on certain associates, and determined that it has significant influence even though the shareholding is below 20% because of the board representation or other arrangements. Consequently, these investments have been classified as associates.

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(b) Investment in joint ventures

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Beginning of the year	**18,688**	–
Additions *(Note ii, iii)*	**7,451**	20,400
Adjustments on the capital injection *(Note i)*	**(5,000)**	–
Share of loss of investment accounted for using equity method	**(5,230)**	(1,712)
Currency translation difference	**(405)**	–
End of the year	**15,504**	18,688

Set out below are the joint ventures of the Group as at 31 December 2016, which, in the opinion of the directors, are not material to the Group. The joint venture as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(b) Investment in joint ventures (continued)

Name of entity	Place of business	% of ownership interest	Measurement method	Nature of Associate
Zhejiang Haile Technology Co., Ltd. ('Haile') (formerly known as Jinhua Haile Technology Co., Ltd.) (浙江嗨樂科技有限公司) (原名為金華嗨樂科技有限公司)	Jinhua, PRC	51%	Equity	Note i, iv
Jinhua Xinglu Network Technology Co., Ltd. ('Xinglu') (金華星路網路科技有限公司)	Jinhua, PRC	27%	Equity	Note ii, iv
Grove Inc. ('Grove')	Tokyo, Japan	33.5%	Equity	Note iii, iv

(i) Haile primarily engages in the development and operation of a social mobile application in Jinhua, the PRC. In October 2015, the Group committed to making a capital injection of RMB20,400 thousand to Haile, after which the equity interests in Haile held by the Group was 51%. As of 31 December 2015, RMB15,400 thousand had been paid by the Group. In December 2016, the Group and Haile entered into a supplemental contract to reduce the total capital injection by RMB5,000 thousand to RMB15,400 thousand.

(ii) In July 2016, the Group acquired 27% of the total equity interests of Xinglu from its shareholder at a cash consideration of RMB2,700 thousand. Xinglu primarily engages in providing technical advice and support for web-based casual games in the PRC.

(iii) In July 2016, the Group entered into a series of agreements to purchase in aggregate 33.5% equity interest of Grove, an independent third party Japanese company engaged in online marketing and promotion with Internet celebrity, for a total cash consideration of JPY72,800 thousand (approximately RMB4,751 thousand).

(iv) Management has assessed the level of influence that the Group has on these investments, and determined that it has joint control even though the shareholding varies from 27% to 51% because unanimous consent is required from all parties to the agreements for all relevant activities. Consequently, these investments have been classified as joint ventures.

15 PROPERTY AND EQUIPMENT

	Building RMB'000	Decorations RMB'000	Furniture and Office Equipment RMB'000	Server and Other Equipment RMB'000	Motor Vehicles RMB'000	Leasehold Improvement RMB'000	CIP RMB'000	Total RMB'000
Year ended 31 December 2015								
Net book value								
Opening net book amount	115,549	7,208	2,566	14,841	1,889	227	–	142,280
Additions	46,212	3,177	1,243	2,541	–	508	10,976	64,657
Acquisition of subsidiaries	–	–	435	539	603	145	–	1,722
Disposals	–	–	(8)	(117)	–	–	–	(125)
Depreciation charge	(4,251)	(2,549)	(1,056)	(6,908)	(919)	(384)	–	(16,067)
Impairment charge	–	–	(40)	(1,584)	–	–	–	(1,624)
Closing net book amount	157,510	7,836	3,140	9,312	1,573	496	10,976	190,843
At 31 December 2015								
Cost	163,729	11,885	5,980	40,380	5,615	7,634	10,976	246,199
Accumulated depreciation	(6,219)	(4,049)	(2,800)	(29,484)	(4,042)	(7,138)	–	(53,732)
Accumulated impairment	–	–	(40)	(1,584)	–	–	–	(1,624)
Net book amount	157,510	7,836	3,140	9,312	1,573	496	10,976	190,843
Year ended 31 December 2016								
Net book value								
Opening net book amount	**157,510**	**7,836**	**3,140**	**9,312**	**1,573**	**496**	**10,976**	**190,843**
Additions	**180**	**1**	**516**	**4,483**	**1,701**	**855**	**2,154**	**9,890**
Acquisition of subsidiaries *(Note 32)*	**–**	**–**	**156**	**1,425**	**630**	**–**	**–**	**2,211**
Step-acquisition of subsidiaries *(Note 32)*	**–**	**–**	**–**	**145**	**–**	**–**	**–**	**145**
Transferred from construction in progress	**8,867**	**560**	**1,006**	**36**	**–**	**2,456**	**(12,925)**	**–**
Disposals	**–**	**–**	**(146)**	**(325)**	**(42)**	**(667)**	**–**	**(1,180)**
Disposal of a subsidiary	**–**	**–**	**(548)**	**(1,505)**	**(227)**	**(1,816)**	**–**	**(4,096)**
Depreciation charge	**(4,384)**	**(2,343)**	**(1,144)**	**(4,834)**	**(938)**	**(1,262)**	**–**	**(14,905)**
Closing net book amount	**162,173**	**6,054**	**2,980**	**8,737**	**2,697**	**62**	**205**	**182,908**
At 31 December 2016								
Cost	**172,776**	**12,446**	**5,934**	**41,567**	**6,505**	**7,957**	**205**	**247,390**
Accumulated depreciation	**(10,603)**	**(6,392)**	**(2,914)**	**(31,246)**	**(3,808)**	**(7,895)**	**–**	**(62,858)**
Accumulated impairment	**–**	**–**	**(40)**	**(1,584)**	**–**	**–**	**–**	**(1,624)**
Net book amount	**162,173**	**6,054**	**2,980**	**8,737**	**2,697**	**62**	**205**	**182,908**

15 PROPERTY AND EQUIPMENT (continued)

Depreciation and impairment charges were included in the following categories in the profit or loss:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of revenue	**3,454**	5,145
Selling and marketing expenses	**2,548**	2,103
Administrative expenses	**2,432**	3,700
Research and development expenses	**6,471**	6,743
	14,905	17,691

16 INVESTMENT PROPERTY

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
At fair value		
Opening amount	**–**	–
Additions (i)	**23,334**	–
Net gains from revaluation	**2,667**	–
Currency translation difference	**1,747**	–
Closing amount	**27,748**	–

(i) During the year, the Group purchased a real estate property located in the United States at a cash consideration of US$3,611 thousand (approximately RMB23,334 thousand). The property is held as an investment property for long-term rental yields, and is not occupied by the Group.

16 INVESTMENT PROPERTY (continued)

Amounts recognised in profit and loss for investment property	2016 RMB'000
Rental income	628
Direct operating expenses from property that generated rental income	(435)
	193

As at 31 December 2016, the Group had no unprovided contractual obligations for future repairs and maintenance (2015: Nil).

The valuation of the investment property was performed by an independent professionally qualified valuer, to determine the fair value of the investment property as at 31 December 2016. The revaluation gains or losses is included in 'Other gains – net' in the consolidated statement of comprehensive income (Note 8). The following table analyses the investment property carried at fair value, by valuation method.

	Fair value measurement at 31 December 2016 using			
Description	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurements				
Investment properties:	–	27,748	–	27,748

For the Group's investment property, the valuation was determined using the sale comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

There were no transfers between Levels 1, 2 and 3 during the year.

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Computer Software RMB'000	Domain Name and Technology RMB'000	Brand Name RMB'000	Platform, Game and License RMB'000	Total RMB'000
Year ended 31 December 2015						
Opening net book amount	1,891	949	3,860	–	42,302	49,002
Additions	–	17,193	21	–	–	17,214
Acquisition of subsidiaries	42,837	6,034	–	15,183	–	64,054
Amortisation charge	–	(2,718)	(1,635)	(1,565)	(2,226)	(8,144)
Impairment charge	–	(1,027)	–	–	–	(1,027)
Exchange difference	115	–	98	–	–	213
Closing net book amount	44,843	20,431	2,344	13,618	40,076	121,312
At 31 December 2015						
Cost	44,843	26,246	9,407	15,183	44,528	140,207
Accumulated amortization	–	(4,788)	(7,063)	(1,565)	(4,452)	(17,868)
Accumulated impairment	–	(1,027)	–	–	–	(1,027)
Net book amount	44,843	20,431	2,344	13,618	40,076	121,312
Year ended 31 December 2016						
Opening net book amount	**44,843**	**20,431**	**2,344**	**13,618**	**40,076**	**121,312**
Additions	**–**	**2,100**	**4**	**–**	**–**	**2,104**
Acquisition of a subsidiary *(Note 32)*	**75,623**	**-**	**-**	**-**	**27,432**	**103,055**
Step-acquisition of a subsidiary *(Note 32)*	**30,370**	**-**	**-**	**-**	**21,166**	**51,536**
Disposal	**–**	**(21)**	**–**	**–**	**–**	**(21)**
Disposal of a subsidiary	**(4,811)**	**–**	**(22)**	**(3,995)**	**–**	**(8,828)**
Amortisation charge	**–**	**(3,366)**	**(748)**	**(2,013)**	**(5,253)**	**(11,380)**
Impairment charge	**(6,997)**	**–**	**–**	**–**	**–**	**(6,997)**
Exchange difference	**137**	**–**	**85**	**–**	**–**	**222**
Closing net book amount	**139,165**	**19,144**	**1,663**	**7,610**	**83,421**	**251,003**
At 31 December 2016						
Cost	**146,162**	**28,318**	**9,386**	**10,744**	**93,126**	**287,736**
Accumulated amortization	**–**	**(8,147)**	**(7,723)**	**(3,134)**	**(9,705)**	**(28,709)**
Accumulated impairment	**(6,997)**	**(1,027)**	**–**	**–**	**–**	**(8,024)**
Net book amount	**139,165**	**19,144**	**1,663**	**7,610**	**83,421**	**251,003**

17 INTANGIBLE ASSETS (continued)

Amortisation and impairment charges were included in the following categories in the profit or loss:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of revenue	**3,109**	2,636
Selling and marketing expense	**431**	684
Administrative expenses	**6,577**	4,969
Research and development expenses	**1,263**	882
	11,380	9,171

Impairment tests for goodwill

Management reviews the business performance based on type of business. Goodwill is monitored by the management at the operating segment level. The following is a summary of goodwill allocation for each of the CGUs:

2016	Opening RMB'000	Addition RMB'000	Disposal RMB'000	Impairment RMB'000	Cumulative translation adjustments RMB'000	Closing RMB'000
Sina Show Platform	555	–	–	–	38	593
9158 Platform	1,451	–	–	–	99	1,550
Jinhua Platform	21,325	–	–	–	–	21,325
Uncle Sam	16,701	–	–	(6,997)	–	9,704
Hangzhou Raily	4,811	–	(4,811)	–	–	–
Happy Alliance	–	30,370	–	–	–	30,370
Pangu Group	–	75,623	–	–	–	75,623
	44,843	105,993	(4,811)	(6,997)	137	139,165

17 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

2015	Opening RMB'000	Addition RMB'000	Impairment RMB'000	Cumulative translation adjustments RMB'000	Closing RMB'000
Sina Show Platform	524	–	–	31	555
9158 Platform	1,367	–	–	84	1,451
Jinhua Platform	–	21,325	–	–	21,325
Uncle Sam	–	16,701	–	–	16,701
Hangzhou Raily	–	4,811	–	–	4,811
	1,891	42,837	–	115	44,843

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use post-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the respective business in which the CGU operates.

For each of the CGUs with significant amount of goodwill, the key assumptions used for the value-in-use calculations in 2016 are as follows. In addition, where there has been an impairment loss in CGUs, the recoverable amount is also disclosed below.

	Jinhua Platform	Uncle Sam	Happy Alliance	Pangu Group
WACC (Weighted average cost of capital)	16.6%	15.4%	30%	20%
Long-term growth rate	3%	3%	3%	3%
Recoverable amount of CGU (RMB'000)	N/A	32,934	N/A	N/A

The carrying amount of the goodwill allocated to Uncle Sam has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in 'administrative expenses' in the consolidated statement of comprehensive income for the year ended 31 December 2016.

For each of the CGUs with significant amount of goodwill, the key assumptions used for the value-in-use calculations in 2015 are as follows. In addition, where there has been an impairment loss in CGUs, the recoverable amount is also disclosed below.

17 INTANGIBLE ASSETS (continued)

	Jinhua Platform	Uncle Sam
WACC (Weighted average cost of capital)	16.6%	15.4%
Long-term growth rate	3%	3%
Recoverable amount of CGU	N/A	N/A

18 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Assets as per balance sheet		
Loans and receivables:		
– Trade receivables	**25,834**	32,006
– Other receivables (excluding prepayments)	**97,544**	231,354
– Cash and cash equivalents	**290,306**	232,848
– Term deposits with initial term over 3 months	**775,958**	954,870
Available-for-sale financial assets	**915,432**	470,066
	2,105,074	1,921,144
Liabilities as per balance sheet		
Financial liabilities at amortised cost		
– Trade payables	**29,435**	23,212
– Other payables and accruals (excluding accrued payroll, government grant and other tax liabilities)	**39,885**	46,335
	69,320	69,547

19 TRADE RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Third parties	**25,385**	22,594
Less: allowance for impairment of trade receivables	**–**	(121)
Third parties, net	**25,385**	22,473
Amount due from related parties *(Note 37(c))*	**449**	9,533
	25,834	32,006

As at 31 December 2016 and 2015, the fair values of trade receivables approximated their carrying amounts.

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
0-90 days	**21,444**	19,646
91-180 days	**1,755**	10,052
181-365 days	**2,175**	1,126
Over 1 year	**460**	1,303
	25,834	32,127

19 TRADE RECEIVABLES (continued)

(b) The carrying amount of the Group's gross trade receivables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**21,212**	30,636
US$	**4,521**	1,224
HK$	**101**	267
	25,834	32,127

(c) Movements on the Group's allowance for impairment of trade receivables are as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**121**	–
Provision for receivables impairment	**–**	121
Receivables written off during the year as uncollectible	**(121)**	–
At 31 December	**–**	121

The creation and release of provision for impaired receivables have been included in 'administrative expense' in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering the amount.

The other classes within trade and other receivables do not contain impaired assets.

(d) The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balance. The Group does not hold any collateral as security.

20 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in non-current assets		
Prepayments for purchase of investments *(a)*	**164,500**	125,000
Long-term prepayments for game licenses and royalty fees, net	**11,603**	10,613
Loans to employees	**10,882**	9,338
Capital surplus attributable to non-controlling interests of newly established subsidiaries	**9,451**	9,966
	196,436	154,917
Less: provision for impairment *(c)*	**(4,835)**	–
	191,601	154,917
Included in current assets		
Refundable prepayment for potential investments *(a)*	**45,929**	173,000
Loans to third parties *(b)*	**30,620**	29,000
Deferred commission charges	**12,755**	12,038
Advance to suppliers	**7,495**	444
Prepaid promotion expenses	**6,925**	8,279
Receivable from disposal of a subsidiary *(Note 5(c))*	**6,100**	–
Loan to a related party *(Note 37(c))*	**–**	5,769
Others	**22,291**	18,971
	132,115	247,501
Less: provision for impairment *(c)*	**(17,025)**	–
	115,090	247,501
	306,691	402,418

20 PREPAYMENTS AND OTHER RECEIVABLES (continued)

(a) The Group entered into a series of prospective investments agreements with refundable terms if investments agreements failed to be reached. If the investment agreements are more likely to be reached than not based on management's intention and estimates, the prepayments are reclassified as non-current assets.

(b) The balance represents the loans lent by the Group to certain third-party companies with terms within 1 year and interest rates ranging from 3% to 6% per annum.

(c) The provision for impairment represents the impairment of capital surplus attributable to non-controlling interests of established subsidiaries and the bad debt provided for loans granted to third parties and prepayments for potential investments.

As at 31 December 2016 and 2015, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair values. As at 31 December 2016 and 2015, there were no significant balances that are past due. The maximum exposure to credit risk at each of the reporting dates is the carrying value of each class of prepayments and other receivables mentioned above. The Group does not hold any collateral as security. Their recoverability was assessed with reference to the credit status of the recipients.

21 INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trading stocks	**2,454**	10,555
Others	**–**	759
Less: provisions	**(1,372)**	(1,007)
	1,082	10,307

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB31,455 thousand (2015: RMB42,645 thousand), which included inventory write-down of RMB365 thousand (2015: RMB1,007 thousand).

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in non-current assets		
Investments in venture capital funds *(a)*	**224,009**	92,208
Unlisted equity investments *(b)*	**80,469**	7,800
	304,478	100,008
Included in current assets		
Investment in structured deposits *(c)*	**610,954**	370,058
	915,432	470,066

(a) This represented the Group's investments in some venture funds as limited partner. Set out below are the movements of the Group's investments in venture capital funds as at 31 December 2016 and 2015:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Investments in venture capital funds *(a)*		
At beginning of the year	**92,208**	24,476
Additions	**98,747**	65,991
Fair value gain recognised in consolidated statement of comprehensive income under 'other comprehensive income'	**26,677**	–
Currency translation difference	**6,377**	1,741
At end of the year	**224,009**	92,208

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

(b) This represented the Group's investments in unlisted equity interests. The Group acquired certain unlisted equity interests for an aggregate consideration of RMB72,408 thousand during the year ended 31 December 2016. They are principally engaged in operation of O2O beauty service and web-based casual games and investments management. Set out below are the movements of the Group's unlisted equity investments as at 31 December 2016 and 2015:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Unlisted equity investments *(b)*		
At beginning of the year	**7,800**	2,300
Additions	**72,408**	7,500
Step acquisition from available-for-sale financial assets to investment in associates	**–**	(2,000)
Currency translation difference	**261**	–
At end of the year	**80,469**	7,800

(c) The current portion of available-for-sale financial assets represented RMB-denominated principal protected structured deposits with interest rates ranging from 1.5% to 3.5% per annum and maturity period within 1 year or revolving terms. These structured deposits are offered by large state-owned commercial banks in the PRC. The fair value of these available-for-sale financial assets approximated its carrying amount at year end.

23 TERM DEPOSITS WITH INITIAL TERM OVER 3 MONTHS

An analysis of the Group's and Company's term deposits denominated in RMB and HK$ with initial term over 3 months as at 31 December 2016 are listed as below:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in non-current assets		
– HK$ term deposits	**–**	168,138
Included in current assets		
– HK$ term deposits	**513,939**	539,565
– RMB term deposits	**157,840**	247,167
– US$ term deposits	**104,179**	–
	775,958	786,732
	775,958	954,870

The effective interest rate for the term deposits of the Group with initial term over 3 months for the year ended 31 December 2016 was 2.35% (2015: 2.65%).

Term deposits with initial term over 3 months were neither past due nor impaired. The directors of the Company considered that the carrying amount of the term deposits with initial term over 3 months approximated their fair value as at 31 December 2016 and 2015.

24 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current		
Cash at bank and on hand	**243,865**	153,711
Short-term bank deposits *(a)*	**39,185**	64,000
Cash at other financial institutions *(b)*	**7,256**	15,137
	290,306	232,848
Total cash and cash equivalents	**290,306**	232,848
Maximum exposure to credit risk	**290,306**	232,848

(a) The short-term bank deposits are denominated in RMB and have a term ranging from 1 month to 3 months. The effective interest rate of these deposits for the year ended 31 December 2016 was 0.41% (2015: 1.49%).

(b) As at 31 December 2016, RMB256 thousand (2015: RMB204 thousand) are held in a third-party payment platform, and RMB7,000 thousand (2015: RMB14,933 thousand) are held in a depositary bank account by the brokers.

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**152,161**	177,688
US$	**109,462**	5,011
HK$	**27,988**	43,760
JPY	**695**	6,389
	290,306	232,848

25 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR RSU SCHEME

	Number of Shares	Share capital		Share premium	Shares held for RSU Scheme
		US$'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	**1,285,538,896**	**128.55**	**797**	**2,305,423**	**(14)**
Proceeds from share issued under employee share option plan *(a)*	**12,773,833**	**1.28**	**6**	**10,606**	**–**
Appropriation of final dividends *(b)*	**–**	**–**	**–**	**(65,633)**	
Issuance of shares held for Post-IPO RSU Scheme *(c)*	**1,048,688**	**0.10**	**1**	**–**	**(1)**
Vest and transfer of RSUs *(Note 27(b))*	**–**	**–**	**–**	**(8)**	**8**
At 31 December 2016	**1,299,361,417**	**129.93**	**804**	**2,250,388**	**(7)**

	Number of Shares	Share capital		Share premium	Shares held for RSU Scheme
		US$'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	1,259,401,000	125.94	779	2,381,529	(19)
Proceeds from share issued under employee share option plan *(a)*	29,478,896	2.95	20	8,405	-
Repurchase and cancellation of ordinary shares *(d)*	(9,560,000)	(0.96)	(6)	(24,929)	-
Appropriation of special dividends *(e)*	–	–	–	(59,573)	–
Issuance of shares held for Post-IPO RSU Scheme *(c)*	6,219,000	0.62	4	–	(4)
Vest and transfer of RSUs *(Note 27(b))*	–	–	–	(9)	9
At 31 December 2015	1,285,538,896	128.55	797	2,305,423	(14)

25 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR RSU SCHEME (continued)

(a) Employees share option plan: options exercised during the year ended 31 December 2016 resulted in 12,773,833 ordinary shares being issued (year ended 31 December 2015: 29,478,896 ordinary shares), with exercise proceeds of approximately RMB10,612 thousand (year ended 31 December 2015: RMB8,425 thousand). The related weighted average price at the time of exercise was HK$5.49.

(b) Pursuant to the resolution of the board meeting in March 2016 and approval of the annual general meeting held in May 2016, the Company declared a special dividend for the year ended 31 December 2015 of HK$77,700 thousand (approximately RMB65,633 thousand) in total or HK$0.06 per ordinary share out of the Company's share premium account, which were fully paid in June 2016.

(c) In April 2016, April 2015 and September 2015, the Company granted 1,048,688, 3,499,000 and 2,720,000 ordinary shares respectively to an independent trust nominee for the purpose of granting Post-IPO RSUs to the participants under Post-IPO RSU Scheme (Note 27(b)). The ordinary shares held for Post-IPO RSU scheme was deducted from shareholders' equity as the directors are of the view that such shares are within the Company's control until the shares are vested unconditionally to the participants and hence are considered as treasury shares in substance (Note 27(e)).

(d) In January, July, August and December, 2015, the Company repurchased 5,944,000, 2,919,000, 370,000 and 327,000 ordinary shares respectively through purchases on The Stock Exchange of Hong Kong Limited. All the repurchased ordinary shares had been cancelled as at 31 December 2015. The total amount paid to repurchase these ordinary shares was HK$31,426 thousand (approximately RMB24,935 thousand) and had been deducted from the share capital and share premium of shareholders' equity.

(e) Pursuant to the resolution of the extraordinary general meeting in February 2015, the Company declared a special dividend of HK$75,210 thousand (approximately RMB59,573 thousand) in total or HK$0.06 per ordinary share out of the Company's share premium account, which were fully paid in March 2015.

26 RESERVES

	Statutory Reserves RMB'000	Share-based Compensation Reserve RMB'000	Translation Differences RMB'000	Step Acquisition RMB'000	Change in the value of available-for-sale financial assets RMB'000	Changes in ownership interests in subsidiaries without change of control RMB'000	Total RMB'000
Opening balance at 1 January 2016	**56,839**	**133,719**	**81,054**	**1,813**	**–**	**–**	**273,425**
Share-based compensation	**–**	**31,790**	**–**	**–**	**–**	**–**	**31,790**
Change in the value of available-for-sale financial assets	**–**	**–**	**–**	**–**	**26,677**	**–**	**26,677**
Currency translation differences	**–**	**–**	**63,243**	**–**	**–**	**–**	**63,243**
Profit appropriations to statutory reserves *(a)*	**29,551**	**–**	**–**	**–**	**–**	**–**	**29,551**
Changes in ownership interests in subsidiaries without change of control	**–**	**–**	**–**	**–**	**–**	**1,717**	**1,717**
At 31 December 2016	**86,390**	**165,509**	**144,297**	**1,813**	**26,677**	**1,717**	**426,403**
Opening balance at 1 January 2015	35,437	67,777	19,259	–	–	–	122,473
Share-based compensation	–	65,942	–	–	–	–	65,942
Currency translation differences	–	–	61,795	–	–	–	61,795
Profit appropriations to statutory reserves *(a)*	21,402	–	–	–	–	–	21,402
Step-acquisition of an associate	–	–	–	1,813	–	–	1,813
At 31 December 2015	56,839	133,719	81,054	1,813	–	–	273,425

(a) In accordance with the Company Law in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group, i.e. the PRC Operating Entities, it is required to appropriate 10% of the annual net profits of the PRC Operating Entities, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the PRC Operating Entities, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalised as capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions in the Articles of Association of Hangzhou Tiange, Zhejiang Tiange, Star Power and Tianyue appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these wholly-foreign owned subsidiaries to their reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer is not needed.

27 SHARE-BASED PAYMENTS

(a) Share options

Pre-IPO Share Option Scheme

On 9 December 2008, the Board of Directors of the Company approved Pre-IPO Share Option Scheme that provides for granting options to eligible directors and employees (collectively, the 'Grantees') to acquire ordinary shares of the Company at an exercise price as determined by the Board at the time of grant. Upon the Pre-IPO Share Option Scheme, the Board of Directors authorized and reserved 11,000,000 ordinary shares for the issuance.

The Pre-IPO Share Option Scheme was amended on 21 October 2011 to increase the aggregate number of ordinary shares available for issuance thereunder by 2,000,000 ordinary shares from 11,000,000 ordinary shares to 13,000,000 ordinary shares.

On 22 May 2014, the Pre-IPO Share Options Scheme was amended to decrease the aggregate number of ordinary share available for issuance thereunder by 4,154,425 ordinary shares from 13,000,000 ordinary shares to 8,845,575 ordinary shares.

On 9 July 2014, the Company consummated its IPO on the Main Board of The Stock Exchange of Hong Kong Limited. Upon the consummation of the IPO, all the then outstanding share options granted under the Pre-IPO Share Options Scheme are adjusted on a one-to-ten basis.

All the share options authorised by the Pre-IPO Share Option Scheme are only exercisable until the occurrence of the earliest of any of the trigger events ('Trigger Event'): the Initial Public Offering; a change in control in which the successor entity has equity securities publicly traded on an internationally-recognised stock exchange; and upon such date that the Option may be legally exercised pursuant to Applicable Law, as evidenced by a legal opinion provided to and approved by the Board. All share options granted will be expired after 10 years from the vesting commencement date.

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

27 SHARE-BASED PAYMENTS (continued)

(a) Share options (continued)

Post-IPO Share Option Scheme

On 16 June 2014, the Board of Directors of the Company approved Post-IPO Share Option Scheme that provides for granting options to eligible directors and employees (collectively, the 'Grantees') to acquire ordinary shares of the Company at an exercise price as determined by the Board at the time of grant. The Post-IPO Share Option Scheme will be valid and effective for a period of 10 years, commencing from 9 July 2014.

In respect of Post-IPO Option Scheme, the exercise price shall not be less than the higher of: (i) the closing price of the Shares on the Hong Kong Stock Exchange as stated in the Hong Kong Stock Exchange's daily quotations sheet on the Offer Date; (ii) the average closing price of the Shares on the Hong Kong Stock Exchange as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the Shares. In addition, any Option shall be vested on an Option-holder immediately upon his acceptance of the offer of Options provided that if any vesting schedule and (or) conditions are specified in the offer of the Option, such Option shall only be vested on an Option-holder according to such vesting schedule and (or) upon the fulfillment of the vesting conditions.

Upon the Post-IPO Share Option Scheme, the Board of Directors authorized and reserved 11,000,000 ordinary shares for the issuance.

27 SHARE-BASED PAYMENTS (continued)

(a) Share options (continued)

Post-IPO Share Option Scheme (continued)

Movements in the number of Pre-IPO outstanding share options, retroactively reflecting the one-to-ten basis bonus shares, and of Post-IPO outstanding share options, are as follows:

	Average Exercise Price in US$ per Share Option	Number of Pre-IPO Share Options	Average Exercise Price in HK$ per Share Option	Number of Post-IPO Share Options	Total Number of Share Options
At 1 January 2015		87,721,320		–	87,721,320
Granted		–	HK$3.5000	4,000,000	4,000,000
Exercised *(Note 25)*	US$0.0465	(29,478,896)		–	(29,478,896)
Forfeited	US$0.3230	(1,394,955)		–	(1,394,955)
At 31 December 2015		56,847,469		4,000,000	60,847,469
At 1 January 2016		**56,847,469**		**4,000,000**	**60,847,469**
Exercised *(Note 25)*	US$0.1086	**(12,131,833)**	**HK$3.5000**	**(642,000)**	**(12,773,833)**
Forfeited	US$0.3321	**(476,750)**		**–**	**(476,750)**
At 31 December 2016		**44,238,886**		**3,358,000**	**47,596,886**

During the year ended 31 December 2016, no share option was granted (2015: 4,000,000 share options were granted).

As at 31 December 2016, out of the 47,596,886 outstanding share options (2015: 60,847,469), 43,179,869 share options (2015: 51,646,989) were exercisable. Options exercised in 2016 resulted in 12,773,833 shares (2015: 29,478,896 shares) being issued at a weighted average price of US$0.1086 (2015: US$0.0465) per share. The weighted average price of the shares at the time these options were exercised was HK$5.4874 (2015: HK$6.24) per share.

27 SHARE-BASED PAYMENTS (continued)

(a) Share options (continued)

Post-IPO Share Option Scheme (continued)

Details of the expiry dates, exercise prices and the respective numbers of Pre-IPO share options, retroactively reflecting the one-to-ten basis bonus shares, and of Post-IPO share options, which remained outstanding as at 31 December 2016 and 2015, are as follows:

Trench	Expiry Date	Exercise price	Number of share options 31 December 2016	31 December 2015
Trench I Option	10 years commencing from the date of grant of options	US$0.0001	**–**	–
		US$0.01	**11,811,000**	12,914,000
Trench II Option	10 years commencing from the date of grant of options	US$0.021	**2,160,000**	2,552,000
		US$0.03	**3,848,540**	5,403,540
Trench III Option	10 years commencing from the date of grant of options	US$0.06	**2,231,380**	2,816,380
Trench IV Option	10 years commencing from the date of grant of options	US$0.035	**6,601,000**	8,971,000
		US$0.06	**300,000**	800,000
Trench V Option	10 years commencing from the date of grant of options	US$0.03	**35,000**	142,000
		US$0.035	**–**	–
		US$0.06	**2,859,050**	3,169,050
Trench VI Option	10 years commencing from the date of grant of options	US$0.06	**1,600,000**	2,000,000
		US$0.1	**1,184,000**	1,545,000
		US$0.12	**908,439**	1,419,814
Trench VII Option	10 years commencing from the date of grant of options	US$0.15	**1,931,100**	3,502,940
Trench VIII Option	10 years commencing from the date of grant of options	US$0.2	**1,045,570**	1,794,540
Trench IX Option	10 years commencing from the date of grant of options	US$0.35	**7,723,807**	9,817,205
Trench X Option	9 years and 8 months commencing from the date the grant of options	HK$3.5	**3,358,000**	4,000,000
			47,596,886	60,847,469

27 SHARE-BASED PAYMENTS (continued)

(b) Restricted share units

Pre-IPO RSU Scheme

On 22 May 2014, the Board of Directors of the Company approved the Pre-IPO RSU Scheme. Pursuant to the resolution, 7,280,000 Pre-IPO RSUs, which includes the 4,280,000 Pre-IPO RSUs granted to partially replace the options granted under the Pre-IPO Share Option Scheme, have been granted to 17 grantees, including two executive Directors, three senior management members, one connected person of the Group and 11 other employees.

The Pre-IPO RSU Scheme will be valid and effective for a period of 10 years, commencing from 22 May 2014.

On 9 July 2014, the Company consummated its IPO on the Main Board of The Stock Exchange of Hong Kong Limited. Upon the consummation of the IPO, all the then outstanding RSUs granted under the Pre-IPO RSU Scheme are adjusted on a one-to-ten basis.

Post-IPO RSU Scheme

On 16 June 2014, the Board of Directors of the Company approved the Post-IPO RSU Scheme. The Post-IPO RSU Scheme will be valid and effective for a period of 10 years commencing from 9 July 2014.

Movements in the number of outstanding Pre-IPO RSUs, retroactively reflecting the one-to-ten basis bonus shares, and of outstanding Post-IPO RSUs, are as follows:

	Number of shares held for Pre-IPO RSU Scheme	Number of shares held for Post-IPO RSU Scheme	Total
At 1 January 2016	**19,071,875**	**2,823,500**	**21,895,375**
Granted	–	1,048,688	1,048,688
Vested and transferred	(8,479,170)	(3,203,850)	(11,683,020)
Forfeited	–	(90,000)	(90,000)
At 31 December 2016	**10,592,705**	**578,338**	**11,171,043**
Shares vested but not transferred to the grantees as at 31 December 2016			–

27 SHARE-BASED PAYMENTS (continued)

(b) Restricted share units (continued)

Post-IPO RSU Scheme (continued)

	Number of shares held for Pre-IPO RSU Scheme	Number of shares held for Post-IPO RSU Scheme	Total
At 1 January 2015	31,343,750	–	31,343,750
Granted	–	6,219,000	6,219,000
Vested and transferred	(12,271,875)	(3,395,500)	(15,667,375)
At 31 December 2015	19,071,875	2,823,500	21,895,375
Shares vested but not transferred to the grantees as at 31 December 2015			–

During the year ended 31 December 2016, 1,048,688 RSUs were granted (2015: 6,219,000 RSUs were granted).

During the year ended 31 December 2016, total 22,638,309 (2015: 4,272,631) of the above granted RSUs were exercised.

(c) Fair value of share options and RSUs

Before the Company consummated its IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the directors have used the discounted cash flow method to determine the fair value of the underlying equity of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the directors with best estimates.

Upon the consummation of the IPO, the fair value of the underlying ordinary shares was calculated based on the market price of the Company's shares at the respective grant date.

27 SHARE-BASED PAYMENTS (continued)

(c) Fair value of share options and RSUs (continued)

Fair value of share options

The Directors used Binominal pricing model to determine the fair value of the share option granted, which is to be expensed over the vesting period.

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

Other than the exercise price mentioned above, significant estimates on parameters, such as risk free rate, dividend yield and expected volatility, made by the directors in applying the Binominal Model, is summarised as below.

	Year ended 31 December	
	2016	2015
Weighted average share price at the grant date	–	HK$3.46
Risk-free interest rate	–	1.457%
Volatility	–	49.1%
Dividend yield	–	0.00%

Fair value of RSUs

The fair value of RSUs was calculated based on the fair value of underlying ordinary shares as at the grant date.

(d) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the shares options (the 'Expected Retention Rate') in order to determine the amount of share-based compensation expenses charged to the statement of comprehensive income. As at 31 December 2016, the Expected Retention Rate was assessed to be 100% (2015: 100%).

27 SHARE-BASED PAYMENTS (continued)

(e) Shares held for RSU Scheme

On 16 June 2014, the Company entered into a trust deed with an independent trustee (the 'RSU Trustee') and two independent trust nominee (the 'Pre-IPO RSU Nominee' and the 'Post-IPO RSU nominee'), pursuant to which the RSU Trustee shall act as the administrator of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme, and the Pre-IPO RSU Nominee and the Post-IPO RSU Nominee shall hold the shares underlying the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme respectively.

On 9 July 2014, upon the Company's IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the Company's ordinary shareholders received nine bonus shares for every registered ordinary share that they already held. As a result, the 7,280,000 ordinary shares of the Company underlying the RSUs were adjusted to 72,800,000 ordinary shares on a one-to-ten basis.

As of 31 December 2016, 7,267,688 ordinary shares of the Company underlying the RSUs were held by the Post-IPO RSU Nominee for the benefit of the grantees pursuant to the Post-IPO RSU Scheme.

The above shares held for Pre-IPO RSU Scheme and Post-IPO RSU Scheme were regarded as treasury shares and had been deducted from shareholders' equity as the directors are of the view that such shares are within the Company's control until the shares are vested unconditionally to the participants and hence are considered as treasury shares in substance.

28 ACCUMULATED DEFICITS

	RMB'000
Balance at 1 January 2015	421,073
Profit for the year	(151,792)
Appropriations to statutory reserves *(Note 26)*	21,402
Step acquisition of an associate	2,236
Balance at 31 December 2015	292,919
Balance at 1 January 2016	**292,919**
Profit for the year	**(233,213)**
Appropriations to statutory reserves *(Note 26)*	**29,551**
Balance at 31 December 2016	**89,257**

29 TRADE PAYABLES

Trade payables were mainly due to promotion and advertising expenses, commission charges by platforms and game developers, and bandwidth and server custody fees.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Third parties	**27,435**	17,920
Related parties *(Note 37(c))*	**2,000**	5,292
	29,435	23,212

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
0-90 days	**16,555**	10,271
91-180 days	**6,095**	10,599
181-365 days	**4,749**	11
Over 1 year	**2,036**	2,331
	29,435	23,212

The carrying amount of the Group's trade payables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**27,096**	20,995
US$	**2,339**	2,205
HK$	**–**	12
	29,435	23,212

30 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Marketing and administrative expense accruals	**15,446**	9,835
Staff costs and welfare accruals	**12,022**	11,319
Audit expenses payable	**6,384**	6,016
VAT & Other tax liabilities	**5,800**	2,097
Government grant for scientific projects in progress	**3,700**	3,700
Human resource outsourcing service fee payable	**2,810**	2,782
Payables for acquisition of a subsidiary and a joint venture	**–**	10,000
Amount due to a related party *(Note 37(c))*	**1,118**	8,962
Others	**14,127**	8,740
	61,407	63,451

31 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	**58,985**	18,659
– to be recovered within 12 months	**15,598**	14,801
	74,583	33,460
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(11,695)**	(4,217)
– to be recovered within 12 months	**(3,253)**	(931)
	(14,948)	(5,148)
Deferred income tax assets – net	**59,635**	28,312

31 DEFERRED INCOME TAX (continued)

The movements of deferred income tax assets-net are as follows:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**28,312**	32,105
Acquisition of a subsidiary *(Note 32)*	**29,855**	(5,300)
Step-acquisition of a subsidiary *(Note 32)*	**(5,292)**	–
Disposal of a subsidiary	**69**	–
Recognized in the consolidated statement of comprehensive income *(Note 11(a))*	**6,716**	1,528
Currency translation difference	**(25)**	(21)
At end of the year	**59,635**	28,312

The movements in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred revenue and advance from customers	Advertising expenses	Deductible losses from previous years	Provisions of liabilities and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	17,867	15,656	–	(1,057)	32,466
Recognised in the consolidated statement of comprehensive income	(4,666)	3,003	30	2,627	994
At 31 December 2015	13,201	18,659	30	1,570	33,460
Acquisition of a subsidiary *(Note 32)*	**–**	**36,713**	**–**	**–**	**36,713**
Disposal of a subsidiary	**(410)**	**–**	**(520)**	**–**	**(930)**
Recognised in the consolidated statement of comprehensive income	**196**	**3,424**	**2,772**	**(1,052)**	**5,340**
At 31 December 2016	**12,987**	**58,796**	**2,282**	**518**	**74,583**

31 DEFERRED INCOME TAX (continued)

	Assets Appreciation RMB'000	Unrealised investment income RMB'000	Total RMB'000
At 1 January 2015	361	–	361
Acquisition of subsidiaries	5,300	–	5,300
Recognised in the consolidated statement of comprehensive income	(513)	–	(513)
At 31 December 2015	5,148	–	5,148
Acquisition of a subsidiary *(Note 32)*	**6,858**	**–**	**6,858**
Step-acquisition of a subsidiary *(Note 32)*	**5,292**	**–**	**5,292**
Disposal of a subsidiary	**(999)**	**–**	**(999)**
Recognised in the consolidated statement of comprehensive income	**(1,693)**	**317**	**(1,376)**
Currency translation difference	**25**	**–**	**25**
At 31 December 2016	**14,631**	**317**	**14,948**

As at 31 December 2016, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the undistributed profits of approximately RMB1,146,753 thousand. Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

32 BUSINESS COMBINATION

(a) Happy Alliance

In May 2015, the Group acquired 15% of the equity interest in of Chengdu Happy Alliance Technology Co., Ltd.("Happy Alliance"), a third party company engaged in design and development of mobile games in the PRC, which was accounted for as an investment in an associate for a cash consideration of RMB2,000 thousand. In April 2016, the Group further acquired 65% of the equity interests and obtained control of Happy Alliance, for a consideration of RMB41,610 thousand in cash. The Group's existing 15% equity interest in Happy Alliance was derecognized as a deemed disposal and Happy Alliance became a non-wholly owned subsidiary in which the Group owns 80%.

As a result, the Group holds 80% of the equity interest in Happy Alliance. The goodwill of RMB30,370 thousand arose from a number of factors including expected synergies through combining mobile game application, growth potential, unrecognised assets such as workforce in research and development, etc. The goodwill recognised is not expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Happy Alliance, and the amounts of the assets and liabilities acquired at the acquisition date.

	1 April 2016 **RMB'000**
Consideration	
Total cash consideration transferred	**41,610**
Fair value of equity interest in Happy Alliance held before the business combination	**7,679**
Total consideration	**49,289**

32 BUSINESS COMBINATION (continued)

(a) Happy Alliance (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

Provisional fair value

	1 April 2016 RMB'000
Cash and cash equivalents	16,005
Trade receivables and prepayments and other receivables	2,288
Property and equipment	145
Intangible assets – Game *(i)*	21,166
Other payables and accruals and Income tax liabilities	(8,651)
Customer advance and deferred revenue	(2,012)
Deferred income tax liabilities *(i)*	(5,292)
Total identifiable net assets	23,649
Non-controlling interests *(iii)*	(4,730)
Goodwill	30,370
Total purchase consideration	49,289
Acquisition-related costs (included in administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2016)	56

	1 April 2016 RMB'000
Outflow of cash to acquire business, net of cash acquired	
– Cash consideration	41,610
– Cash and cash equivalents in subsidiary acquired	(16,005)
Cash outflow on acquisition for the year ended 31 December 2016	25,605

32 BUSINESS COMBINATION (continued)

(a) Happy Alliance (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed (continued)

Provisional fair value (continued)

(i) Fair value of acquired identifiable intangible assets

The fair value of the acquired self-developed mobile game application of RMB21,166 thousand is recognised upon the consummation of the acquisition based on valuations for the asset. Deferred income tax liabilities of RMB5,292 thousand has been provided in relation to these fair value adjustments.

(ii) Acquisition date fair value of the previously held equity interest

The Group recognised a gain of RMB4,351 thousand as a result of measuring at fair value its 15% equity interest in Happy Alliance held before the business combination. The gain is included in 'Other gains, net' in the Group's consolidated statement of comprehensive income for the year ended 31 December 2016.

(iii) Non-controlling interests

The Group has chosen to recognise the non-controlling interests of proportionate of net assets for this acquisition.

(iv) Revenue and profit contribution

The acquired business contributed revenues of RMB37,438 thousand and net profit of RMB4,272 thousand to the Group for the period from 1 April 2016 to 31 December 2016.

(v) The fair value of the identifiable intangible assets acquired was estimated by applying the income approach. This is a level 3 fair value measurement. The key assumptions used are:

Discount rate	**32%**
Remaining useful life	**6 years**
Attrition rate	**16.7%**
Contributory asset charge rate	**3.3%-30%**
Sales growth rate	**5%-22.7%**
Gross profit margin	**26.5%**

32 BUSINESS COMBINATION (continued)

(b) Pangu Group

In December 2016, the Group completed the acquisition of a 64% equity interest in Pangu Group, a third party group engaged in design and development of web-based and mobile casual games, for a total consideration of RMB105,234 thousand paid to the selling shareholders.

The goodwill of RMB75,623 thousand arises from a number of factors including expected growth potential and unrecognised assets such as workforce, research and development. The goodwill recognised is not expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Pangu Group, and the amounts of the assets and liabilities acquired at the acquisition date.

	1 December 2016
	RMB'000
Purchase consideration	
Total cash consideration transferred	**105,234**

32 BUSINESS COMBINATION (continued)

(b) Pangu Group (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

Provisional fair value

	1 December 2016 RMB'000
Cash and cash equivalents	9,740
Trade receivables	1,247
Prepayments and other receivables	34,551
Property and equipment	2,211
Intangible assets – Games *(i)*	27,432
Deferred income tax assets	36,713
Trade payables	(18,750)
Other payables and accruals and Income tax liabilities	(418)
Income tax liabilities	(39,601)
Deferred income tax liabilities *(i)*	(6,858)
Total identifiable net assets	46,267
Non-controlling interests *(ii)*	(16,656)
Goodwill	75,623
Total purchase consideration	105,234
Acquisition-related costs (included in administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2016)	–

	1 December 2016 RMB'000
Outflow of cash to acquire business, net of cash acquired	
– Cash consideration	105,234
– Cash and cash equivalents in subsidiary acquired	(9,740)
Cash outflow on acquisition for the year ended 31 December 2016	95,494

32 BUSINESS COMBINATION (continued)

(b) Pangu Group (continued)

(i) Fair value of acquired identifiable intangible assets

The fair value of the acquired identifiable intangible assets of RMB27,432 thousand is recognised upon the consummation of the acquisition based on valuations for the asset. Deferred income tax liabilities of RMB6,858 thousand has been provided in relation to these fair value adjustments.

(ii) Non-controlling interests

The Group has chosen to recognise the non-controlling interests of proportionate of net assets for this acquisition.

(iii) Revenue and profit contribution

The acquired business contributed revenues of RMB11,052 thousand and net profit of RMB940 thousand to the Group for the period from 1 December 2016 to 31 December 2016.

(iv) The fair value of the identifiable intangible assets acquired was estimated by applying the income approach. This is a level 3 fair value measurement. The key assumptions used are:

Discount rate	**20.5%**
Remaining useful life	**6 years**
Attrition rate	**14.3%**
Contributory asset charge rate	**3.3%-20%**
Sales growth rate	**6%-15%**
Gross profit margin	**86.2%-89.7%**

33 CASH GENERATED FROM OPERATIONS

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**283,190**	184,458
Adjustments for:		
– Depreciation and impairment charges of property and equipment *(Note 15)*	**14,905**	17,691
– Amortisation and impairment charges of intangible assets and impairment of goodwill *(Note 17)*	**18,377**	9,171
– Amortisation of long-term prepayments	**6,172**	4,052
– Provision for inventories write-down and bad debts	**22,225**	1,128
– Loss on disposal of property and equipment and intangible assets *(a)*	**289**	87
– Loss from investments accounted for using the equity method	**759**	7,374
– Share-based compensation expenses *(Note 27)*	**31,790**	65,942
– Investment interest *(Note 8)*	**(39,870)**	(38,321)
– Investment income arising from disposal of a subsidiary *(Note 5(c))*	**(408)**	–
– Fair value gain on investment property *(Note 8)*	**(2,667)**	–
– Fair value gains, net *(Note 8)*	**–**	(4,534)
– Interest income	**(3,979)**	(4,338)
– Foreign exchange losses	**16,877**	1,880
– Provision of other liabilities and charges	**–**	6,000
Changes in working capital:		
– Inventories	**7,661**	(1,393)
– Trade receivables	**9,495**	(17,593)
– Prepayments and other receivables	**24,505**	(21,344)
– Trade payables	**(17,548)**	(4,971)
– Other payables and accruals	**8,719**	(7,709)
– Other tax liabilities	**3,642**	(2,823)
– Customer advance and deferred revenue	**8,053**	(1,566)
– Provisions of other liabilities and charge	**(1,000)**	–
Cash generated from operations	**391,187**	193,191

33 CASH GENERATED FROM OPERATIONS (continued)

(a) In the consolidated statement of cash flows, proceeds from sale of property and equipment and intangible assets comprise:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net book amount *(Note 15 and 17)*	**1,201**	125
Loss on disposal of property and equipment and intangible assets *(Note 8)*	**(289)**	(87)
Proceeds from disposal of property and equipment and intangible assets	**912**	38

34 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Contingent liability arising on legal claims
	RMB'000
At 1 January 2016	**6,000**
Utilised during year *(a)*	**(1,000)**
At 31 December 2016	**5,000**

Analysis of total provisions:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current	**5,000**	6,000

34 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (continued)

(a) Copyright infringement

In 2015, the Group made a provision of RMB6,000 thousand for possible legal proceedings related to copyright infringement. In May 2016, a provision of RMB1,000 thousand was utilized as a result of settlement with one of the copyright holders.

35 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2016	2015
	RMB'000	RMB'000
Property and equipment	**212**	1,028

(b) Operating lease commitments

The Group leases servers and office buildings under non-cancellable operating lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
No later than 1 year	**10,457**	16,730
Later than 1 year and no later than 5 years	**636**	5,912
	11,093	22,642

36 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In October 2016, the Group obtained an additional 9.07% equity interest of Uncle Sam for Nil consideration, as a compensation for the under performance of Uncle Sam under the management of shareholders holding the non-controlling interests. The carrying amount of the non-controlling interests in Uncle Sam on the date of acquisition was RMB4,355 thousand. The Group recognised a decrease in non-controlling interests of RMB1,717 thousand and an increase in equity attributable to owners of the company of RMB1,717 thousand. The effect of changes in equity interest of Uncle Sam was accounted for as transactions with shareholders in their capacity as owners:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Carrying amount of non-controlling interests acquired	**1,717**	–
Consideration paid to non-controlling interests	**–**	–
Excess of consideration paid recognised within equity	**1,717**	–

There were no transactions with non-controlling interests in 2015.

37 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group for all the years presented.

Company	Relationship	Period of Related Party Relationship
SINA Hong Kong Limited	Non-Controlling Shareholder	Since 15 July 2010
Beijing Sina Internet Information Service Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since 15 July 2010
Shanghai Sina Advertising Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since 15 July 2010
Beijing Sina Advertising Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since 15 July 2010
Weibo Internet Technology (China) Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since 15 July 2010
Beijing Star World Technology Co., Ltd.	Non-controlling Shareholder of Subsidiary	Since 19 August 2013
Mr. Li X	Affiliated person of Non-controlling Shareholder of Subsidiary	Since 1 April 2015
Shanghai Junyi Equity Investment Center (Limited partnership)	Entity controlled by Non-Executive Director	Since 22 September 2015
Mr. Fu HS	Non-controlling Shareholder of Subsidiary	From 1 April 2015 to 1 October 2016

(b) Significant transactions with related parties

		Year Ended 31 December	
		2016	2015
	Related party transactions	**RMB'000**	RMB'000
(i)	Other revenue generated from related parties:		
	Beijing Sina Internet Information Service Co., Ltd.	**78**	2,310
	Weibo Internet Technology (China) Co., Ltd.	**–**	9
		78	2,319

37 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Significant transactions with related parties (continued)

		Year Ended 31 December	
		2016	2015
	Related party transactions	**RMB'000**	RMB'000
(ii)	Commission charges paid to related parties:		
	Beijing Star World Technology Co., Ltd.	**1,647**	4,302
	Weibo Internet Technology (China) Co., Ltd.	**30**	–
		1,677	4,302
(iii)	Other expense paid to related parties:		
	Weibo Internet Technology (China) Co., Ltd.	**115**	9
	Beijing Sina Internet Information Service Co., Ltd.	**2**	86
		117	95
(iv)	Loans granted to related parties:		
	Shanghai Junyi Equity Investment Center (Limited partnership)	**–**	9,900

37 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Year end balances arising from sales and purchase of services

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables		
Shanghai Sina Advertising Co., Ltd.	**340**	340
Beijing Star World Technology Co., Ltd.	**95**	1,064
Weibo Internet Technology (China) Co., Ltd.	**14**	–
Mr. Li X	**–**	6,564
Beijing Sina Internet Information Service Co., Ltd.	**–**	1,479
Beijing Sina Advertising Co., Ltd.	**–**	46
SINA Hong Kong Limited	**–**	7
Others	**–**	33
	449	9,533

Trade receivables were mainly resulted from advertisement and games revenue.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Other receivables		
Mr. Fu HS	**–**	5,769

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade payables		
Beijing Sina Internet Information Service Co., Ltd.	**2,000**	5,292

37 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Year end balances arising from sales and purchase of services (continued)

Trade payables due to related parties arose from outsourcing information and technical services and software development expense.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Other payables		
Mr. Li X	**1,118**	8,962

(d) Key management personnel compensations

The compensations paid or payable to key management personnel for employee services are shown below:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**1,615**	1,473
Pension costs – defined contribution plans	**191**	148
Other social security costs, housing benefits and other employee benefits	**118**	109
Share-based compensation expenses	**7,516**	15,491
	9,440	17,221

38 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 31 December 2016.

39 EVENTS AFTER THE BALANCE SHEET DATE

(a) In January 2017, the Group entered into an agreement to make an additional capital injection of RMB7,600 thousand into Weiyu. On the date of these consolidated financial statements, the transaction is yet to be consummated.

(b) In January 2017, the Group entered into a series of agreements to invest in Shanghai Jieta Financial Information Services Co., Ltd. (上海截塔金融信息服務有限公司), a third party company engaged in the operation of microcredit through its website and mobile application, at a total consideration of RMB11,700 thousand. The transaction is yet to be consummated.

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

		As at 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
Assets			
Non-current assets			
Intangible assets		**3,330**	3,744
Investment in subsidiaries		**173,573**	141,783
Available-for-sale financial assets		**91,915**	42,208
Term deposits with initial term over 3 months		**-**	168,138
		268,818	355,873
Current assets			
Amounts due from subsidiaries		**1,259,226**	1,018,889
Prepayments and other receivables		**1,970**	1,566
Term deposits with initial term over 3 months		**9,137**	83,968
Cash and cash equivalents		**17,112**	39,653
		1,287,445	1,144,076
Total assets		**1,556,263**	1,499,949

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

		As at 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
Equity and liabilities			
Equity attributable to Shareholders of the Company and non-controlling interests			
Share capital		**804**	797
Share premium		**2,250,388**	2,305,423
Shares held for RSU Scheme		**(7)**	(14)
Other reserves	*(a)*	**348,950**	228,455
Accumulated deficits	*(a)*	**(1,047,587)**	(1,038,151)
Total equity		**1,552,548**	1,496,510
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**408**	383
		408	383
Current liabilities			
Trade payables		**14**	(150)
Amounts due to subsidiaries		**2,812**	2,812
Other payables and accruals		**481**	394
		3,307	3,056
Total liabilities		**3,715**	3,439
Total equity and liabilities		**1,556,263**	1,499,949

The balance sheet of the Company was approved for issue by the Board of Directors on 24 March 2017 and was signed on its behalf.

Fu Zhengjun	**Mai Shi'en**
Director	*Director*

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
At 1 January 2015	(1,037,390)	83,753
Loss for the year	(761)	–
Share-based payments reserve	–	65,942
Currency translation difference	–	78,760
At 31 December 2015	(1,038,151)	228,455
At 1 January 2016	**(1,038,151)**	**228,455**
Loss for the year	**(9,436)**	**–**
Share-based payments reserve	**–**	**31,790**
Currency translation difference	**–**	**88,705**
At 31 December 2016	**(1,047,587)**	**348,950**

41 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:						Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking
Name	Salary RMB'000	Discretionary bonuses RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Share-based compensation expenses RMB'000	Others RMB'000	Total RMB'000
Mr. Fu Zhengjun	720	44	14	3	–	173	954
Mr. Mai Shi'en	544	90	66	24	119	213	1,056
Mr. Mao Chengyu	–	–	–	–	66	–	66
Mr. Herman Yu	–	–	–	–	66	–	66
Ms. Yu Bin	171	–	–	–	66	–	237
Mr. Wu, Chak Man	171	–	–	–	66	–	237
Mr. Chan, Wing Yuen Hubert	171	–	–	–	66	–	237

41 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors' and chief executive's emoluments (continued)

For the year ended 31 December 2015:

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking: Salary RMB'000	Discretionary bonuses RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Share-based compensation expenses RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total RMB'000
Mr. Fu Zhengjun	583	44	3	14	–		644
Mr. Mai Shi'en	544	90	22	57	1,008		1,721
Mr. Mao Chengyu	–	–	–	–	145		145
Mr. Herman Yu	–	–	–	–	145		145
Ms. Yu Bin	161	–	–	–	145		306
Mr. Wu, Chak Man	161	–	–	–	145		306
Mr. Chan, Wing Yuen Hubert	161	–	–	–	145		306