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

2018
ANNUAL REPORT

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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 and SmallCap Index. Tian Ge was included in Shenzhen-Hong Kong Stock Connect which was launched in December 2016.

The Company and its subsidiaries (collectively the "**Group**") operate a number of renowned "many-to-many" and "one-to-many" live social video communities and one of the most popular beauty camera applications in China - the Wuta Camera Application (無他相機) ("**Wuta Camera**"). Leveraging on its leading industrial position, Tian Ge has launched a 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.

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
Ms. Cao Fei

Independent Non-executive Directors
Ms. Yu Bin
Mr. Yang Wenbin
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. Yang Wenbin
Mr. Chan Wing Yuen Hubert

REMUNERATION COMMITTEE
Mr. Yang Wenbin *(Chairman)*
Mr. Chan Wing Yuen Hubert
Mr. Mao Chengyu

NOMINATION COMMITTEE
Mr. Fu Zhengjun *(Chairman)*
Ms. Yu Bin
Mr. Yang Wenbin

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Cayman Islands

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Hangzhou, PRC

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT
Offshore Incorporations (Cayman) Limited
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Cayman Islands

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Computershare Hong Kong Investor Services Limited
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Hong Kong

CORPORATE INFORMATION

LEGAL ADVISERS

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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

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Shenzhen, Guangdong, PRC

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

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, 2018 (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, 2018:

FINANCIAL HIGHLIGHTS

	Year ended December 31,		Change
(in RMB'000)	**2018**	2017	%
Revenue	**751,933**	915,969	-17.9%
– Online interactive entertainment service	**634,159**	852,205	-25.6%
– Others	**117,774**	63,764	84.7%
Gross profit	**686,643**	806,678	-14.9%
Gross profit margin	**91.3%**	88.1%	
Net profit	**215,662**	322,787	-33.2%
Net profit margin	**28.7%**	35.2%	
Earnings per share *(expressed in RMB per share)*			
– basic	**0.172**	0.251	-31.5%
– diluted	**0.168**	0.243	-30.9%
Adjusted net profit(1)	**342,471**	455,732	-24.9%
Adjusted net profit margin(2)	**45.5%**	49.8%	
Adjusted EBITDA(3)	**434,842**	538,847	-19.3%
Adjusted EBITDA margin	**57.8%**	58.8%	
Total assets	**3,156,540**	2,964,147	6.5%
Total liabilities	**312,370**	235,390	32.7%

(in RMB'000)	December 31, 2018	September 30, 2018	Quarter-on-quarter Change %	December 31, 2017	Year-on-Year Change %
	Three months ended				
Revenue	**183,265**	179,011	2.4%	231,298	-20.8%
– Online interactive entertainment service	**135,131**	140,860	-4.1%	209,161	-35.4%
– Others	**48,134**	38,151	26.2%	22,137	117.4%
Gross profit	**169,845**	159,547	6.5%	209,343	-18.9%
Gross profit margin	**92.7%**	89.1%		90.5%	
Net profit/(loss)	**(151,530)**	94,619	-260.1%	85,611	-277.0%
Net profit/(loss) margin	**-82.7%**	52.9%		37.0%	
Earnings/(losses) per share (expressed in RMB per share)					
– basic	**(0.118)**	0.072	-263.9%	0.068	-273.5%
– diluted	**(0.118)**	0.071	-266.2%	0.066	-278.8%
Adjusted net profit(1)	**100,696**	78,719	27.9%	116,410	-13.5%
Adjusted net profit margin(2)	**54.9%**	44.0%		50.3%	
Adjusted EBITDA(3)	**123,456**	100,460	22.9%	143,784	-14.1%
Adjusted EBITDA margin	**67.4%**	56.1%		62.2%	

Notes:

(1) Adjusted net profit was derived from the net profit for the period excluding the effect of non-cash share-based compensation expenses, impairment losses arising from investments, disposal (gains)/losses and investment income arising from investments, (gains)/losses from unrealized fair value change of investments, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries and amortisation of intangible assets arising from acquisitions.

(2) Adjusted net profit margin is calculated by dividing adjusted net profit by revenue.

(3) Adjusted EBITDA represents operating profit, adjusted to exclude non-cash share-based compensation expenses, impairment losses arising from investments, disposal (gains)/losses and investment income arising from investments, (gains)/losses from unrealized fair value change of investment, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries, amortisation of intangible assets arising from acquisitions, and depreciation and amortization.

Dear Shareholders,

On behalf of the Board and the management of Tian Ge, I am pleased to present the annual report of 2018 of the Group.

The year 2018 marked the 10th anniversary of Tian Ge's development. We are honored that, during the previous decade, the Company has transformed from PC to mobile, and successfully developed into a comprehensive "live streaming + camera" platform for all Internet users. We have achieved the target user growth we set earlier. The number of users of our platform has grown from 22.0 million at the end of 2017 to 56.3 million at the end of 2018, with a more balanced user structure from male users dominated into an all-internet users' coverage. On the threshold of the second decade, all the staff of the Company will make unremitting efforts to build a 'Beauty Economy' platform.

Operationally, the Company complied with the development trend in the industry and regulatory environment, adhered to its "Mobile + PC" dual live streaming strategy, and appropriately adjusted its strategic layout by streamlining and optimizing the businesses of its platform. Financial performance was under some pressure in 2018. Our revenue for 2018 decreased by 17.9% year-on-year to RMB751.9 million (2017: RMB916.0 million), net profit decreased by 33.2% year-on-year to RMB215.7 million (2017: RMB322.8 million), and adjusted EBITDA decreased by 19.3% year-on-year to RMB434.8 million (2017: RMB538.8 million). However, a significant growth has been seen in other revenues for 2018 with a year-on-year increase of 84.7% and was mainly contributed by revenues from our software research and development services and advertising services based on a growing user base.

Looking back to the year of 2018, the industry regulation has been further tightened, and the live streaming industry has gradually entered into a steady stage from rapid growth in the past. In the challenging year, Tian Ge accurately captured the industry opportunity and acquired "Wuta Camera" App, and successfully developed from a live streaming platform into a "live streaming + camera" all-Internet user platform, while enriching the Group's own product portfolio. Meanwhile, to explore possible ways of development for Wuta Camera and to accelerate the commercialization of its products, Wuta Camera proposed to introduce an associate of Sina Corporation as a strategic shareholder.The cooperation between the two platforms will further facilitate Wuta Camera to increase user number and to optimize user structure.

During the year, Tian Ge continued to actively expand its overseas market based on its core portfolios, including live streaming, camera applications, short videos and other products. The Group achieved smooth progress in the business of Taiwan, Thailand, Indonesia and Vietnam, and the strategic planning of the Group for its network in the overseas markets will become a new driver for growth of Tian Ge.

The year of 2018 was a year of great significance for Tian Ge. In the period with opportunities and challenges, the acquisition of equity interest in Shanghai Benqu, the Company which develops and operates Wuta Camera, and progress in overseas business promoted Tian Ge to grow into a new stage. During the period, Tian Ge won many awards such as the Security Times Golden Wing Award (《證券時報2018「金翼獎」最具成長性港股通公司》), Most Valuable TMT Company presented by Zhitong Caijing (智通財經) and RoyalFlush Information Network Co.,Ltd (同花順財經), etc., reflecting the recognition by the market and investors to the value of the Company.

Going forward, we will continue to focus on developing our core business, and promote the commercialization of Wuta Camera. In addition, Tian Ge will actively grasp the growth potential of the Southeast Asian market to explore its overseas business, and promote the sustainable development of the Group's live streaming platform through technology and product innovation.

Finally, on behalf of the Board, I would like to express my gratitude to all shareholders for their trust in the Group, and to all employees for their diligence and outstanding contributions. In the future, we will never cease our endeavours to further diversify our business and create higher value and profits for our shareholders.

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

March 27, 2019

A. BUSINESS OVERVIEW

Due to the effects of intensified competition within the industry and strengthened supervision of the government, the live streaming industry showed a slowdown in its growth and gradually stabilized in 2018. Meanwhile, the penetration rate of Chinese brands smartphones has reached a relatively high level. In the past year, the year-on-year growth rate of smartphone sales has declined significantly. The scale of mobile users has stabilized, and the mobile internet industry has entered into the era of stock. Facing various market challenges, Tian Ge actively adjusted its business layout by expanding its product offerings, developing its live streaming platform into a comprehensive "live streaming + camera" platform for Internet users. As a result, we recorded an explosive growth in user numbers and a continuous increase in advertising revenue. Additionally, the Group recently entered into a share transfer agreement with an associate of Sina Corporation, who will become a strategic shareholder of Shanghai Benqu Internet Technology Company Limited (上海本趣網絡科技有限公司) ("**Shanghai Benqu**"), the company which develops and operates Wuta Camera, after the completion of the proposed transaction. The cooperation will accelerate the popularization and commercialization of the Group's products, which may consolidate the profitability of the Group in implementing its "live streaming+ camera" dual-core strategy. Looking forward, the Group will continue to broaden its ecosystem through continuous development of Wuta Camera in user growth and monetization, together with potential cooperation with Sina Group to explore new opportunities in revenue growth. Furthermore, the Group will actively explore the overseas markets to inject new growth momentum into the Group's business development.

Overall Financial Performance

For the year ended December 31, 2018, Tian Ge's revenue decreased by 17.9% year-on-year to RMB751.9 million from RMB916.0 million in 2017. Revenue from online interactive entertainment service decreased by 25.6% year-on-year from RMB852.2 million in 2017. In the fourth quarter of 2018, revenue increased by 2.4% quarter-on-quarter to RMB183.3 million from RMB179.0 million for the three months ended September 30, 2018. Revenue from online interactive entertainment service decreased by 4.1% quarter-on-quarter from RMB140.9 million for the three months ended September 30, 2018.

For the year ended December 31, 2018, profit attributable to equity holders of the Company was RMB218.3 million which decreased by 32.7% year-on-year; net profit was RMB215.7 million which decreased by 33.2% year-on-year; adjusted net profit was RMB342.5 million which decreased by 24.9% year-on-year; and adjusted EBITDA was RMB434.8 million which decreased by 19.3% year-on-year.

In the fourth quarter of 2018, loss attributable to equity holders of the Company was RMB149.8 million compared with the profit attributable to equity holders of the Company of RMB93.2 million for the three months ended September 30, 2018; net loss was RMB151.5 million compared with the net profit of RMB94.6 million for the three months ended September 30, 2018; adjusted net profit was RMB100.7 million which increased by 27.9% quarter-on-quarter from the three months ended September 30, 2018; and adjusted EBITDA was RMB123.5 million which increased by 22.9% quarter-on-quarter from the three months ended September 30, 2018.

Business Highlights

"Mobile + PC" Dual Live Streaming

According to the Study Report on Mobile Internet Data for 2018 released by JIGUANG Big Data, the percentage of time mobile internet users spent on live video broadcasting applications to the total time spent on mobile internet has been increasing in 2018. As of the fourth quarter of 2018, the percentage of time spent on live video broadcasting applications to the total time spent on mobile internet was 27.3%. Despite the backdrop of a slowdown in growth of size of mobile internet users, the live video broadcasting industry has demonstrated a good prospect.

As one of the pioneers in the live video broadcasting industry in the PRC, Tian Ge has leveraged its precise business network and sound industry experience to accumulate a strong customer base in the live streaming industry and maintain a leading position in an environment with fierce competition. In 2018, fierce competition has been seen in China's mobile Internet industry, with further strengthened industry regulation and market normalization, which to varying degrees have put pressure on the development of Tian Ge's business. Faced with changes in the industry and market trends, Tian Ge continued to focus on its development strategy of "Mobile + PC" dual live streaming by streamlining and optimizing the businesses of its platform with a focus on optimization and development of its core platform to make its streaming platform more relevant to the needs of the users and enhance their loyalty. Furthermore, the Group has been promoting the integration of live streaming industry with camera applications, short videos, information products, social interaction products and other products to achieve synergy between these products and to further enhance the growth potential and value of the Group's streaming platform.

Wuta Camera (無他相機)

As one of the most popular beauty camera applications in China, Wuta Camera (無 他 相 機) has recorded monthly active users ("**MAUs**") of more than 37.8 million for the three months ended December 31, 2018. During the period, Wuta Camera has been favored by a number of first-tier advertisers, delivering continuous increase in advertising revenue and demonstrating strong monetization ability.

Furthermore, to explore possible ways of development for Wuta Camera and to accelerate the commercialization of its products, a wholly-owned subsidiary of a PRC operating entity of Tian Ge recently entered into a share transfer agreement with an associate of Sina Corporation, who will become a strategic shareholder of Shanghai Benqu after completion of the proposed transaction. The cooperation between the two platforms will further facilitate Wuta Camera to increase user number and optimize user structure, as well as create synergies with the Group's streaming business, and accelerate the monetization of its products. The Group believes Wuta Camera will enable Tian Ge to achieve a breakthrough in its "live streaming+camera" development strategy.

International Expansion

In 2018, the Group strengthened the development of its network in Southeast Asia markets and promoted its streaming business taking into account of the local culture and user habits. During the period, the Group has achieved smooth development in Taiwan, Thailand, Indonesia and Philippines, while planning to explore markets in Vietnam and other regions. Furthermore, Wuta Camera has started to develop its network in the markets of Vietnam, Thailand, Malaysia and other regions. The strategic planning of the Group for its network in the overseas markets will become a new driver for growth of Tian Ge.

Financial Technology

During recent two years, the PRC government has published regulations, which include, among others, the Notice on the Regulations and Rectification of the "Cash Loan" business (《關於規範整頓「現金貸」業務的通知》) published on December 1, 2017 and the Guiding Opinions on Strengthening the Regulation of Non-Financial Enterprises Investing in Financial Institutions (《關於加強非金融企業投資金融機構監管的指導意見》) published on April 19, 2018, the impose restrictions on banks' collaboration with third parties in cash loan business, the limit of balance of loans borrowed by the same individual on a single online lending information intermediary and in the aggregate on all online lending information intermediaries in the PRC; the interest rate and fees the loan provider may charge the borrowers; debt collection methods; and the license management for conducting small lending business in PRC etc.

In 2018, due to the government's regulatory enforcement actions, the timetable of PRC online platforms' registration with local government authorities has been delayed for several times, the platforms' funding sources have reduced while their bad debts have increased. As a result, the operation condition of China internet finance industry deteriorated significantly. The number of PRC peer-to-peer (P2P) lending platforms declined drastically and a large number of platforms even collapsed during 2018.

The Company's invested companies were also affected by government's intensified regulating and had a serious shortage of funds and increasing bad debts during the year of 2018. The Company reviewed the respective management accounts of each of the investment companies, checked their operating data and discussed with their respective management teams and lawyers on their future business plans as well as regulation impact and determined that the decline in fair value of its equity interest were significant and unlikely to recover and impairment/fair value adjustment had been recorded thereafter.

However, the Group is optimistic about the long-term development of internet finance business and is still seeking for future investment opportunities in a lawful and compliant manner.

Prospect and Future Outlook

According to "2018-2019 China Online Live Broadcasting Industry Research Report" released by iiMedia, the number of live streaming users is expected to reach 501 million in 2019, and the wider application of 5G technology will provide strong support for UHD (ultra-high-definition) video. Online live streaming will continue to be a part of the daily life of the general public. The upcoming 5G era represents huge growth potential to the online live streaming industry, and the shuffling of the industry during the past year will facilitate the competition among platforms in terms of quality contents.

In the future, Tian Ge will continue to implement the "live streaming+camera" dual-core strategy by developing differentiated content and enhancing user experience, which will attract more users throughout the Internet and transform more high-quality users with higher spending power. Following the introduction of strategic shareholder to Shanghai Benqu, the Group will strengthen its cooperation with various third-party platforms and focus on "Beauty Economy" industrial chain as its main development path, in order to promote the collaborative development between Wuta Camera and the core business of the Group.

In recent years, Tian Ge has been actively expanding its business network in Southeast Asia. As a key region for "Belt and Road" initiative, Southeast Asia is in line with the user positioning of the live broadcasting platform in terms of cultural environment, population and purchasing power. Meanwhile, the rapid growth of Southeast Asia's Internet economy offers huge room for development in online streaming industry. According to the Report on Southeast Asia's Internet Economy 2018 jointly released by Google and Temasek, the size of Southeast Asian's Internet economy will exceed US$240.0 billion by 2025, making it the third largest market of Internet economy after the US and China. Within this region, Vietnam's Internet economy grew nearly 200% from 2015 to 2018. The Group considers Vietnam as a key market among the new markets to be explored. Meanwhile, live streaming platform and Wuta Camera have successfully entered several countries in Southeast Asia, which will facilitate monetization of their businesses from 2019.

Going forward, the Group will ride on the development trend in the industry and fully integrate its live broadcasting with camera applications, short videos, information, social interaction to consolidate its core strengths, and continuously expand the international business, increase user traffic, improve its monetization capability and create higher profits and more values for its shareholders.

B. OPERATING INFORMATION

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

	Three months ended				
	December 31, 2018	December 31, 2017	Year-on-year change	September 30, 2018	Quarter- on-quarter change
Total Monthly Active Users *(in'000)*	**56,303**	21,964	156.3%	63,346	-11.1%
– Monthly Active Users of Beauty Camera and Video Business *(in'000)*	**37,819**	—	—	39,440	-4.1%
Quarterly Paying Users *(in'000)*	**695**	1,098	-36.7%	907	-23.4%
Quarterly Average Revenue Per User *(RMB)*	**195**	191	2.1%	155	25.8%
Number of Rooms	**72,027**	70,643	2.0%	72,755	-1.0%
Number of Hosts	**122,223**	126,288	-3.2%	124,717	-2.0%

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

- For the three months ended December 31, 2018, total MAUs of Tian Ge increased by 156.3% as compared to the same period in 2017 and decreased by 11.1% as compared to the three months ended September 30, 2018. The quarter-on-quarter decrease in MAUs was mainly attributable to the Group's streamlining and integrating of its business. Meanwhile, a growth slowdown of Internet users and the fierce competition in online interactive entertainment market have also put pressure on user growth. The quarter-on-quarter decrease in MAUs of Wuta Camera was mainly due to intensifying competition in photography and video markets.

- Our mobile MAUs as at December 31, 2018 represented 89.3% of our total MAUs, while the percentages as at September 30, 2018 and December 31, 2017 were 86.5% and 64.2%, respectively.

- The number of quarterly paying users ("**QPUs**") for Tian Ge's online interactive entertainment service for the three months ended December 31, 2018 was approximately 695,000, decreased by approximately 23.4% and 36.7% as compared to the three months ended September 30, 2018 and December 31, 2017, respectively. The main reason of the decrease was that the Group has streamlined its business to focus on the core platforms and rectify mobile channels with low conversion rate.

- Our mobile QPUs as at December 31, 2018 represented 80.7% of our total QPUs, while the percentages as at September 30, 2018 and December 31, 2017 were 82.6% and 71.0%, respectively.

- During the year ended December 31, 2018, the Company continued to promote the platform streamlining strategy, and facilitated efficient utilization of resources and improved average consumption power of users. The quarterly average revenue per user ("**QARPU**") for Tian Ge's online interactive entertainment service for the three months ended December 31, 2018 was RMB195, representing an increase of approximately 25.8% from the three months ended September 30, 2018 and representing an increase of 2.1% from the three months ended December 31, 2017.

- Number of virtual rooms for Tian Ge's online interactive entertainment service decreased by 1.0% as compared to the three months ended September 30, 2018 and increased by 2.0% as compared to the three months ended December 31, 2017. Number of hosts for Tian Ge's online interactive entertainment service decreased by 2.0% as compared to the three months ended September 30, 2018 and representing a decrease of 3.2% as compared to the three months ended December 31, 2017.

- The total number of registered users* of Tian Ge as at December 31, 2018 was 407.0 million, as compared to 378.1 million as at December 31, 2017.

  * Registered users refer to accumulated number of users who have registered an account on our live social video platform or online games and duplicated accounts were not excluded.

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

	Year ended		
	December 31, 2018	December 31, 2017	**Year-on-Year Change**
Total Monthly Active Users *(in'000)**	**51,846**	24,036	115.7%
Quarterly Paying Users *(in'000)*	**996**	1,237	-19.5%
Quarterly Average Revenue Per User *(RMB)*	**159**	172	-7.6%

* Annual total monthly active users is equal to the average of quarterly total monthly active users. Monthly active users of Wuta Camera has been incorporated into total monthly active users since the second quarter of 2018.

C. FINANCIAL INFORMATION

Revenue

Revenue generated from online interactive entertainment service was RMB634.2 million for the year ended December 31, 2018, mainly including revenue from live social video platforms and online games which decreased by 25.6% as compared to the corresponding period in 2017. Revenue generated from online interactive entertainment service was RMB135.1 million for the three months ended December 31, 2018 which decreased by 4.1% as compared to the three months ended September 30, 2018. The year-on-year decrease was primarily due to the decrease of QPUs and QARPU. The quarter-on-quarter decrease was primarily due to the decrease of QPUs and partially offset by the increase of QARPU.

Revenue generated from "Others" mainly includes the revenue from provision of advertising, software research and development and other services. Revenue generated from "Others" for the year ended December 31, 2018 increased by 84.7% to RMB117.8 million from the corresponding period in 2017. Revenue generated from "Others" for the three months ended December 31, 2018 increased by 26.2% to RMB48.1 million from the three months ended September 30, 2018. The year-on-year increase was primarily due to the increase of revenue from advertising and software research and development. The quarter-on-quarter increase was primarily due to the increase of revenue from software research and development.

Cost of Revenue and Gross Profit Margins

Cost of revenue experienced a decrease of 40.3% year-on-year to RMB65.3 million for the year ended December 31, 2018 from the corresponding period in 2017. The year-on-year decrease was primarily due to the decreased cost related to other value-added services and the decreased commission charged by game developers related to the operation of our mobile games.

Cost of revenue experienced a decrease of 31.1% quarter-on-quarter to RMB13.4 million for the three months ended December 31, 2018 from the three months ended September 30, 2018. The quarter-on-quarter decrease was primarily due to the decreased commission charged by game developers related to the operation of our mobile games and the decreased bandwidth and server custody fees.

The gross profit margin for the year ended December 31, 2018 was 91.3%, compared with 88.1% for the corresponding period in 2017. The gross profit margin for the three months ended December 31, 2018 was 92.7%, compared with 89.1% for the three months ended September 30, 2018.

Selling and Marketing Expenses

Selling and marketing expenses experienced a decrease of 25.0% year-on-year to RMB164.6 million for the year ended December 31, 2018 from the corresponding period in 2017. The year-on-year decrease was primarily due to the decrease of promotion expenses and employee costs.

Selling and marketing expenses experienced a decrease of 14.6% quarter-on-quarter to RMB30.8 million for the three months ended December 31, 2018 from the three months ended September 30, 2018. The quarter-on-quarter decrease was primarily due to the decrease of promotion expenses and employee costs.

Administrative Expenses

Administrative expenses experienced a decrease of 20.9% year-on-year to RMB110.1 million for the year ended December 31, 2018 from the corresponding period in 2017. The year-on-year decrease was primarily due to the decrease of employee costs and decrease of impairment losses.

Administrative expenses experienced an increase of 18.0% quarter-on-quarter to RMB23.3 million for the three months ended December 31, 2018 from the three months ended September 30, 2018. The quarter-on-quarter increase was primarily due to the impairment losses.

Research and Development Expenses

Research and development expenses experienced a decrease of 6.1% year-on-year to RMB96.0 million for the year ended December 31, 2018 from the corresponding period in 2017. The year-on-year decrease was primarily due to the decrease of employee costs.

Research and development expenses experienced a decrease of 8.2% quarter-on-quarter to RMB21.9 million for the three months ended December 31, 2018 from the three months ended September 30, 2018. The quarter-on-quarter decrease was primarily due to the decrease of employee costs.

Net Impairment Losses on Financial Assets

Net impairment losses on financial assets was RMB101.8 million both for the year ended December 31, 2018 and for the three months ended December 31, 2018, which was attributable to the bad debt provided for loans granted to third parties and related parties, and the bad debt provided for recoverable prepayments for potential investments.

Other Gains/(Losses), Net

Other gains, net experienced an increase of 586.4% year-on-year to RMB296.2 million for the year ended December 31, 2018 from the corresponding period in 2017. The year-on-year increase was primarily due to the net fair value gain of financial assets at fair value through profit or loss, and the disposal gain from investments. The details are set out in note 8 to the consolidated financial statements.

The net fair value gain is a net amount of fair value gain and fair value loss, and the fair value loss was mainly from some invested companies which are principally engaged in operating P2P lending platforms and providing technical services for Internet finance companies in mainland China. In 2017, these investments were recorded as available-for-sale financial assets and there was no impairment indication of or decrease in the fair value based on the Company's assessment as of 31 December 2017. On 1 January 2018, upon adoption of IFRS 9, these investments were classified from available-for-sale financial assets to financial assets at fair value through profit or loss. During the year ended 31 December 2018, these invested companies were affected by government's intensified regulating and had a serious shortage of funds and increasing bad debts. One of the invested companies was still in the liquidation process and no future cash flow was expected as of the report date while the rest invested companies all recorded negative cash flows. As the business performance of the investees was unlikely to recover and no future operating cash inflow was expected, the fair value of these investments were determined based on the Group's share of the investees' net assets which are expected to be realized based on the financial status and business plans of related investees.

Other losses, net was RMB16.0 million for the three months ended December 31, 2018 compared with other gains, net of RMB34.0 million for the three months ended September 30, 2018. The quarter-on-quarter decrease was primarily due to the net fair value loss of financial assets at fair value through profit or loss, decrease of disposal gain from investments and partially offset by the increase of government grant.

Finance Income/(Loss), net

Finance income, net experienced a decrease of 90.9% year-on-year to RMB0.5 million for the year ended December 31, 2018 from the corresponding period in 2017. The year-on-year decrease was primarily due to increase of exchange loss on financing activities and partially offset by the increase of interest income on cash and cash equivalents.

Finance loss, net experienced a decrease of 95.1% quarter-on-quarter to RMB0.1 million for the three months ended December 31, 2018 from the three months ended September 30, 2018. The quarter-on-quarter decrease was primarily due to the decrease of exchange loss on financing activities.

Impairment of investments accounted for using the equity method

Impairment of investments accounted for using the equity method was RMB149.3 million for the year ended December 31, 2018, which was attributable to our investments in Wuhan Jiuxin Puhui Financial Information Servises Co., Ltd. and Jinhua Lanyou Network Technology Co., Ltd. which are principally engaged in the operation of Internet finance service after re-assessing the recoverable amount of the fair value.

For the impairment, below table includes the "key assumption change" of the two invested companies.

	2017 Investments accounted for using the equity method	2018 Investments accounted for using the equity method
Wuhan Jiuxin Puhui Financial Information Servises Co., Ltd.	The estimated annual growth rate within five years adopted in cash flows projection performed by the management in the year of 2017 was from 10% to 31%. The bad debt ratio was 2%.	The operation is ceased and no positive cash inflow was expected to be generated in cash flows projection performed by the management in the year of 2018. The bad debt ratio increased from 2% in 2017 to 24% in 2018.
	At the point of time the investment is accounted for as interest in joint venture	**2018 Investments accounted for using the equity method**
Jinhua Lanyou Network Technology Co., Ltd.	The estimated annual revenue growth rate within five years adopted in cash flows projection performed by the management in January 2018 (the date the investment accounted for using the equity method) ranged from -68% to 117%. The discounted rate adopted in cash flows projections performed by the management was 35%.	The estimated annual revenue growth rate within five years adopted in cash flows projection performed by the management at the end of 2018 ranged from -94% to 25%. The discounted rate adopted in cash flows projections performed by the management was 35%.

The details are set out in note 14 to the consolidated financial statements.

Income Tax Expenses

Income tax expenses increased by 83.4% year-on-year to RMB143.8 million for the year ended December 31, 2018 from the corresponding period in 2017, and increased by 21.9% quarter-on-quarter to RMB19.3 million for the three months ended December 31, 2018 from the three months ended September 30, 2018. For the year ended December 31, 2018, the income tax expenses consist of (a) current corporate income tax of RMB37.1 million (2017: RMB75.9 million), (b) origination of temporary differences of RMB79.1 million (2017: reversal of temporary differences of RMB2.5 million) and (c) withholding tax of RMB27.5 million (2017: RMB5.0 million). The increase of current year income tax expenses was primarily due to the increase of deferred income tax mainly arising from unrealised investment income of financial assets at fair value through profit or loss, the increase of withholding tax related to dividend distribution and partially offset by the decrease of current corporate income tax.

Profits/(Loss) Attributable to Shareholders of the Company

Profits attributable to shareholders of the Company (the "**Shareholders**") experienced a decrease of 32.7% year-on-year to RMB218.3 million for the year ended December 31, 2018 from the corresponding period in 2017. The year-on-year decrease was primarily due to the decrease of gross profit, increase of net impairment losses on financial assets, increase of impairment of investments accounted for using the equity method, increase of income tax expenses and partially offset by the increase of other gains, net.

Loss attributable to Shareholders was RMB149.8 million for the three months ended December 31, 2018 compared with profits attributable to Shareholders of RMB93.2 million for the three months ended September 30, 2018. The quarter-on-quarter decrease was primarily due to the increase of net impairment losses on financial assets, decrease of other gains, net and increase of impairment of investments accounted for using the equity method.

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.

Adjusted EBITDA

Adjusted EBITDA decreased by 19.3% year-on-year from the corresponding period in 2017 and increased by 22.9% quarter-on-quarter for the three months ended December 31, 2018 from the three months ended September 30, 2018. Adjusted EBITDA margin was 57.8% for the year ended December 31, 2018 and 58.8% for the corresponding period in 2017. Adjusted EBITDA margin was 67.4% for the three months ended December 31, 2018, compared to 56.1% for the three months ended September 30, 2018. Adjusted EBITDA represents operating profit adjusted to exclude non-cash share-based compensation expenses, impairment losses arising from investments, disposal (gains)/losses and investment income arising from investments, (gains)/losses from unrealized fair value change of investments, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries, amortisation of intangible assets arising from acquisitions, and depreciation and amortization.

The following table reconciles our operating profit/(loss) to our adjusted EBITDA for the periods presented:

	Year ended		Three months ended		
(in RMB'000)	**December 31, 2018**	December 31, 2017	**December 31, 2018**	September 30, 2018	December 31, 2017
Operating Profit/(loss)	**510,287**	388,966	**(24,016)**	113,749	108,237
Share-based compensation expense	**12,106**	64,128	**—**	170	7,911
Impairment losses arising from investments	**113,196**	39,237	**93,749**	—	7,500
Disposal (gains)/losses and investment income arising from investments	**(79,334)**	20,078	**(1,147)**	(50,758)	14,205
(Gains)/Losses from unrealized fair value change of investments	**(151,300)**	—	**44,729**	30,636	—
Impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries	**3,565**	—	**3,565**	—	—
Amortization of intangible assets arising from acquisition	**7,461**	6,073	**1,986**	1,986	1,183
Depreciation and amortization expense	**18,861**	20,365	**4,590**	4,677	4,748
Adjusted EBITDA	**434,842**	538,847	**123,456**	100,460	143,784

Adjusted Net Profit

Adjusted net profit decreased by 24.9% year-on-year from corresponding period in 2017 and increased by 27.9% quarter-on-quarter for the three months ended December 31, 2018 from the three months ended September 30, 2018.

Adjusted net profit is not defined under IFRS, and eliminates the effect of non-cash share-based compensation expenses, impairment losses arising from investments, disposal (gains)/losses and investment income arising from investments, (gains)/losses from unrealized fair value change of investments, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries and amortisation of intangible assets arising from acquisitions.

The following table sets forth the reconciliations of the Group's net profit/(loss) to adjusted net profit for the periods presented below:

	Year ended		Three months ended		
(in RMB'000)	**December 31, 2018**	December 31, 2017	**December 31, 2018**	September 30, 2018	December 31, 2017
Net Profit/(loss)	**215,662**	322,787	**(151,530)**	94,619	85,611
Share-based compensation expense	**12,106**	64,128	**—**	170	7,911
Impairment losses arising from investments	**241,639**	39,237	**193,076**	—	7,500
Disposal (gains)/losses and investment income arising from investments	**(60,939)**	20,078	**(1,070)**	(38,610)	14,205
(Gains)/Losses from unrealized fair value change of investments	**(77,023)**	—	**54,669**	20,554	—
Impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries	**3,565**	—	**3,565**	—	—
Amortization of intangible assets arising from acquisition	**7,461**	9,502	**1,986**	1,986	1,183
Adjusted Net Profit	**342,471**	455,732	**100,696**	78,719	116,410

4. LIQUIDITY AND FINANCIAL RESOURCES

Cash and Cash Equivalents and Term Deposits

Cash and cash equivalents consist of cash at bank and cash on hand, and as at December 31, 2018 and December 31, 2017, they amounted to RMB432.6 million and RMB273.7 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 Group had term deposits with initial term of over three months of RMB112.3 million and RMB199.4 million as at December 31, 2018 and December 31, 2017, 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.

Financial Assets at Fair Value through Profit and Loss

The Group's financial assets at fair value through profit and loss consist of six main categories, namely (arranged in descending order based on their respective fair value amount) (i) purchase of wealth management products, (ii) equity investments in private unlisted companies ("**Private Investments**"), (iii) investments in venture capital funds ("**Fund Investments**"), (iv) contingent consideration, (v) investments in structured notes, and (vi) investments in redeemed preferred shares.

Financial assets at fair value through profit and loss increased by 10.4% to RMB1,746.4 million as at December 31, 2018 compared to RMB1,582.0 million as at December 31, 2017. Such increase was mainly attributable to an increase of RMB139.0 million in Private Investments, an increase of RMB57.4 million in Fund Investments, an increase of RMB36.4 million in contingent consideration, a decrease of RMB43.2 million in purchase of wealth management products, a decrease of RMB5.6 million in structured notes and a decrease of RMB19.6 million in redeemed preferred shares. The following is a breakdown of the six main categories as at the periods specified:

		As at December 31, 2017 (RMB'000)	**As at December 31, 2018 (RMB'000)**	Percentage increase/ (decrease)
(i)	Purchase of wealth management products[a]	915,074	**871,871**	-4.7%
(ii)	Private Investments[a]	332,862	**471,844**	41.8%
(iii)	Fund Investments[a]	298,958	**356,352**	19.2%
(iv)	Contingent consideration	—	**36,404**	
(v)	Investments in structured notes	15,518	**9,941**	-35.9%
(vi)	Investments in redeemed preferred shares	19,590	**—**	-100.0%
Total:		1,582,002	**1,746,412**	10.4%

Note (a): The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted that the investments in wealth management products, investments in Private Investments and the investments in Fund Investments were reclassified from "available-for-sale financial assets" to "financial assets at fair value through profit and loss".

(i) Purchase of Wealth Management Products

The Group regularly utilizes its idle funds to subscribe for wealth management products through Internet banking from commercial banks in order to earn interest. The fair value of the wealth management products subscribed by the Group decreased by 4.7% to RMB871.9 million as at December 31, 2018 compared to RMB915.1 million as at December 31, 2017.

The wealth management products represent RMB-denominated wealth management products with interest rates ranging from 2.6% to 4.9% per annum and maturity period within 1 year or revolving terms. These wealth management products are offered by large state-owned or reputable financial institutions in the PRC. The underlying investments under the wealth management products differ product-by-product, but generally consist of investments in financial assets and financial instruments with high credit ratings and good liquidity in interbank and exchange markets, including but not limited to bonds, asset-backed securities, capital borrowing, reverse repurchase, bank deposits, and investment trust schemes, asset management schemes and other financial assets.

A substantial portion of such wealth management products have been purchased through products offered by one of our principle banks, China Merchants Bank. For further details, please refer to the announcements issued by the Company on June 21, 2018, July 6, 2018, July 12, 2018, July 25, 2018, August 21, 2018, October 15, 2018, January 7, 2019, January 25, 2019 and February 21, 2019.

(ii) Private Investments

Below is a summary of financial performances of the Private Investments during the relevant periods:

Investment Category	Historical transaction amount *(RMB'000)*	Percentage of equity interest	Fair value of investments as of December 31, 2018 (RMB'000)	Fair value of investments as of December 31, 2017 *(RMB'000)*	Percentage increase/ (decrease)
(i) 4 other entertainment and social live streaming companies[3]	112,800	2.1739% - 20%	**100,300**	105,300	-4.7%
(ii) 4 online/mobile gaming companies, including:	64,914	3.7966% - 27%	**313,932**	126,080	149.0%
— Jinhua Yibo Network Technology Co., Ltd. ("Yibo") [1]	18,750	22.5%	**245,147**	22,500	989.5%
(iii) 7 financial technology companies[2]	77,936	0.82% - 20%	**17,663**	69,727	-74.7%
(iv) 4 corporate/IT services companies	51,949	19% - 20%	**39,949**	31,755	25.8%

(1) In May 2018, the Group entered into an agreement to dispose 4.5% out of 27% of its equity interest in Yibo. The transaction was completed in July 2018. As a result, a significant fair value gain was recognized arising from the aforementioned latest round of financing during year ended December 31, 2018.

(2) Including investments in Shanghai Hongxing Asset Management Co., Ltd. and Hangzhou Shangfu Information Technology Co., Ltd. Please refer to the Company's announcement on May 9, 2016. The fair value of Hangzhou Shangfu Information Technology Co., Ltd. was re-assessed to RMB0 as at December 31, 2018.

(3) Including investment in Beijing Mijing Hefeng Technology Company Limited. Please refer to the Company's announcement on May 23, 2017.

The underlying Private Investments are independent from each other. Save for its investment in Yibo, there is no single Private Investment whose carrying amount is over 5% of the Group's total assets as of December 31, 2018.

(iii) Fund Investments

As of December 31, 2018, the Group has investment interests in eight venture capital funds, of which its investments in Shanghai Yunqi Wangchuang Asset Management Center (Limited Partnership) (上海雲奇網創資產管理中心(有限合夥)) and Yun Qi Partners I GP, Ltd. ("**Yunqi Investments**") constitute connected transactions to the Company. The principal investment objectives of these two funds include generating capital returns primarily through equity and equity-related investments in companies that operate TMT-related businesses in the PRC, including but not limited to, internet financing, intelligent hardware, industrial internet and big data. For further details, please refer to the announcement issued by the Company on January 28, 2016.

The historical aggregate investment amount in these eight venture capital funds was RMB265.7 million as at December 31, 2018. The fair value of these Fund Investments increased by 19.2% to RMB356.4 million as at December 31, 2018 compared to RMB299.0 million as at December 31, 2017.

Save for the Yunqi Investments, the general partners of the underlying Fund Investments are independent from each other. There is no single Fund Investment whose carrying amount is over 5% of the Company's total assets as of December 31, 2018.

(iv) Contingent consideration

In May 2018, the Group entered into an agreement to dispose 4.5% out of 27% of its equity interest in Yibo at a cash consideration of RMB40.5 million and an additional cash consideration of up to RMB253.6 million may be received from 2019 to 2021 in the event that certain pre-determined net profit of 2018, 2019 and 2020 is achieved by Yibo. The fair value of the potential undiscounted amount of all future cash collection was recognised as contingent consideration at the initial estimated amount to be RMB44.9 million by calculating the present value of future expected cash flows based on a discount rate of 8.8% and the probability of exercising the put option by the third party and the Group subsequently recognised a fair value loss of RMB8.5 million as of 31 December 2018. The details are set out in note 22 to the consolidated financial statements.

(v) *Structured Notes*

The fair value of the structured notes invested by the Company decreased by 35.9% to RMB9.9 million as at December 31, 2018 compared to RMB15.5 million as at December 31, 2017. The structured notes are issued by a commercial bank in Hong Kong, which provide a potential return linked to the price of certain listed equity security at the predetermined valuation day in future.

(vi) *Redeemed Preferred Shares*

The fair value of the redeemed preferred shares invested by the Group as at December 31, 2018 and December 31, 2017 are nil and RMB19.6 million, respectively. In December 2017, the Group acquired 13.6% of the equity interest in Shanghai Benqu at a consideration of RMB19.6 million which was accounted for as a financial asset at fair value through profit and loss. In April 2018, the Group further acquired 66.4% of the equity interests and obtained control of Shanghai Benqu. The details are set out in note 22 to the consolidated financial statements.

Intangible Assets

Intangible assets increased by 204.9% to RMB296.4 million as at December 31, 2018 compared to RMB97.2 million as at December 31, 2017. Such increase was primarily due to the Group's completion of its acquisition of 66.4% equity interests of Shanghai Benqu and recorded goodwill of RMB210.2 million. The goodwill arose from a number of factors including expected synergies through combining mobile application of photo and video, growth potential, unrecognised assets such as workforce in research and development, daily active users, etc. The details are set out in note 17 to the consolidated financial statements.

Deferred Income Tax Assets/(Liabilities), Net

Deferred income tax liabilities, net was RMB71.6 million as at December 31, 2018 while deferred income tax assets, net was RMB30.8 million as at December 31, 2017, which was primarily due to the deferred income tax liabilities of RMB95.4 million arising from the unrealised investment income of financial assets at fair value through profit or loss.

Bank Loans and Other Borrowings

As at December 31, 2018 and December 31, 2017, the Company had no bank loans and other borrowings outstanding.

Gearing Ratio

The gearing ratio as at December 31, 2018 and December 31, 2017 were 0%.

Capital Expenditures

For the year ended December 31, 2018, the Group's capital expenditures were approximately RMB62.3 million, mainly including approximately RMB55.6 million related to purchase of land use right and approximately RMB4.7 million related to purchase of server and equipment.

Major Investments and Disposals

In April 2018, the Group completed its acquisition of 66.4% of the equity interest of Shanghai Benqu for an aggregate consideration of RMB136.1 million in cash and 13,237,995 public ordinary shares that were issued on April 20, 2018. After the completion, the Group holds 80% of the equity interest of Shanghai Benqu.

In May 2018, the Group entered into an agreement to dispose 4.5% out of 27% of its equity interest in Yibo, which is a company principally engaged in operation of web-based casual games. As at December 31, 2018, an amount of RMB40.5 million had been received and the transaction was completed in July 2018.

In January 2019, the Group entered into an agreement to sell 36% of the equity interests in Jinhua Ruian Investment Management Company Limited, a company holding 80% equity interest in Shanghai Benqu as of the date of this annual report, to Beijing Weimeng Chuangke Investment Management Company Limited, for a consideration of approximately RMB292.6 million. As at the date of this annual report, the transaction is yet to be consummated.

Charges on Assets

As at December 31, 2018, the Group did not have any asset charges.

Contingent Liabilities

As at December 31, 2018, 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, 2018. We do not hedge against any fluctuation in foreign currency.

5. CORPORATE INFORMATION

Staff

The Company had 588 full time employees as at December 31, 2018. 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 sets and work ethics which are necessary to succeed at Tian Ge.

Relevant staff cost was RMB151.6 million for the year ended December 31, 2018, while our staff cost was RMB197.4 million for the year ended December 31, 2017. 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.

Share Option Schemes

The Company has adopted the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme, the Post-IPO Share Option Scheme and the Post-IPO RSU Scheme (collectively, the "**Schemes**"). The purposes of the Schemes are 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, 2018 were RMB12.1 million, as compared to RMB64.1 million for the year ended December 31, 2017.

As at December 31, 2018, options representing a total of 22,043,614 shares were outstanding. If all such options under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately 1.70% as at 31 December 2018. 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.

As of December 31, 2018, the total number of shares underlying the Pre-IPO RSU Scheme and Post-IPO RSU Scheme represented approximately 1.89% of the total ordinary shares of the Company.

	Year ended December 31,				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	692,159	677,543	823,133	915,969	**751,933**
Gross profit	586,851	526,208	636,069	806,678	**686,643**
Profit/(Loss) before income tax	(71,450)	184,458	282,307	394,194	**359,424**
Profit/(Loss) for the year	(107,601)	149,750	230,709	322,787	**215,662**
Profit/(Loss) attributable to Shareholders of the Company	(107,503)	151,792	233,213	324,099	**218,276**
Total comprehensive income/(loss) for the year	(121,597)	211,759	321,066	362,587	**248,715**
Total comprehensive income/(loss) attributable to Shareholders of the Company	(121,499)	213,587	323,133	363,933	**251,404**

	As at December 31,				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets					
Non-current assets	775,000	820,756	1,087,818	1,359,049	**1,572,543**
Current assets	1,487,591	1,679,452	1,819,224	1,605,098	**1,583,997**
Total assets	2,262,591	2,500,208	2,907,042	2,964,147	**3,156,540**
Equity and liabilities					
Equity attributable to Shareholders of the Company	2,083,689	2,286,712	2,588,331	2,717,175	**2,831,408**
Non-controlling interests	4,799	21,960	35,641	11,582	**12,762**
Total Equity	2,088,488	2,308,672	2,623,972	2,728,757	**2,844,170**
Non-current liabilities	1,750	6,495	16,252	6,391	**112,599**
Current liabilities	172,353	185,041	266,818	228,999	**199,771**
Total liabilities	174,103	191,536	283,070	235,390	**312,370**
Total equity and liabilities	2,262,591	2,500,208	2,907,042	2,964,147	**3,156,540**

EXECUTIVE DIRECTORS

Mr. Fu Zhengjun (傅政軍), aged 40, 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 16 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 43, 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. 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.

NON-EXECUTIVE DIRECTORS

Mr. Mao Chengyu (毛丞宇), aged 48, 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.

Ms. Cao Fei (曹菲), aged 44, was appointed as a non-executive Director on January 11, 2018. Ms. Cao has been serving as the vice president, finance of Weibo Corporation (NASDAQ: WB) since September 2017. Ms. Cao served as the vice president, finance of SINA Corporation (NASDAQ: SINA) from January 2017 to September 2017 overseeing the corporate finance department and she served as the corporate controller of SINA Corporation from June 2005 to December 2016. Prior to that, Ms. Cao served as an audit manager in PricewaterhouseCoopers in Beijing from 1997 to 2005.

Ms. Cao is a certified public accountant in China and a member of China Institute of Certified Public Accountants (CICPA) since 2003. Ms. Cao obtained a bachelor degree in engineering from Shanghai Jiaotong University in July 1997 and an executive master of business administration from Shanghai Jiaotong University in December 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yu Bin (余濱), aged 49, was appointed to our Board as an independent non-executive Director on June 16, 2014. Ms. Yu Bin is the chief financial officer of LingoChamp Inc., an AI driven education technology company since September 2017. Mr. Yu was the chief financial officer of Innolight Technology Co., Ltd, a company manufacturing transceiver used in data center from January 2015 to April 2017. 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. Yang, Yang Wenbin (楊文斌), aged 53, was appointed as an independent non-executive Director on 13 June 2018. Mr. Yang has been serving as the chairman of W&H Law Firm, Hangzhou Office since January 2017 and is responsible for the overall operations and management of the firm. Mr. Yang served as a senior partner of Zhejiang Zehow Law Firm from July 2011 to December 2016 and as the chairman of Zhejiang Handing Law Firm from October 2002 to June 2011. Prior to that, Mr. Yang served as a teacher in Zhejiang Police Vocational Academy from July 1986 to July 1996, primarily responsible for giving lectures in the field of criminal laws and jurisprudence. Mr. Yang is a licensed lawyer with profound theoretical knowledge and practical experience in criminal and corporate law. At present, Mr. Yang has been appointed as a practice instructor of post-graduate students in the School of Law of Zhejiang Gongshang University and as an adjunct professor of the College of Law and Political Science of Zhejiang A&F University.

Mr. Yang obtained a bachelor degree in law from Northwest University of Political Science and Law in June 1986.

Mr. Chan, Wing Yuen Hubert (陳永源), aged 61, was appointed to our Board as an independent non-executive Director on June 16, 2014. He has been an independent non-executive director of FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司) (stock code: 6088) since November 4, 2016, whose shares are listed on the Stock Exchange with effect from July 13, 2017. 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), and 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). 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) (now known as Softpower International Limited (冠力國際有限公司) (stock code: 380)) and Interchina Holdings Company Limited (國中控股有限公司) (now known as EverChina Int'l Holdings Company Limited (潤中國際控股有限公司) (stock code: 202)), as an independent non-executive director of Rising Development Holdings Limited (麗盛集團控股有限公司) (now known as China Smarter Energy Group Holdings Limited (中國智慧能源集團控股有限公司) (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 The Hong Kong Institute of Directors (香港董事學會) since 1998 and also an ordinary member of The Hong Kong Securities and Investment Institute (香港證券及投資學會) since 1999. 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 51, 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 40, 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, 2018.

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 consolidated financial statements.

An analysis of the Group's revenue and operating profit for the year ended December 31, 2018 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 12 of this annual report.

IMPORTANT EVENT AFTER REPORTING DATE

The Group's important event after reporting date is set out in note 37 to the consolidated financial statements.

RESULTS

The Group's results for the year ended December 31, 2018 are set out in the consolidated statement of comprehensive income on page 113 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.

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 emphasize 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 include 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.

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.

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.

Regulations Relating to Online Payment

On July 1, 2016, the People's Bank of China promulgated the Online Payment Business Regulations of Non-Banking Payment Institutions (《非銀行支付機構網絡支付業務管理辦法》) (the "**Payment Business Regulations**"), for further strengthening the administration and transition of online payment business. One of the important measures of the Payment Business Regulations is the system for identifying users. In consideration of the regulations, nonbanking payment institutions request all applications in channels of distribusement only to the operators of APP. The previous amendment may bring differences in the details of top-up orders, but will not affect the settlement.

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 53.

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

Except that the Group operates the business in Japan, 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, 2018. 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 did not recommend the payment of a final dividend for the year ended December 31, 2018 (2017: HK$0.07 per share).

DIVIDEND POLICY

The Board has the discretion to declare and distribute dividends to the Shareholders of the Company, subject to the articles of association of the Company (the "**Articles of Association**") and all applicable laws and regulations and the factors set out below.

In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements, future business growth and its shareholding value. The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends, including financial condition, financial results, future operations and liquidity position, expected working capital requirements and future expansion plans, debt to equity ratios and the debt level, business conditions and strategies, cash flow situation, the Shareholders' and the investors' expectation, general market conditions, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

Depending on the financial conditions of the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board may deem appropriate.

Any final dividend for a financial year will be subject to Shareholders' approval.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year 2018 are set out in note 25 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Other than the Share Incentives Schemes as disclosed in this annual 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, 2018 are set out in the consolidated statement of changes in equity and note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of Cayman Companies Law, amounted to approximately RMB0.8 billion (as at December 31, 2017: RMB0.9 billion).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended December 31, 2018 are set out in note 15 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the Group's five largest distributors and customers for service performed accounted for approximately 73.7% of the Group's total revenue for the year ended December 31, 2018 and among which our top distributor accounted for approximately 37.1% of the Group's total revenue for the year ended December 31, 2018.

The Group's five largest suppliers for the year 2018 were promotion channels. The aggregate charges from the Group's five largest suppliers accounted for approximately 19.1% of the Group's cost of revenues and expenses attributable to suppliers for the year ended December 31, 2018 and among which our top supplier accounted for approximately 5.1% of the Group's cost of revenues and expenses attributable to suppliers for the year ended December 31, 2018.

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, 2018, the Company did not make any charitable contributions and other donations (2017: Nil).

DIRECTORS

The Directors for the year ended December 31, 2018 and up to the date of this annual 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
Ms. Cao Fei *(appointed as a non-executive Director with effect from January 11, 2018)*
Mr. Herman Yu *(resigned as a non-executive Director with effect from January 11, 2018)*

Independent Non-Executive Directors
Ms. Yu Bin
Mr. Yang Wenbin *(appointed as an independent non-executive Director with effect from June 13, 2018)*
Mr. Chan Wing Yuen Hubert
Mr. Wu Chak Man *(resigned as an independent non-executive Director with effect from June 13, 2018)*

In accordance with article 83(3) of the Articles of Association, any Director appointed by the Board either to fill a casual vacancy on the Board shall hold office until the first general meeting of the company after his appointment, or as an addition to the Board shall hold office until the next following annual general meeting of the Company (the "**AGM**") after his appointment, and shall then be eligible for re-election at such meeting. Accordingly, Mr. Yang Wenbin will hold office as the Director until the forthcoming AGM and is subject to re-election.

In accordance with article 84 of the Articles of Association, one-third of the Directors shall retire from office by rotation at an AGM and be eligible for re-election. Accordingly, Mr. Fu Zhengjun, being an executive Director, Ms. Cao Fei, being a 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 has entered into service agreement with the Company for a term of three years (subject to termination in certain circumstances as stipulated in the relevant service agreements and retirement by rotation in accordance with the Articles of Association).

Each of the non-executive Directors and the independent non-executive Directors has entered into letter of appointment with the Company for a term of three years (subject to termination in certain circumstances as stipulated in the relevant letters of appointment and retirement by rotation in accordance with the Articles of Association).

None of the Directors has entered into or is proposed to enter 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 of Association. 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 re-appointment 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 or fellow subsidiaries was a party during the year ended December 31, 2018.

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, 2018.

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, Three-Body Holdings Ltd and Blueberry Worldwide Holdings 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, 2018 are set out in note 9 and note 39 respectively to the consolidated financial statements and the emolument policy of the Company is set out in the Corporate Governance Report on pages 67 to 78 of this annual report.

No Director has waived or has agreed to waive any emoluments during the year ended December 31, 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2018, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in any business which was in competition or was 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, 2018, 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, 2018
Mr. Fu Zhengjun ("**Mr. Fu**")	Founder of a discretionary trust *(Note 1)*	306,000,000	24.00%
	Beneficiary Owner	200,000	0.02%

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.*

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, 2018
Mr. Mai Shi'en	Executive Director, chief operating officer and acting chief financial officer	RSUs *(Note 1)*	4,050,000	Nil	0.32%
Mr. Mao Chengyu	Non-executive Director	Options *(Note 2)*	200,000	0.35	0.02%
Ms. Yu Bin	Independent non-executive Director	Options *(Note 2)*	200,000	0.35	0.02%
Mr. Chan Wing Yuen Hubert	Independent non-executive Director	Options *(Note 2)*	200,000	0.35	0.02%

Notes:

1. *Mr. Mai Shi'en is interested in 405,000 Pre-IPO RSUs granted to him on May 22, 2014 under the Pre-IPO RSU Scheme entitling him to receive 4,050,000 shares subject to vesting.*

2. *Mr. Mao Chengyu, Ms. Yu Bin, 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.*

Save as disclosed above, as at December 31, 2018, 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, 2018, 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, 2018
UBS Trustees (BVI) Limited	Trustee *(Note 1)*	306,000,000	24.00%
Three-Body Holdings Ltd	Interest in Controlled Corporation *(Note 1)*	306,000,000	24.00%
Blueberry Worldwide Holdings Limited	Beneficial Owner *(Note 1)*	306,000,000	24.00%
Sina Hong Kong Limited	Beneficial Owner	300,000,000	23.53%
Ho Chi Sing	Interest in Controlled Corporation *(Note 2)*	110,000,000	8.63%
Zhou Quan	Interest in Controlled Corporation *(Note 2)*	110,000,000	8.63%
IDG-Accel China Growth Fund GP II Associates Ltd.	Interest in Controlled Corporation *(Note 2)*	110,000,000	8.63%
IDG-Accel China Growth Fund II Associates L.P.	Interest in Controlled Corporation *(Note 2)*	102,146,200	8.01%
IDG-Accel China Growth Fund II L.P.	Beneficial Owner *(Note 2)*	102,146,200	8.01%

Notes:

1. *UBS Trustees (BVI) Limited, the trustee of Mr. Fu's Trust, 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 holds 306,000,000 shares in our Company. 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. *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 102,146,200 shares held by IDG-Accel China Growth Fund II L.P.. Separately, IDG-Accel China 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 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 110,000,000 shares which IDG-Accel China Growth Fund GP II Associates Ltd. is interested in total.

Save as disclosed above, as at December 31, 2018, 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 annual report and in note 27 to the consolidated 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 7.00% of the total number of issued shares of the Company as at the date of this annual 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**"). The Pre-IPO Share Option Scheme has already expired; 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.

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 9.6% of the total number of shares in issue as at the date of this annual report. As at December 31, 2018, 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 5 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.

Outstanding Share Options

Pre-IPO Share Option Scheme

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 holders on a caseby-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, 2018, options representing a total of 19,191,614 shares (taking into account the 28,354,207 options which have lapsed and options in respect of an aggregate of 66,134,179 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 1.48% as at December 31, 2018. 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 Option Scheme pursuant to its scheme rules. During the Reporting Period, no shares have been issued and allotted to Happy88 Limited.

Post-IPO Share Option Scheme

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 scheme of our Company must not in aggregate exceed 121,706,700, representing 10% of the total number of shares in issue as at the Listing Date.

During the year ended December 31, 2018, 300,000 share options were exercised, no share option was granted, lapsed or cancelled under the Post-IPO Share Option Scheme. As a result, as at December 31, 2018, options representing a total of 2,852,000 shares were outstanding, representing approximately 0.22% of the issued shares of the Company.

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 5 years and 4 months. The options are exercisable over a 10-year period from the date of grant.

The options granted on September 22, 2015 have been 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 was 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.

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 5 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% 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 5 years and 3 months.

Outstanding RSUs

Pre-IPO RSU Scheme

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 annual report, the total number of shares underlying the RSUs represents approximately 5.76% 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 31,678,000 shares have been exercised by grantees under the Pre-IPO RSU Scheme and no RSUs were granted, cancelled and lapsed. As a result, as at December 31, 2018, 12,242,000 shares have been allotted and issued to Tangguo Limited.

Post-IPO RSU Scheme

As at December 31, 2018, RSUs in respect of a total of 20,893,488 shares pursuant to the Company's Post-IPO RSU Scheme have been granted on April 20, 2015, September 15, 2015, April 1, 2016, April 5, 2017 and April 18, 2017.

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 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 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 RSUs granted on April 5, 2017 were or will be vested on May 28, 2017, July 20, 2017, May 28, 2018 and July 20, 2018 respectively and the number of RSUs granted for the respective vesting date was 4,944,800, 389,333, 4,944,800 and 389,321. The closing price of the shares immediately before the date of grant was HK$6.19.

The RSUs granted on April 18, 2017 were or will be vested on May 28, 2017, July 20, 2017, May 28, 2018 and July 20, 2018 respectively and the number of RSUs granted for the respective vesting date was 1,455,200, 23,573, 1,455,200 and 23,573. The closing price of the shares immediately before the date of grant was HK$5.13.

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 2,535,651 shares have been exercised by grantees under the Post-IPO RSU Scheme and 18,700 RSUs were lapsed and cancelled. As a result, as at December 31, 2018, 11,796,325 shares have been allotted and issued to Xinshow Limited.

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 Schemes to, on an individual basis, the Directors, chief executive members and other connected person of the Group as at December 31, 2018.

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, 2018	Exercise Price (US$)	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at December 31, 2018
Director of our Company										
Mr. Fu Zhengjun *(Note 1)*	Chairman, executive Director and chief executive officer	RSUs	N/A	22 May 2014	10,000,000	Nil	10,000,000	0	0	N/A
Mr. Mai Shi'en	Executive Director, chief operating officer and acting chief financial officer	RSUs	4,050,000	22 May 2014	4,050,000	Nil	0	0	0	4,050,000
Mr. Mao Chengyu	Non-executive Director	Options	200,000	22 May 2014	200,000	0.35	0	0	0	200,000
Mr. Herman Yu *(Note 2)*	Non-executive Director	Options	180,000	22 May 2014	200,000	0.35	20,000	0	0	180,000
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 *(Note 3)*	Independent non-executive Director	Options	0	22 May 2014	200,000	0.35	200,000	0	0	0
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 *(Note 1)*	Vice president of Tiange Technology (Hangzhou) Co., Ltd. (天格科技(杭州)有限公司)	RSUs	N/A	22 May 2014	20,000,000	Nil	20,000,000	0	0	N/A
Seven Directors and one connected person		Options	780,000							
		RSUs	4,050,000							
		Sub-total	4,830,000							

Notes:

1. *An aggregate of 30,000,000 RSUs which Mr. Fu Zhengjun and Ms. Hong Yan were interested in have been sold to an independent third party on July 4, 2018.*

2. *Mr. Herman Yu resigned as a non-executive Director with effect from January 11, 2018.*

3. *Mr. Wu Chak Man resigned as an independent non-executive Director with effect from June 13, 2018.*

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, 2018.

Rank/Position Held With Our Group	Nature	Number of Shares Represented by Option or RSUs	Date of Grant	Outstanding as at January 1, 2018	Exercise Price (US$/HK$)	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at December 31, 2018
183 other employees, 51 other consultants and 2 ex-employees *(Note 1)*	Options	82,000	January 14, 2009	8,693,000	US$0.01	8,611,000	0	0	82,000
		450,000	July 23, 2009	783,000	US$0.021	333,000	0	0	450,000
		2,161,540	July 23, 2009	3,445,540	US$0.03	1,284,000	0	0	2,161,540
		1,223,380	June 17, 2010	1,638,380	US$0.06	415,000	0	0	1,223,380
		79,000	September 6, 2010	190,000	US$0.06	111,000	0	0	79,000
		5,601,000	September 6, 2010	5,601,000	US$0.035	0	0	0	5,601,000
		2,399,050	December 20, 2010	2,582,050	US$0.06	183,000	0	0	2,399,050
		0	December 20, 2010	12,000	US$0.03	12,000	0	0	0
		1,300,000	December 26, 2011	1,540,000	US$0.06	240,000	0	0	1,300,000
		374,000	December 26, 2011	687,000	US$0.1	313,000	0	0	374,000
		572,110	December 26, 2011	753,110	US$0.12	181,000	0	0	572,110
		962,795	October 14, 2012	1,352,795	US$0.15	390,000	0	0	962,795
		331,000	September 14, 2013	610,000	US$0.2	279,000	0	0	331,000
		2,875,739	May 22, 2014	4,577,262	US$0.35	1,665,632	0	35,891	2,875,739
		2,852,000	September 22, 2015	3,152,000	HK$3.50	300,000	0	0	2,852,000
	Options total	21,263,614		35,617,137	—	14,317,632	0	35,891	21,263,614
	RSUs	8,192,000	May 22, 2014	9,870,000	Nil	1,678,000	0	0	8,192,000
		499,409	April 20, 2015	1,499,759	Nil	1,000,350	0	0	499,409
		109,226	September 15, 2015	224,838	Nil	115,612	0	0	109,226
		554,079	April 1, 2016	676,109	Nil	122,030	0	0	554,079
		8,543,229	April 5, 2017	9,356,734	Nil	813,505	0	0	8,543,229
		2,090,382	April 18, 2017	2,593,236	Nil	484,154	0	18,700	2,090,382
	RSUs total	19,988,325		24,220,676		4,213,651	0	18,700	19,988,325
	Sub-total	41,251,939							

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 Post-IPO Share Option Scheme, a total of 8,705,500, options have been granted to 51 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$4.59.*

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$7.03.*

CONNECTED TRANSACTIONS

Subscription of Interest in Limited Partnership

On January 7, 2019, Jinhua9158, a PRC operating entity of the Company, entered into a separate limited partnership agreement and a separate subscription confirmation letter with Suzhou Yunyue Enterprise Management Center (Limited Partnership) ("**Suzhou Yunyue**") to invest RMB25 million (approximately US$3.5 million) in Suzhou Yunyue (the "**RMB Fund II**") as a limited partner (the "**Investment**").

Jinhua9158 would subscribe for and agree to purchase a limited partnership interest in the RMB Fund II. The aggregate capital commitment to the RMB Fund II was RMB25 million (approximately USD3.5 million).

Mr. Mao Chengyu, being a non-executive Director, is interested in approximately 90% of the equity interest in Suzhou Yunyue, the general partner of the RMB Fund II. Therefore, Suzhou Yunyue is an associate of Mr. Mao and a connected person of the Company under the Listing Rules. As such, the Investment constitutes a connected transaction of the Company under Rule 14A.23 of the Listing Rules.

As the percentage ratios (as defined in the Listing Rules) applicable to the Investment exceed 0.1% but do not exceed 5% and the Investment is conducted on normal commercial terms, pursuant to Rule 14A.76 (2) of the Listing Rules, the Investment is 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 Investment, please refer to the Company's announcements dated January 7, 2019 and January 22, 2019.

Connected Transactions since Listing

We have 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:

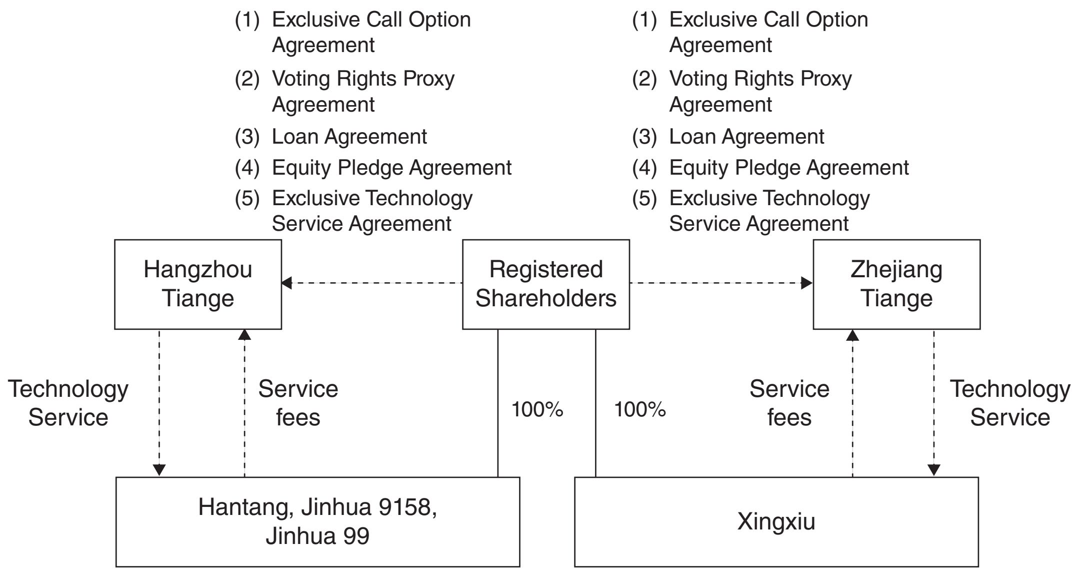
Name	Connected Relationship
Mr. Fu	Mr. Fu is our Director and is therefore our connected person pursuant to Rule 14A.07(1) of the Listing Rules.
Sina Hong Kong Limited (“**SINA HK**”)	SINA HK is a substantial shareholder of our Company and is therefore our connected person pursuant to Rule 14A.07(1) 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.

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.

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.*

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).

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.

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 Mr. 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.

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.

In 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.

In 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 ("**9158 Investment Management**") were established for the segments other than the Principal Business. Each of Genfan and 9158 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 9158 Investment Management are the wholly-owned subsidiaries of Jinhua 99.

Save as disclosed in the Prospectus and above, as at the date of this 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 annual 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 annual 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, are fair and reasonable and in the interests of our Company and our Shareholders as a whole, 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.

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 of directors;

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. Nothing has come to their attention that causes them to believe that there were dividends or other distributions made by Hantang, Jinhua9158, Jinhua99 and Xingxiu during the year ended December 31, 2018 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 35 to the consolidated financial statements constituted non-exempt connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. During the Reporting Period, 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, 2018, the Company has no further update to disclose in relation to the Qualification Requirement.

Save as disclosed in the Prospectus and in this annual report, currently, as advised by the Company's PRC legal advisers, there has been no change in the PRC laws and regulations in the sector of our Principal Business except the Notice of the Ministry of Industry and Information Technology ("**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, 2018, none of the Contractual Arrangements have been unwound.

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, 2018			
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 RMB651.3 million (2017: RMB842.6 million) for the year ended December 31, 2018 and approximately RMB376.8 million (2017: RMB449.6 million) as at December 31, 2018, 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.

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.

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.
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.

No.	Risks associated with the Contractual Arrangements	Mitigation actions taken by the Company
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 the 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 was qualified as a Key National Software Enterprise from 2015 to 2017 and a New High-tech Enterprise from 2014 to 2018, and Zhejiang Tiange is qualified as a New High-tech Enterprise from 2016 to 2018, which were recognized by the relevant authorities in Zhejiang and enjoy the preferential tax treatment. Hangzhou Tiange enjoys a reduced income tax rate of 10% from 2015 to 2017 and a reduced income tax rate of 15% for 2014 and 2018. Zhejiang Tiange enjoys a reduced income tax rate of 15% from 2016 to 2018. As the Key National Software Enterprises and New High-tech Enterprises, both of them will use their reasonable endeavors to take all necessary actions to maintain its status as "Key National Software Enterprise" and "New High-tech Enterprise".
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.

No.	Risks associated with the Contractual Arrangements	Mitigation actions taken by the Company
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.
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 THE COMPANY'S SHARES

During the year ended December 31, 2018, the Company has repurchased a total of 34,882,000 ordinary shares listed on Stock Exchange with an aggregate amount of HK$177,179,020.06. As at the date of this annual report, all repurchased shares were cancelled. Details of shares repurchased during the year ended December 31, 2018 are set out as follows:

Month of repurchases	Number of Shares repurchased on the Stock Exchange	Price paid per Share Highest (HKD)	Price paid per Share Lowest (HKD)	Aggregate consideration paid (HKD)
June 2018	6,086,000	6.84	5.55	36,392,840.05
July 2018	13,410,000	6.25	5.52	80,332,690.01
August 2018	50,000	5.17	5.15	258,030.00
September 2018	4,285,000	4.85	4.73	21,371,700.00
October 2018	3,057,000	3.95	4.58	12,926,010.00
November 2018	67,000	4.18	4.14	279,030.00
December 2018	7,927,000	4.10	2.70	25,618,720.00

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended December 31, 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, 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 of the Company on a pro-rata basis to existing Shareholders.

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. Yang Wenbin 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 annual 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 27 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, 2018.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association 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, 2018.

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 27, 2019

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, 2018. 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 28 to 31 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 40 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 possesses 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.

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 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.

During the Reporting Period, four Board meetings were held on March 29, 2018, May 31, 2018, August 30, 2018, and November 29, 2018, 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, risk management 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 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. Yang Wenbin and Mr. Chan Wing Yuen Hubert. 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 in them, as well as to review the risk management and 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.

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. Yang Wenbin and Mr. Chan Wing Yuen Hubert and one non-executive Director, being Mr. Mao Chengyu. Mr. Yang Wenbin, 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 meetings 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, 2018 are set out in note 9 and note 39 to the consolidated financial statement.

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 of our Company. 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. Yang Wenbin 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 shall have full access to management and may invite members of management or others to attend its meetings. The Nomination Committee will consult the chairman and/or chief executive officer of the Company about their proposals relating to the selection and appointment of directors of the Company. The Nomination Committee shall evaluate and assess the effectiveness of the Nomination Committee and the adequacy of these Terms of Reference on an annual basis and recommend any proposed changes to the Board. Minutes of meetings of the Nomination Committee and the record of individual attendance at such meetings shall be prepared and kept by the Company Secretary, which shall be sent to all members of the Board as soon as practicable after the conclusion of any meeting of the Nomination Committee.

Board Diversity Policy

The Nomination Committee has formulated a board diversity policy (the "**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.

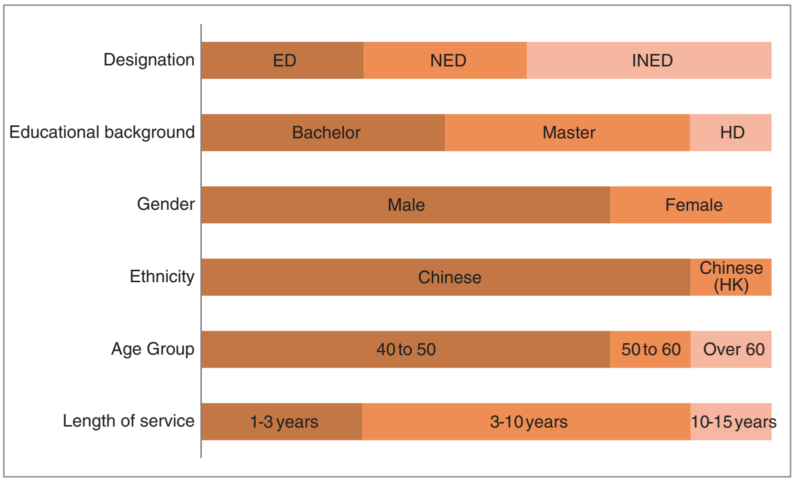
The Nomination Committee will discuss and agree annually all measurable objectives for achieving diversity of the Board and recommend them to the Board for adoption. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

The Nomination Committee will report annually, in the corporate governance report of the Company, on the process it has used in relation to Board appointments. Such report will include a summary of the Policy, the measurable objectives set for implementing the Policy and progress made towards achieving these measurable objectives.

The Nomination Committee will review the Policy annually, which will include an assessment of the effectiveness of the Policy. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for approval.

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

As at the date of this annual report, the Board comprises seven Directors, two of which are female members. The following table further illustrates the diversity of the Board members as of the date of this annual report:



Bachelor : Bachelor Degree
Master : Master Degree
HD : High Diploma
ED : Executive Director
NED : Non-Executive Director
INED : Independent Non-executive Director

Director Nomination Policy

The Nomination Committee has also adopted a nomination policy which sets out the nomination procedures, selection criteria and recommendations of candidates for directorship. The selection criteria used in assessing the suitability of a proposed candidate include, inter alia, his/her reputation for integrity, professional knowledge and relevant industry experience, whether he/she can commit sufficient time to the business, and whether he/she can contribute to the diversity of the Board as detailed in the Policy. The procedure to consider and make recommendations for a Director is summarized as follows:

(i) The secretary of the Nomination Committee shall convene a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

(ii) For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

(iii) Until the issue of the Shareholder circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.

(iv) In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, and to invite nominations from Shareholders, a circular will be sent to Shareholders. The circular will set out the lodgment period for Shareholders to make the nominations. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to Shareholders.

(v) For the re-appointment of any existing member(s) of the Board, the Nomination Committee shall make recommendations to the Board for its consideration and recommendation, for the proposed candidates to stand for re-election at a general meeting.

The composition of the Board and the Board members' respective attendance in Board meetings, general meetings, the Audit Committee meetings, the Remuneration Committee meeting and the Nomination Committee meeting during the year ended December 31, 2018 are as follows:

	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	4/4	0/1	0/1
Non-executive Directors					
Mr. Mao Chengyu	4/4	0/1	0/4	1/1	0/1
Mr. Herman Yu *(Note 1)*	0/4	0/1	0/4	0/1	0/1
Ms. Cao Fei *(Note 2)*	4/4	0/1	0/4	0/1	0/1
Independent non-executive Directors					
Ms. Yu Bin	4/4	0/1	4/4	0/1	1/1
Mr. Wu Chak Man *(Note 3)*	2/4	0/1	2/4	0/1	0/1
Mr. Yang Wenbin *(Note 4)*	2/4	0/1	2/4	1/1	1/1
Mr. Chan Wing Yuen Hubert	4/4	0/1	4/4	1/1	0/1

Note:

1. *Mr. Herman Yu resigned as a non-executive Director with effect from January 11, 2018.*

2. *Ms. Cao Fei was appointed as a non-executive Director with effect from January 11, 2018.*

3. *Mr. Wu Chak Man resigned as an independent non-executive Director with effect from June 13, 2018.*

4. *Mr. Yang Wenbin was appointed as an independent non-executive Director with effect from June 13, 2018.*

CHANGES IN INFORMATION OF DIRECTORS

On January 11, 2018, the Company appointed Ms. Cao Fei as a non-executive Director. Since January 11, 2018, Mr. Herman Yu ceased to be a non-executive Director due to other work arrangements. Please refer to the announcement of the Company dated January 11, 2018 regarding the appointment and resignation of non-executive Directors for details.

On June 13, 2018, the Company appointed Mr. Yang Wenbin as an independent non-executive Director. Since June 13, 2018, Mr. Wu Chak Man ceased to be an independent non-executive Director due to his workload and other personal commitments. Please refer to the announcement of the Company dated June 13, 2018 regarding the appointment and resignation of independent non-executive Directors for details.

Save as disclosed herein, 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 newly 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 of 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.

The old 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) with 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, 2018 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 103 to 112 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 2018, 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.

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, 2018. 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, 2018.

INDEPENDENT AUDITORS' REMUNERATION

The Group's independent auditor is PricewaterhouseCoopers.

For the year ended December 31, 2018, the fees paid/payable to PricewaterhouseCoopers for the audit and review of the financial statements of the Group were RMB6.1 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 TMF Hong Kong Limited, an external service provider, have been appointed by the Company as the joint company secretaries. The primary corporate contact person or 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, 2018, each of Mr. Chen Shi and Ms. Ng Sau Mei has undertaken not 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 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 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.

Shareholders' meetings provide a useful forum for the Shareholders to exchange views with the Board. The Directors and the 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 one or more Shareholders 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 Shareholder(s), provided that such Shareholder(s) hold(s) 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 holds 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 322, East Tower Building 1, No. 17-1 Chuxin Road, Gongshu District, Hangzhou, PRC (email address: IR@tiange.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, there were no significant changes in the constitutional documents of the Company.

This glossary contains explanations of certain terms used in this annual report in connection with our Company and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"Quarterly Average Revenue Per User" or "QARPU"	Average quarterly revenue in a particular period divided by the QPUs in that period.
"MAUs"	Number of active registered users that accessed our products or services in the relevant month. (A MAU is defined as a registered user that accessed our products or services at least once during the relevant month)
"QPUs"	Number of paying users for our products and services in the relevant quarter. (A QPU for live social video platform is defined as a user that purchased virtual goods at least once during the relevant quarter)
"Host"	Users who generate content, have host accounts and are deemed by us to be hosts. Hosts may receive marketing fees from distributors.
"Registered users"	The accumulated number of users who have registered an account on our live social video platform or online games and duplicated accounts were not excluded.

ABOUT THIS REPORT

This is our third Environmental, Social and Governance ("**ESG**") Report (the "**Report**"). It outlines our sustainability approaches and discloses our ESG performances during the Reporting Period. Unless otherwise stated, the reporting scope of this Report only covers our major business in live social video communities in (i) Hangzhou Office, (ii) Jinhua Office and (iii) Beijing Office in the PRC for the year ended December 31, 2018.

While compiling the Report, we are in stringent compliance with the applicable disclosure requirements of the ESG Reporting Guide in Appendix 27 to the Listing Rules (the "**HKEX ESG Reporting Guide**").

The Report incorporates the interest of various stakeholders as reflected to the Group. Detailed policies and programmes across the Group have been included to demonstrate the initiatives and determinations of the Company creating positive impact to the community and environment as a responsible corporate citizen.

We value every opinion of our stakeholders. If you have any opinions about this Report and our sustainability performance, please send your feedback to IR@tiange.com.

ABOUT TIAN GE

Tian Ge is the leading operator of live streaming platforms in China. Our flagship social interactive entertainment platforms include 158 Live Streaming, Sina Show, Miao Broadcasting (喵播), Happy Live Broadcasting (歡樂直播) and Feng Broadcasting (瘋播), allowing us to establish "many-to-many" and "one-to-many" social communities for both mobile and PC users. In 2018, while our mature "Mobile + PC" Dual Live Streaming continued to succeed, the acquisition of equity interest in Shanghai Benqu, which operates Wuta Camera (無他相機), a popular beauty camera application with the aim of "taking good photos without using photoshop" in January 2018 marked a new chapter for the Group by transcending the strategy to "live streaming + camera" dual-core strategy. The stronger positioning enables us to realize our mission of bringing optimism and joy to the masses.

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.

- Showcasing the power of youth through every video window.
- Breaking geographic boundaries and share the world's sparkle and vitality through the global network.
- Establishing harmonious online ecosystems with an ever-changing horizon.
- Meeting and exceeding each and every customer's needs.
- Maintaining a consistent focus on corporate responsibility by introducing programs and activities that create a better and healthier society.

Core Values:

- Integrity and Honesty
- Optimism and Dedication
- Open Communication and Innovation

OUR SUSTAINABILITY APPROACH

Our vision to "make the world smile every day" underpins our sustainability approach in creating long-term value to put a smile on our stakeholders. As a responsible corporate citizen, we are dedicated in creating sustainable value for a better environment and community by incorporating environmental, social and governance considerations into our operations and engaging all staff of the Group. Risk and opportunities associated with Environmental, Social and Governance will be systematically studied and analysed in every monthly meeting to enable the top management of the Group to acknowledge and better adjust the operation strategy to respond to the risks and opportunities swiftly and resiliently. The analysis and corresponding response from the Group will be delivered to the Board of Director every 6 months for review and approval.

For the corporate governance section, please refer to the separate "Corporate Governance Report" session in the annual report.

We are assured that without the trust and support from with our stakeholders, we cannot achieve sustainability and success in the long haul. Therefore, we have been managing diverse communication channels for them to express their views as mentioned in the below graph. The different communication channels deployed include:

Employees

Staff Mailbox
Training Meeting
Intranet Interview
Instant Messenger

End-Users

Visit and Offline Event
Intranet Interview Meeting
Social Media Official Account

Peer Companies

Professional Consultation
Research Report
Training Meeting
Intranet Interview
Instant Messenger
Company Website
Announcement
Industry Sharing

Shareholders & Investors

General Meeting Company Website
Investor Meeting Announcement
Press Release Social Media
Telephone Interview

Suppliers

Site Visit Interview
Instant Messenger
Cooperation Meeting

Business Partners*

Training Consultation
Site Visit Interview
Instant Messenger
Cooperation Meeting

*Including distributors, sales agents, hosts and room managers.

Media Partner & Social Media

Conference Interview Consultation
Instant Messenger Company Website
Cooperation Meeting

Community

Visit and Offline Event Press Release
Social Activity Company Website
Social Media Official Accounts Consultation
Campus Recruitment Meeting Interview

Government

Consultation Site Visit
Conference Interview

We hope to maintain long-lasting and harmonious relationships with our stakeholders. As a result, we take account of their valuable opinions as an impetus enabling us to improve our corporate strategies, mitigate risks and reinforce major relationships.

AWARDS AND RECOGNITION

1. Gongshu District Enterprise of Remarkable Sustainability Prize (《拱墅區大樹企業國家規劃佈局內重點軟件》)

2. 2018 China Investor Best Impression Award (Among Hong Kong Stock listed companies) (《2018年度中國投資者印象獎「最佳港股上市公司」獎》)

3. 2017 Jinhua Economic Development Zone Modern Service Industry Top 10 Enterprises (《2017年度金華市經濟技術開發區現代服務業十強企業》)

4. Listed Company Award of Excellence 2018 (《傑出上市公司大獎2018》) awarded by PR Asia, AM 730 and Roadshow

5. Security Times Golden Wing Award (《證券時報2018「金翼獎」最具成長性港股通公司》)

6. "Most Valuable TMT Company" presented by Zhitong Caijing (智通財經) and RoyalFlush Information Network Co., Ltd (同花順財經)

7. Top 10 Most Influential Companies of Jinhua (《金華市十大最具影響力企業》)

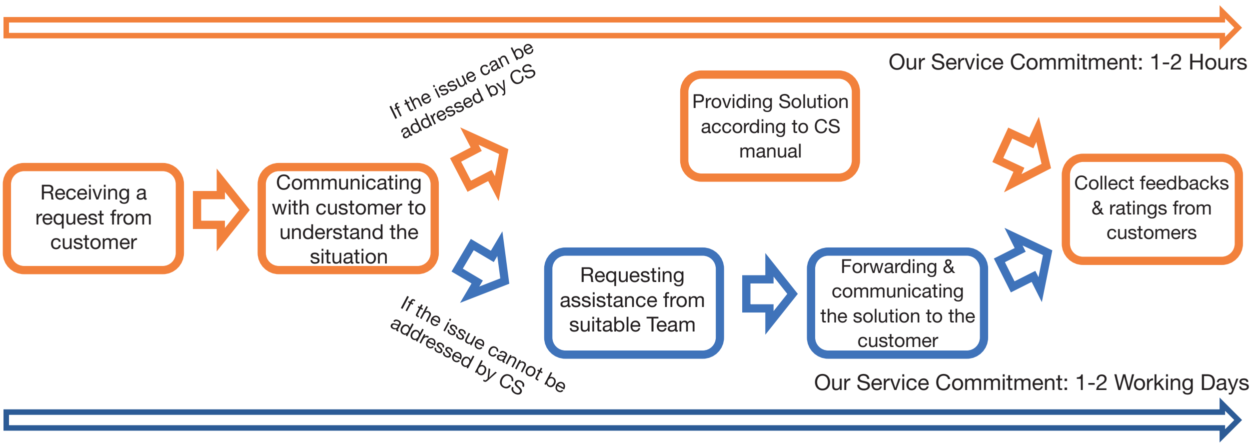
8. China's Top 100 Internet Companies (《2018中國互聯網百強企業》)

MAKING OUR CUSTOMER SMILE

Customer Services

Customer satisfaction is the Group's top priority. In adherence to the mission of "bringing optimism and joy to the masses", we have managed to continuously develop advanced broadcasting technology and optimize our platforms, thereby catching up in the innovation and technology standards as well as enhancing user experience.

Moreover, we believe that professional and tailored customer services can also enhance user experience, which in turn is conducive to fulfilling our commitment of "meeting and exceeding each and every customer's demands". Our well-trained customer service specialists handle enquiries around the clock to communicate with users in a professional and courteous manner. To ensure the quality of service delivered, a standard process of handling customers' complaints (the "**Standard Process**") is established to provide clear guidance and support to customer service ("**CS**") specialist. The Standard Process is as follows:



For issues that can be settled promptly by our customer service specialist, we promise to solve the issue within one to two hours; for issues that are more complicated which may require professional support from other departments, we guarantee to provide solutions within one to two working days, ensuring our users can enjoy using our platforms continuously.

In addition, our customer service specialists also manage different communication channels in use, including our official Weibo, WeChat, hotline and live chat on our live streaming platforms. Through frequent interaction and proactive communication on these platforms, we are able to monitor the satisfaction of and collect feedback from our valuable customers while providing prompt support and assistance when issues and complaints are spotted.

Healthy Live Streaming

As a leading enterprise in the industry, we recognize the permeability and influence of social media to society. Resonating with our mission to "establish harmonious online ecosystems with an ever-changing horizon", we are committed to upholding a safe and healthy online social community by establishing the "Platform Content Management and Punishment Ordinance" (《平臺內容監管及處罰條例》) in accordance to Administrative Provisions on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》) and "Regulations on Online Live Webcasting" (《互聯網直播服務管理規定》).

In accordance with "Measures for the Administration of Cyber Performance Business Operations" (《網絡表演經營活動管理辦法》), "Provisions on the Administration of Internet Live-Streaming Services" (《關於加強網絡直播服務管理工作的通知》), the Group has developed a well-rounded broadcast monitoring system to prevent the spread of improper information that involves obscenity, violence, illegality and vulgarity in accordance with applicable laws and regulations, including but not limited to the Criminal Law of the PRC (《中華人民共和國刑法》) and, "Provisions on the Administration of Mobile Internet Applications Information Services" (《移動互聯網應用程序信息服務管理規定》).

An official statement on our official website indicating our commitment and dedication in maintaining a healthy and harmonious platform.

Our broadcast monitoring system is composed of different sophisticated softwares developed by our technological staff to proactively wipe out unbefitting contents from real-time videos, text messages, voice messages to visual images delivered on our platforms. The "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》) can automatically analyse screenshot images of a live stream and a video and filter out inappropriate ones. Videos and livestreams that are found breaching the regulations will be removed and terminated immediately. The mechanism increases the efficiency and reliability of our monitoring work.

Our content monitoring system works in three levels, as illustrated below:

Before Broadcast	To register for new accounts, applicants are required to provide printed name on the Identity Card and registered mobile number under the Real-name Registration Provision. Before using any of our platforms, every user ought to abide by the terms of use to ensure that they agree with and clearly understand our terms and regulations including the "Social Platform Content Monitoring and Punishment Agreement". Registered users will be informed of the types of messages and content that are strictly prohibited on our live streaming platforms, consisting of illegal, unethical, harming, threatening messages together with messages that infringe intellectual property.
During Broadcast	When live streaming rooms begin to broadcast, our content monitoring system and manual inspection by our room managers and technological specialists will be responsible for spotting cases of incompliance. Meanwhile, screenshots of each broadcasting room will be taken every 3 minutes and afterwards will undergo an automatic detection progress through the self-developed filtering system. Inappropriate ones will be sent to our content monitoring team for further handling. Once incompliance is confirmed, corresponding actions will be taken to alert and penalize the concerned hosts or audience. By conforming to applicable laws and strict laws, we apply penalties regarding violations on content regulatory requirements subject to level of severity comprising warning, room closure, suspension of the stream and/or account, permanent deletion of account with forfeiture of virtual currency and items as well as reporting to the police.
After Broadcast	Record of cases of incompliance will be retained for at least two years. We have made an agreement with the police to report illegal cases, special attention will be given to severe violations like drug use and obscenity, and a summary of violations of our terms of services will be reported to relevant local authority weekly. Administrative accounts of our platforms can also be accessed by the police if necessary.

Privacy Protection and Information Security

Privacy protection is one of the most material and concerned issues of our stakeholders and hence it is also on the top of our priority list. Several internal policies and mechanisms including "Information Security Management System" (《天格科技信息安全管理制度》), "Information Security Management Policy" (《天格科技信息安全管理方針》) and "Information Security Management Strategy" (《天格科技信息安全事件管理策略》) are implemented to protect the confidential data and rights of our important customers in compliance with "Regulations of the PRC on the Protecting the Safety of Computer Information Systems" (《中華人民共和國計算機信息系統安全保護條例》), "Provisions on Technological Measures for Internet Security Protection" (《互聯網安全保護技術措施規定》), "Regulation on Internet Information Service of the PRC" (《互聯網信息服務管理辦法》) and "Measures for the Administration of Communication Network Security Protection "(《通信網絡安全防護管理辦法》).

The policy and strategy provides a clear vision and strategic approach of the Group's commitment in protecting the information security and confidential data collected. The all-round management system enables the Group to manage privacy issue effectively and respond promptly when required. Meanwhile, the management system also outlines the Group's internal measures, including limiting staff's access to customer's personal and confidential data.

Meanwhile, the confidentiality agreement, which all our employees are required to sign before commencement of work as our first line of defence, guarantees that confidential and personal data will be properly handled and users' data would never be disclosed to third party without users' consent under general circumstances.

To manage potential threat and respond to risk promptly and effectively, an internal information security management system with reference to international standard ISO/IEC 27001: 2005 is established and provides clear and complete guidance if security risk is foreseen or encountered. The system ensures that emergency response arrangements concerning information security are fine-tuned to keep pace with changes to the security threats, vulnerabilities and business impacts. The system incorporates up-to-date measures and working procedures to handle incidents that may pose threat to information security, such as being hacked and leakage of sensitive business information and personal data.

To safeguard information security on the live streaming platforms, our advanced security mechanisms and content filters can continuously identify content that includes sensitive personal information. Content monitoring team will be notified once sensitive information is found in any livestream broadcast. Additionally, all encrypted user data will be stored and protected in servers that are managed internally with high standard of security and protection while only authorised persons can access. The data will be backed up to different long-distance disaster recovery system.

Intellectual Property Protection

As an industry leading innovator, we understand the value and importance of robust intellectual property protection mechanism. To safeguard the intellectual property right of the software and developments of our dedicated professional staff, a standard working procedure for Certificate for the Registration of Computer Software Copyright Application (《計算器軟件著作權登記證書》) is devised to protect the intellectual property right of the software developed. During the Reporting Period, a total of 88 pieces of intellectual property, including 60 trademarks, 15 domain names and 13 copyrights have been newly registered. The commitment in innovation and the sound management system is recognised by the State as one of the Key Software Enterprises and hence entitled to enjoy tax benefits under "Announcement of the State Administration of Taxation on Issues concerning the Implementation of Preferential Income Tax Policies for Software Enterprises" (《國家稅務總局關於執行軟體企業所得稅優惠政策有關問題的公告》)

In strict compliance with the Copyright Law of the PRC (《中華人民共和國著作權法》), Regulation on the Protection of the Right to Communicate Works to the Public Over Information Networks (《信息網絡傳播權保護條例》), Measures for the Administrative Protection of Internet Copyright (《互聯網著作權行政保護辦法》) and Provisions on the Administration of Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》), we also pledge to protect intellectual property right in general, notably the originality of the contents our hosts broadcast. If any case of infringement of intellectual property is identified in any of our broadcasting platforms, the content management team has the right to remove the infringing work without prior notice according to the terms and agreement. In addition, if any member of general public suspects that one's intellectual property is being infringed by our hosts or users when using our service, complaints can be written to us to initiate an internal investigation. Our team will delete the infringing work by request after investigation.

Collaboration with Our Supplier and Business Partner

To maintain and elevate our leading status in the industry, building cooperative, harmonious and long-lasting relationships with concerned parties in the supply chain and the entire industry is of paramount importance. We expect our suppliers and business partners to operate ethically while complying with applicable laws and regulations. To put our expectation into action, we have established Code of Conduct for our suppliers and business partners. We require them to maintain good business ethics through strategies in occupational health and safety, employee benefits, avoiding child and forced labour and environmental protection. For example, they should have maintained a hygienic working area, discouraged discrimination in accordance with the Labour Law of the PRC (《中華人民共和國勞動法》), complied with applicable environmental laws and established anti-corruption policies including "Anti-Unfair Competition Law of the People's Republic of China" (《中華人民共和國反不正當競爭法》), "Criminal Law of the People's Republic of China" (《中華人民共和國刑法》). Only our suppliers, business partners and we are highly self-regulated can we achieve sustainability in the industry.

Anti-corruption

To uphold our core value "integrity and honesty", a sound and all-round internal control system in light of "Anti-Unfair Competition Law of the People's Republic of China" (《中華人民共和國反不正當競爭法》), "Criminal Law of the People's Republic of China" (《中華人民共和國刑法》) relevant laws and regulations to superintend our employees' behaviours was launched with anti-corruption being one of the focal points. Our anti-corruption policies prohibit any unethical behaviour that harms the Group's and society's benefits, such as money laundering, bribery, extortion and fraud.

Whistleblowing policy is reinforced in the Group for the purpose of reporting suspected wrongdoings to the management, which can be done by phone, email or post. Anonymous complaints are accepted. Our conduct monitoring team is responsible for handling the complaints by investigating and reporting the findings to the board of directors and relevant parties.

During the Reporting Period, there were no whistleblowing disclosures or confirmed incidents with respect to corruption brought within the Group. We were not aware of any non-compliance with relevant laws and regulations regarding bribery, extortion, fraud and money laundering.

Advertising

As an effective promotion and marketing platform for commercial users, advertisement content can be easily accessed on our platforms. To ensure our users receive real and unexaggerated marketing materials and to adhere to the Advertisements Law of the PRC and the Interim Measures for the Administration of Internet Advertising (《互聯網廣告管理暫行辦法》), every advertisement will be screened by our content management team before publishing to protect the consumer right of our users.

As the Group is not involved in product manufacturing and sales, laws and regulations relating to product labelling are not applicable.

MAKING OUR PEOPLE SMILE

Talent Acquisition and Retention

Our employees are our most valuable assets and strongest driving force and edge in achieving our long-term vision and strategy. Acquiring and retaining our competitive employees provides the solid foundation for the Company to grow and succeed.

We established a comprehensive Employee Handbook in accordance with the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) to ensure compliance with laws. Our Employee Handbook consists of a holistic recruitment policy enabling us to scout for the most suitable and compatible talents to foster the continuous growth and long-term success. We deploy different recruitment channels including online recruitment, roadshows, media recruitment and internal referral to engage prospective applicants. In addition, we have also developed a sophisticated official WeChat account specialized for posting recruitment notice for interested parties.

We are in stringent compliance with the Labour Law of the PRC (《中華人民共和國勞動法》) prohibiting child and forced labour. In terms of child labour, we require human resources department to keep the copies of the document for record. Such inspection can prevent the occurrence of underage labour. To govern the forced labour compliance, our employee handbook and contract have listed out standard working hours, overtime policy, rest periods, leave and dismissal arrangement. New employees ought to sign the contracts to acknowledge these terms for compliance. We strictly abide by the above-mentioned laws and regulations to implement these human resources policies to avoid forced labour.

Once the submission is received, the candidates will then receive written test, interview, aptitude test and background check which are fairly developed based on skills and ability requirement of the concerned job positions. In compliance with the Labour Contract Law, all new employees are required to provide their personal identification documents for initial inspection before progressing to the next stage of application.

Applications will only be unbiasedly judged on applicants' competencies, skills, knowledge and work experience regardless of their age, gender, nationality, race as well as disability. As a fair employer we take a zero-tolerance approach to any forms of discrimination and firmly uphold the principle of diversity and equal opportunity in the workplace to the greatest extent to create an inclusive environment.

The Employee Handbook also provides a clear guidance on renumeration package beyond the requirement stated in the Labour Contract Law of the People's Republic of China to attract and retain the employees as our most important assets. We are dedicated in providing a harmonious and comfortable working environment, as well as competitive remuneration packages and plentiful benefits. The Employee Handbook also provides the guidance to have regular review of the renumeration package in order to stay attractive and competitive as compared with the market offerings.

The employment package comprises of basic salary, special bonuses and allowances. There are special bonuses including performance bonus, project bonus and internal referral bonus to be given so as to motivate and recognize with the staff if their performance appraisal meets with the Company requirements. Employees are also eligible to receive a monthly full duty bonus (provided that the staff is without lateness, early leave and changing roster in that particular month), lunch allowance, transportation allowance and overtime allowance. Below are the examples of our fringe benefits:

– Birthday coupons
– Maternity allowances
– Book purchase subsidies
– Transportation subsidies
– Marriage benefits
– Festival bonuses
– Free overtime meals
– Annual Travel

We strictly abide by the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and ensure that employees are covered by the social security scheme (pensions, unemployment, medical, work-related injury and maternity insurances plus housing provident fund (五險一金)).

Different departments also organize an array of staff activities such as picnic and meal gatherings creating the sense of belonging and promoting a better work-life balance. Our WeChat account for staff internal use enables them to exchange ideas, knowledge and coordinate leisure activities.

Development and Training

Substantial investment in human capital determines the sustainable growth and success of the Company. We focus on offering employee development opportunities, at both professional and personal levels, to enable our talents to grow together with business expansion of the Company, making the Company as an employer of choice. We established the "Training Management Policy" to systematically manage trainings to be provided to our employees, with the principles of training effectively, practically and specifically.

We provide our talents with abundant opportunities to receive training by establishing a training management system and an annual training plan in light of the year over year business development goals. Employees will receive different internal and external trainings in forms of lectures, visits, videos and sharing sessions, which can be categorized into four dimensions:

New Staff Orientation

Pre-job Training

On-job Training

Personal Development

To foster our employee's continual personal and career development, the Group encourages employees to proactively seek for external certificated training. Monetary incentives are available for employees who successfully obtained national recognised qualifications and certifications.

Comprehensive performance appraisal system in a monthly, quarterly or yearly basis, depending on the job position or project, is also in place to provide important internal support and guidance to our employee's career and professional development. The appraisers will objectively assess our employee's performances on a quantitative scale based on a set of defined key performance indicators. Appraisers will also provide personal advice and recommendations based on findings and experience with the aim of improving the employee's performance at work.

Occupational Health and Safety

Maintaining workplace safety and occupational health is an important pillar of constructing a sustainable and long-term competitive workforce. Adhering to the Labour Law of the PRC (《中華人民共和國勞動法》) and other applicable laws and regulations, we adopted different approaches to safeguard the well-being and safety of our employees.

Before the commencement of duties, all new employees have to undergo an obligatory medical check to ensure the employees' health is in good condition, or identify potential health issue so that a prompt follow-up treatment can be provided accordingly to protect employee's health. After the employees have been working for the Company, there are annual medical check-up, weekly-medical consultation sessions and quarterly medical talks to be provided to keep track of employees' health condition. We are also actively promoting a healthy working lifestyle by equipping gym appliances in our offices so that our employees can work out in their leisure time.

Adequate workplace safety measures and equipment are adopted and installed in offices respectively to safeguard the safety of our employees and properties. To ensure staff are ready for any emergency situation, all safety equipment is in good condition and ready to use. There are fire drills and inspection on safety equipment including first-aid kits, fire sprinkler system, fire alarm system and emergency exit to fully comply with the Fire Protection Law of the PRC (《中華人民共和國消防法》) and other related laws and regulations have been conducted. During the Reporting Period, no work-related accidents or casualties have been recorded.

MAKING OUR COMMUNITY SMILE

Community Investment

As a corporate citizen, the success of the Group is strongly associated with the community the operation locates. Hence, we are committed to strive for business continuity and sustainable development while addressing the needs and concerns of community to help create a better society. To contribute and bring smiles to the community, a volunteer work by educating our employees to give a hand to the needy is advocated as part of our core values.

Children Anti-Lost Educational Charity Exhibition

The Group concerns about the safety of the young generation. To promote the value, we gave our full support to educational charity event. Parents and children participated in all events proactively, for example, the parents listened to the professional advice in the talks while the children learnt the ways to protect themselves from abduction via games in the game booths. The exhibition did not only bring fun to the participants but also promote the knowledge of preventing the children from missing.

Sharing by a police officer

Our staff also livestreamed the entire event on our platforms to spread the message of protecting children and anti-lost among the public, especially to the parents and children who could not attend the event.

Book Donation Charity Event

During the Reporting Period, our energetic and young staffs held a book donation charity event (活動中文名為「送愛心讓夢想揚帆—天鴿集團1000冊愛心圖書送湖墅」) at a special school for mentally handicapped children (杭州市湖墅學校) in Hangzhou in Zhejiang Province. The major aim was to promote children's interest in reading books and learning the beauty of knowledge. We believe that knowledge is a significant foundation for kids to realize their dreams in the future. Therefore, our company donated 1000 books of many themes, ranging from action & adventure to animals. Understanding the students' difficulties in reading words, our staff read aloud the content and shared joy in reading with the students.

"Tidy Our Community" volunteer event

To create a hygienic, beautiful and enjoyable living environment for the residents of the community, our staff volunteered to clean streets. Our staff teamed up and carried out the cleaning tasks enthusiastically. Although there were many hard works throughout the process, it was very satisfying to bring the positive impacts to the community.

MAKING OUR EARTH SMILE

As a global citizen, we are determined to make the Earth smile by bearing our responsibility to minimise our operation's environmental impact through an efficient use of resources and adopting a sustainable operations. The Company has been implementing the Environmental Policy with regard to Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) to provide a clear and practical guidance on efficient use of resources through daily operational practices so as to minimize the environmental impact.

Resource use

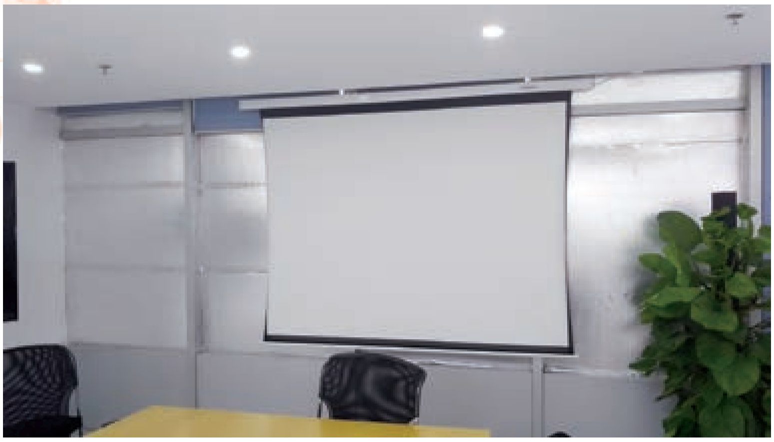
Based on the nature of our business, purchased electricity and unleaded petrol are our major energy consumption, source of greenhouse gas and air emissions. However, due to our business nature, significant impact on the environment and natural resource is not anticipated.

EMISSION REDUCTION

As a responsible corporate, we seize every opportunity to reduce greenhouse gas emission associated with our operations. Inspection and analysis have been conducted to understand the opportunity to reduce the environmental impacts associated to our operations. The followings are the wise and efficient energy saving measures:

- Staff is urged to turn off electrical appliances when they are not in use.
- We encourage green travelling with the use of public transport.
- We conduct inspection to ensure air-conditioners in areas where no staff is working overtime are shut off.
- In terms of procurement, electrical appliances awarded with Grade One Energy Label indicating the most efficient level are prioritized.
- Every electricity consuming appliances is monitored by a Smart Energy Saving Application (the "**Mobile Application**"). The Mobile Application allows the administration team to set up timer for the appliances to turn on and off at a specific time to avoid appliances mistakenly switched on. Meanwhile, the Mobile Application also enables remote monitoring and switching off of each sockets and appliances. If any electronic device is not switched off, staff can turn off remotely to avoid wasting any energy.
- To avoid direct insolation to heat up the office directly, our staff has installed reflective panels at the windows around the office to reduce the level of direct insolation so as to reduce the energy consumed for air-conditioning.

Setting up timers for each electronic appliance at office to avoid energy wasting



Rooftop Greenery – Saving Energy by Plantation

To avoid direct insolation which would increase the energy consumption from air conditioning, our Hangzhou office has planted greenery of 500-meter square at the rooftop of the building to lower the room temperature. The little garden at the top of the building also provides space for our employees to rest.

WASTE REDUCTION

Following the 4R principle (Replace, Reduce, Reuse, Recycle), we set different waste reduction initiatives including separating waste into different categories such as electrical refuse and non-recyclable waste to facilitate further processing. General refuse is collected by sanitary service company and environmental hygiene authority while electrical refuse being generated, predominantly computers, will be recycled and reused by qualified third-party recyclers. In addition, we educate our employees to handle office supplies carefully to extend their time of service.

To minimize unnecessary paper consumption, all staff are required to print on both sides of the paper when printing is necessary. Meanwhile, an online human resources system for our employees managing the administrative work, such as applying for leave and carrying out performance appraisals, is deployed to further reduce office paper usage as an attempt to achieve a paperless office.

WATER CONSERVATION

We rely on freshwater supplied by municipal source and have no problem in sourcing water during the Reporting Period. To maximise efficiency and minimise wastage of water, we have implemented water saving strategies in our offices. For instance, in the greening area in Hangzhou office, we use drip irrigation, time control and partial spraying for irrigation. Reminders about water conservation are also placed around the office to remind our staff to use water wisely and efficiently.

Our Environmental Footprint[1/2]			
Description	Unit of Measure	2017	2018
Air Emissions[3]			
Nitrogen oxides (NO_x)	kg	3.77	**16.42**
Sulphur oxides (SO_x)	kg	0.22	**0.42**
Particulate matter (PM)	kg	0.28	**1.21**
Greenhouse Gas (GHG) Emissions			
Total	tCO_2-eq	771.95	**807.77**
Scope 1: Direct emissions	tCO_2-eq	57.02	**75.28**
Scope 2: Energy indirect emissions	tCO_2-eq	714.93	**732.49**
Intensity	tCO_2-eq/employee	1.01	**1.52**
Non-Hazardous Waste Generated[4/5]			
Total	tonnes	3.76	**98.07**
Waste disposed	tonnes	3.13	**97.24**
Waste collected for recycling	tonnes	0.63	**0.84**
Intensity	tonnes/employee	0.005	**0.18**
Energy Consumption			
Total	MWh	1,181.39	**1,254.79**
Purchased Electricity	MWh	976.88	**996.96**
Non-Renewable Fuel Consumption	MWh	204.51	**257.83**
Intensity	MWh/employee	1.54	**2.36**
Water Consumption[6]			
Total	m^3	1,882	**1,600.62**
Intensity	m^3/employee	5.24	**7.44**

1 There was a total number of 532 employees in Hangzhou, Jinhua and Beijing offices in PRC as of December 31, 2018 while there was a total number of 767 employees in these 3 offices as of December 31, 2017. The difference of the total number of employees contributed to the significant fluctuation in intensity figures of the respective environmental KPIs.

2 To facilitate continual review over the Group's environmental performance in the future, the Group will use 2018 data as baseline for future analysis and applicable comparison, as well as improvement plan formulation.

3 During the Reporting Period the Group has further improved the data collection system, allowing the Group to disclose data more comprehensively. The 2018 figure covered all vehicles of all offices, resulting in a notable increase in Air Emission Figures.

4 Due to our business nature, we were not aware of any significant generation of hazardous waste and did not consume any packaging material during the reporting period.

5 The Group has enhanced the data collection methodology and enlarged the scope of coverage, with general refuse generated from operation newly added to calculation. This contributed to the significant increase in total non-hazardous waste generated compared to 2017 figure.

6 Data of water consumption in our Hangzhou office was not available as sub-meter for individual occupant was not provided by the respective building management. The above data only covered water consumption in our Jinhua and Beijing offices.

HKEX ESG GUIDE CONTENT INDEX

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
A. Environmental			
Aspect A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		**Making Our Earth Smile**	94
KPI A1.1	The types of emissions and respective emissions data.	**Our Environmental Footprint**	97
KPI A1.2	Greenhouse gas emissions in total and where appropriate, intensity.	**Our Environmental Footprint**	97
KPI A1.3	Total hazardous waste produced and where appropriate, intensity.	**N/A**	N/A
KPI A1.4	Total non-hazardous waste produced and where appropriate, intensity.	**Our Environmental Footprint**	97
KPI A1.5	Description of measures to mitigate emissions and results achieved.	**Emission Reduction**	95
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	**Waste Reduction**	96
Aspect A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		**Making Our Earth Smile**	94
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	**Our Environmental Footprint**	97

KPI A2.2	Water consumption in total and intensity.	**Our Environmental Footprint**	97
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	**Emission Reduction**	95
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	**Water Conservation**	96
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	**N/A**	N/A
Aspect A3: The Environment and Natural Resources			
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		**N/A**	N/A
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	**N/A**	N/A

B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		**Making Our People Smile**	89
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	**Not disclosed during the Reporting Period.**	N/A
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	**Not disclosed during the Reporting Period.**	N/A
Aspect B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to providing a safe working environment and protecting employees from occupational hazards.		**Occupational Health and Safety**	91
KPI B2.1	Number and rate of work-related fatalities.	**Not disclosed during the Reporting Period.**	N/A
KPI B2.2	Lost days due to work injury.	**Not disclosed during the Reporting Period.**	N/A
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	**Not disclosed during the Reporting Period.**	N/A
Aspect B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		**Development and Training**	91
KPI B3.1	The percentage of employees trained by gender and employee category.	**Not disclosed during the Reporting Period.**	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	**Not disclosed during the Reporting Period.**	N/A

Aspect B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		**Make Our People Smile**	89
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	**Not disclosed during the Reporting Period.**	N/A
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	**Not disclosed during the Reporting Period.**	N/A
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		**Collaboration with Our Supplier and Business Partner**	88
KPI B5.1	Number of suppliers by geographical region.	**Not disclosed during the Reporting Period.**	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	**Not disclosed during the Reporting Period.**	N/A
Aspect B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		**Making Our Customer Smile**	84
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	**N/A**	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	**N/A**	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	**Intellectual Property Protection**	88
KPI B6.4	Description of quality assurance process and recall procedures.	**N/A**	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	**Privacy Protection and Information Security**	87

Aspect B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		**Anti-Corruption**	89
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	**Anti-Corruption**	89
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	**Anti-Corruption**	89
Community			
Aspect B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		**Making Our Community Smile**	92
KPI B8.1	Focus areas of contribution.	**Not disclosed during the Reporting Period.**	N/A
KPI B8.2	Resources contributed to the focus area.	**Making Our Community Smile**	92

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 113 to 264, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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.

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:

- Purchase price allocation related to business combination
- Impairment of goodwill, investments accounted for using the equity method and refundable prepayments for purchase of investments
- Fair value measurement of investments in venture capital funds and unlisted equity investments recorded in financial assets at fair value through profit or loss

Key Audit Matter	How our audit addressed the Key Audit Matter
Purchase price allocation related to business combination	
Refer to note 2.2.1, note 4.1(f) and note 18 to the consolidated financial statements. During the year, the Group completed a step-acquisition of Shanghai Benqu Internet Technology Company Limited ("Shanghai Benqu") for acquiring additional 66.4% of the equity interests and obtained control of Shanghai Benqu, for an aggregated consideration of RMB206,905 thousand, comprised of RMB 136,142 thousand in cash and 13,237,995 ordinary shares issued on 20 April 2018.	Our procedures in relation to purchase price allocation related to business combination included: – We assessed the competence and objectivity of the independent professional valuer engaged by the Group. – We assessed management's identification of the acquiree's identifiable assets acquired at the acquisition date based on investment contracts, other legal documents, the relevant accounting standards and the acquiree's financial information. – We assessed management's valuation in determining the fair value of identified intangible assets in the following aspects:

Key Audit Matter	How our audit addressed the Key Audit Matter
For the acquisition, 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 price was allocated to the identifiable assets and liabilities acquired under IFRS 3. As a result, the Group recognised RMB20,222 thousand of identified intangible assets and RMB210,166 thousand of goodwill for the acquisition of Shanghai Benqu. 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.	– With assistance of our internal valuation specialist, we assessed the appropriateness 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 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 acquiree'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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of goodwill, investments accounted for using the equity method and refundable prepayments for purchase of investments	
Refer to note 2.10, note 2.12, note 3.1(b), note 4.1(e), note 4.1(g), note 17, note 14 and note 21 to the consolidated financial statements. As at 31 December 2018, the Group held goodwill, investment accounted for using the equity method and refundable prepayments for purchase of investment amounting to RMB233,611 thousand, RMB55,305 thousand and RMB3,749 thousand respectively. During the year ended 31 December 2018, impairment provision of RMB6,219 thousand, RMB149,250 thousand and RMB93,749 thousand was made against the carrying amount of goodwill, investments accounted for using equity method and refundable prepayments for purchase of investments, respectively. We focused on this area due to the magnitude of the carrying amounts of these assets and the fact that significant judgements were involved by management (i) to identify whether any impairment indicators exist for investments accounted for using the equity method during the year; (ii) to determine the key assumptions to be adopted in the valuation models for the impairment assessments of goodwill and investments accounted for using the equity method, such as discount rate, sales growth rate and gross profit margin, (iii) to determine the expected credit impairment losses allowance on the refundable prepayments for purchase of investments, taking into account the ageing status of the refundable prepayments at balance sheet date, and other relevant circumstances of selling shareholder, as well as probability of collection in the future.	Our procedures in relation to the impairment assessments of goodwill, investments accounted for using equity method and refundable prepayments for purchase of investments included: • With respect to the management's assessment of goodwill, our procedures included: – We assessed the basis which management used to identify separate groups of cash generating units that contained goodwill, and the appropriateness of the valuation methodologies used by reference to industry practice; – With assistance of our internal valuation specialists, we assessed the reasonableness of the key assumptions adopted, such as discount rate, by comparing them with information independently gathered from comparable companies in the same industry, and compared the long-term growth rate to relevant economic forecasts; – We tested 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 with the Group's historical performance and market data; – We tested the mathematical accuracy of the calculations applied in the valuation models and the calculation of impairment charges;

Key Audit Matter	How our audit addressed the Key Audit Matter
	– We also evaluated management's sensitivity calculations over the recoverable amount of the Group's cash generating units, focusing on those key assumptions to which the calculations were most sensitive. • With respect to management's assessment of the investments accounted for using equity method, our procedures included: – We evaluated management's judgements of the occurrence of the impairment indicators by corroborating the market data and financial information of the investees. – With respect to the impaired investments, we assessed the appropriateness of the valuation models used in management's impairment assessments. We assessed the appropriateness of the estimation of the recoverable amount generated from the discounted cash flow made by the management e.g. sales growth rate, bad debt ratio, discount rate, by checking the financial forecast, business plans of the investees and collaborated with our industry knowledge and market research.

Key Audit Matter	How our audit addressed the Key Audit Matter
	• With respect to management's assessment of the refundable prepayments for purchase of investments, our procedures included: – We discussed with management to understand the circumstance of the investment related to each refundable prepayment, corroborated management's explanation with supporting evidence, including the correspondence with related selling shareholders, background information and current financial position of the selling shareholders provided by management, and evaluated management's estimation of expected credit losses taking into account the aging of related refundable prepayment, the financial status of the selling shareholders and probability of the collection in the future based on the relevant forward-looking information used in management's assessment. Based on the procedures performed, management's judgements and key assumptions made to identify the impairment indicators and determine the impairment losses for investments accounted for using the equity method and losses allowance of refundable prepayments for purchase of investments and in the impairment assessment of goodwill were supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of investments in venture capital funds and unlisted equity investments recorded in financial assets at fair value through profit or loss	
Refer to note 3.3, note 4.1(c) and note 22 to the consolidated financial statements. As at 31 December 2018, the Group held investments in venture capital funds and unlisted equity investments recorded in financial assets at fair value through profit or loss amounting to RMB356,352 thousand and RMB471,844 thousand, respectively, which were carried at fair value. During the year ended 31 December 2018, a fair value gain of RMB26,134 thousand and a fair value loss of RMB17,671 thousand was recognised against the investments in venture capital funds recorded in financial assets at fair value through profit or loss; a fair value gain of RMB229,210 thousand and a fair value loss of RMB81,000 thousand was recognised against unlisted equity investments recorded in financial assets at fair value through profit or loss. We focused on this area due to the magnitude of the financial assets and the significant judgements in determining the respective fair values of such financial instruments.	Our procedures in relation to the fair value measurement of investments in venture capital funds and unlisted equity investments recorded in financial assets at fair value through profit or loss included: – With assistance of our internal valuation specialist, we assessed the appropriateness of the valuation methodologies used by management by reference to industry practice and the financial status and business plans of the investees. – We tested, on a sample basis, the appropriateness of the unobservable and observable inputs used for measuring the fair value of such financial instruments by reference to relevant market information including recent rounds of financing information and underlying supporting documents of the investees, or by evaluating the underlying assumptions and inputs, such as discount rate, the growth rate of net profit adopted in the relevant financial projections, the Group's share of the investee's net assets which was expected to be realized. – We also tested, on a sample basis, the arithmetical accuracy of the valuation computation. Based on the procedures performed, we found the valuation methodologies used were acceptable and the key inputs used for measuring the fair value were supported by the 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 THE 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.

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.

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, 27 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2018 RMB'000	2017 RMB'000
		Year ended 31 December	
Continuing operations			
Revenue	6	751,933	915,969
Cost of revenue	7	(65,290)	(109,291)
Gross profit		686,643	806,678
Selling and marketing expenses	7	(164,633)	(219,503)
Administrative expenses	7	(110,055)	(139,116)
Research and development expenses	7	(95,985)	(102,243)
Net impairment losses on financial assets	3.1(b)	(101,849)	—
Other gains, net	8	296,166	43,150
Operating profit		510,287	388,966
Finance income	10	2,714	5,732
Finance costs	10	(2,193)	—
Finance income, net	10	521	5,732
Share of loss of investment accounted for using the equity method	14	(2,134)	(504)
Impairment of investment accounted for using the equity method	14	(149,250)	—
Profit before income tax		359,424	394,194
Income tax expense	11	(143,762)	(78,375)
Profit from continuing operations		215,662	315,819
Profit from discontinued operations	5	—	6,968
Profit for the year		215,662	322,787
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Changes in value of available-for-sale financial assets		—	98,215
Currency translation differences		33,053	(58,415)
Total comprehensive income for the year		248,715	362,587

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2018 RMB'000	2017 RMB'000
		Year ended 31 December	
Profit/(Loss) attributable to:			
– Shareholders of the Company		**218,276**	324,099
– Non-controlling interests		**(2,614)**	(1,312)
		215,662	322,787
Profit attributable to Shareholders of the Company arising from:			
– Continuing operations		**218,276**	319,650
– Discontinued operations		—	4,449
		218,276	324,099
Total comprehensive income/(loss) attributable to:			
– Shareholders of the Company		**251,404**	363,933
– Non-controlling interests		**(2,689)**	(1,346)
		248,715	362,587
Total comprehensive income attributable to Shareholders of the Company arising from:			
– Continuing operations		**251,404**	359,484
– Discontinued operations		—	4,449
		251,404	363,933
Earnings per share from continuing and discontinued operations attributable to owners of the Company (expressed in RMB per share):			
Basic earnings per share			
– From continuing operations	12	**0.172**	0.248
– From discontinued operations	12	—	0.003
		0.172	0.251
Diluted earnings per share			
– From continuing operations	12	**0.168**	0.240
– From discontinued operations	12	—	0.003
		0.168	0.243

The notes on pages 121 to 264 are integral parts of these consolidated financial statements.

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Property and equipment	15	**186,582**	193,444
Investment property	16	**46,512**	45,319
Intangible assets	17	**296,399**	97,200
Investments accounted for using the equity method	14	**55,305**	131,760
Deferred income tax assets	31	**38,375**	35,968
Available-for-sale financial assets	22	**—**	631,820
Prepayments and other receivables	21	**74,829**	203,948
Financial assets at fair value through profit or loss	22	**874,541**	19,590
		1,572,543	1,359,049
Current assets			
Trade receivables	20	**64,298**	28,862
Prepayments and other receivables	21	**102,922**	172,544
Available-for-sale financial assets	22	**—**	915,074
Financial assets at fair value through profit or loss	22	**871,871**	15,518
Term deposits with initial term over 3 months	23	**112,318**	199,448
Cash and cash equivalents	24	**432,588**	273,652
		1,583,997	1,605,098
Total assets		**3,156,540**	2,964,147
Equity			
Equity attributable to Shareholders of the Company			
Share capital	25	**789**	787
Share premium	25	**1,828,683**	1,952,499
Shares held for restricted share units scheme	25	**—**	(6)
Treasury stock	25	**(25,469)**	—
Other reserves	26	**510,665**	569,960
Retained earnings	28	**516,740**	193,935
		2,831,408	2,717,175
Non-controlling interests		**12,762**	11,582
Total equity		**2,844,170**	2,728,757

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	31	**109,966**	5,130
Other non-current liabilities		**2,633**	1,261
		112,599	6,391
Current liabilities			
Trade payables	29	**5,049**	11,054
Other payables and accruals	30	**71,192**	63,310
Income tax liabilities		**90,560**	107,305
Customer advance and deferred revenue		**32,970**	42,610
Provisions for other liabilities and charges	33	**—**	4,720
		199,771	228,999
Total liabilities		**312,370**	235,390
Total equity and liabilities		**3,156,540**	2,964,147

The notes on pages 121 to 264 are integral parts of these consolidated financial statements.

The financial statements on pages 113 to 264 were approved for issue by the Board of Directors on 27 March 2019 and were signed on its behalf.

Fu Zhengjun	Mai Shi'en
Director	Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital RMB'000	Share premium RMB'000	Shares held for restricted share units schemes RMB'000	Treasury Stock RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
		Attributable to Shareholders of the Company								
Balance at 1 January 2018		787	1,952,499	(6)	–	569,960	193,935	2,717,175	11,582	2,728,757
Change in accounting policy	2	–	–	–	–	(124,892)	124,892	–	–	–
Restated total equity at 1 January 2018		787	1,952,499	(6)	–	445,068	318,827	2,717,175	11,582	2,728,757
Comprehensive income/(loss)										
Profit/(loss) for the year		–	–	–	–	–	218,276	218,276	(2,614)	215,662
Other comprehensive income										
Currency translation differences	26	–	–	–	–	33,128	–	33,128	(75)	33,053
Total other comprehensive income/(loss), net of tax		–	–	–	–	33,128	–	33,128	(75)	33,053
Total comprehensive income/(loss)		–	–	–	–	33,128	218,276	251,404	(2,689)	248,715
Transactions with Shareholders in their capacity as owners										
Employees share option scheme and restricted share units schemes:										
– value of employee services	9	–	–	–	–	12,106	–	12,106	–	12,106
– proceeds from shares issued	25	10	6,738	–	–	–	–	6,748	–	6,748
– vest and transfer of restricted share units	25	–	(6)	6	–	–	–	–	–	–
Dividends provided for or paid	13	–	(74,537)	–	–	–	–	(74,537)	–	(74,537)
Repurchase of ordinary shares	25	(16)	(126,766)	–	(25,469)	–	–	(152,251)	–	(152,251)
Step-acquisition of a subsidiary	18	8	70,755	–	–	–	–	70,763	7,152	77,915
Disposal of a subsidiary	5	–	–	–	–	–	–	–	(2,397)	(2,397)
Profit appropriations to statutory reserves	26	–	–	–	–	20,363	(20,363)	–	–	–
Appropriation of dividend to Non-controlling interests		–	–	–	–	–	–	–	(886)	(886)
Total transactions with Shareholders in their capacity as owners		2	(123,816)	6	(25,469)	32,469	(20,363)	(137,171)	3,869	(133,302)
Balance at 31 December 2018		789	1,828,683	–	(25,469)	510,665	516,740	2,831,408	12,762	2,844,170

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to Shareholders of the Company						Non-controlling interests	Total Equity
		Share capital	Share premium	Shares held for restricted share units schemes	Other reserves	Retained earnings/ (Accumulated deficits)	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017		804	2,250,388	(7)	426,403	(89,257)	2,588,331	35,641	2,623,972
Comprehensive income/(loss)									
Profit/(loss) for the year		—	—	—	—	324,099	324,099	(1,312)	322,787
Other comprehensive income									
Currency translation differences	26	—	—	—	(58,381)	—	(58,381)	(34)	(58,415)
Changes in value of available-for-sale financial assets	26	—	—	—	98,215	—	98,215	—	98,215
Total other comprehensive income/(loss), net of tax		—	—	—	39,834	—	39,834	(34)	39,800
Total comprehensive income/(loss)		—	—	—	39,834	324,099	363,933	(1,346)	362,587
Transactions with Shareholders in their capacity as owners									
Employees share option scheme and restricted share units schemes:									
– value of employee services	9	—	—	—	64,128	—	64,128	—	64,128
– proceeds from shares issued	25	6	6,386	—	—	—	6,392	—	6,392
– vest and transfer of restricted share units	25	—	(9)	9	—	—	—	—	—
Repurchase and cancellation of ordinary shares	25	(31)	(224,675)	—	—	—	(224,706)	—	(224,706)
Issuance of shares held for restricted share units schemes	25	8	—	(8)	—	—	—	—	—
Contribution from a non-controlling interest		—	—	—	405	—	405	101	506
Appropriation of dividend to non-controlling interests		—	—	—	—	—	—	(2,023)	(2,023)
Dividends provided for or paid	13	—	(79,591)	—	—	—	(79,591)	—	(79,591)
Profit appropriations to statutory reserves	26	—	—	—	40,907	(40,907)	—	—	—
Disposal of subsidiaries	5	—	—	—	(1,717)	—	(1,717)	(20,791)	(22,508)
Total transactions with Shareholders in their capacity as owners		(17)	(297,889)	1	103,723	(40,907)	(235,089)	(22,713)	(257,802)
Balance at 31 December 2017		787	1,952,499	(6)	569,960	193,935	2,717,175	11,582	2,728,757

The notes on pages 121 to 264 are integral parts of these consolidated financial statements.

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**342,916**	466,603
Income tax paid		**(81,381)**	(55,606)
Net cash generated from operating activities		**261,535**	410,997
Cash flows from investing activities			
Step acquisition of a subsidiary, net of cash acquired		**(134,128)**	—
Proceeds from disposal of subsidiaries, net of cash disposed		**17,808**	33,233
Payment for acquisition of investments accounted for using the equity method		**(11,870)**	(34,800)
Proceeds from disposal of investments accounted for using the equity method		**37,799**	—
Purchase of and prepayment for property and equipment, investment property and other non-current assets		**(61,656)**	(44,862)
Purchase of and prepayment for intangible assets		**(672)**	(939)
Proceeds on disposal of property and equipment and intangible assets	32(b)	**329**	748
Payment for term deposits with initial term of over 3 months and available-for-sales financial assets		**(101,039)**	(3,865,178)
Proceeds from disposal of term deposits with initial term of over 3 months and available-for-sales financial assets		**202,135**	3,929,619
Payment for financial assets at fair value through profit or loss		**(3,069,442)**	(35,465)
Proceeds from disposal of financial assets at fair value through profit or loss		**3,160,691**	—
Dividend received from investments accounted for using the equity method	14(a)	**484**	—
Dividend received from financial assets at fair value through profit or loss	22(a) (b)	**17,514**	—
Cash paid for acquisition of other financial assets		**(20,000)**	—
Cash paid for prepayments for investments		**(7,498)**	(121,984)
Repayment of capital contribution of available-for-sales financial assets		**—**	15,984
Receipt of refundable prepayments for potential investments		**28,113**	19,003

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Refundable advance received from a potential investment in a subsidiary		8,500	—
Loans granted to third parties and related parties		(43,804)	(461,819)
Repayment of loans granted to related parties and third parties		86,973	435,596
Interest received from loans granted to related parties and third parties		3,088	7,982
Net cash generated from/(used in) investing activities		113,325	(122,882)
Cash flows from financing activities			
Proceeds from exercise of share options		4,957	7,921
Payment for repurchase of shares	25	(152,251)	(224,706)
Proceeds from capital injection of non-controlling interests		—	506
Dividends paid to non-controlling interests		(886)	(2,023)
Dividends paid to the Company's shareholders	13	(74,537)	(79,591)
Net cash used in financing activities		(222,717)	(297,893)
Net increase/(decrease) in cash and cash equivalents		152,143	(9,778)
Cash and cash equivalents at beginning of year		273,652	290,306
Exchange gain/(loss) on cash and cash equivalents		6,793	(6,876)
Cash and cash equivalents at end of year		432,588	273,652
Non-cash financing and investing activities	32(c)	81,082	64,348
Cash flows of discontinued operations	5(d)	15,383	(1,754)

The notes on pages 121 to 264 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 enterprises 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 enables 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 27 March 2019.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

Changes in accounting policies and disclosure

(a) New amendments and interpretation adopted by the Group in 2018

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

– IFRS 9 Financial Instruments

– IFRS 15 Revenue from Contracts with Customers

The Group had to change its accounting policies and make retrospective adjustments following the adoption of IFRS 9 and IFRS 15. The impact of the adoption of IFRS 9 and IFRS 15 on the Group's financial statements is explained as follows:

(i) Impact on the financial statements

As a result of the changes in the entity's accounting policies and as explained below, IFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not restated in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(a) *New amendments and interpretation adopted by the Group in 2018 – continued*

(i) Impact on the financial statements – *continued*

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more details by the standard below.

Balance sheet (extract)	31 December 2017 As originally presented RMB'000	Adoption of IFRS 9 RMB'000	1 January 2018 Restated RMB'000
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	19,590	631,820	**651,410**
Available-for-sale financial assets	631,820	(631,820)	—
Current assets			
Available-for-sale financial assets	915,074	(915,074)	—
Financial assets at fair value through profit or loss	15,518	915,074	**930,592**
Total assets	2,964,147	—	**2,964,147**
Equity			
Equity attribute to Shareholders of the Company			
Other reserves	569,960	(124,892)	**445,068**
Retained earnings	193,935	124,892	**318,827**
Total equity	2,728,757	—	**2,728,757**
Liabilities			
Non-current liabilities	6,391	—	**6,391**
Current liabilities	228,999	—	**228,999**
Total liabilities	235,390	—	**235,390**
Total equity and liabilities	2,964,147	—	**2,964,147**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(a) New amendments and interpretation adopted by the Group in 2018 – continued

(ii) IFRS 9 Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The total impact on the group's retained earnings as at 1 January 2018 is as follows:

	Balance RMB'000
Closing retained earnings 31 December 2017-IAS39	193,935
Adjustments to retained earnings from adoption of IFRS 9 on 1 January 2018	124,892
Opening retained earnings 1 January 2018-IFRS 9	318,827

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(a) New amendments and interpretation adopted by the Group in 2018 – continued

(ii) IFRS 9 Financial instruments *– continued*

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	**FVPL** **RMB'000**	**AFS** **RMB'000**
Closing balance 31 December 2017 – IAS 39	35,108	1,546,894
Reclassify investments from available-for-sale financial assets ('AFS') to financial assets at fair value through profit or loss ('FVPL')	1,546,894	(1,546,894)
Opening balance 1 January 2018 – IFRS 9	1,582,002	—

The impact of these changes on the group's equity is as follows:

	Effect on AFS reserve included in 'Other reserves' RMB'000	**Effect on retained earnings** RMB'000
Opening balance – IAS 39	124,892	193,935
Reclassify investments from available-for-sale financial assets to financial assets at fair value through profit or loss	(124,892)	124,892
Opening balance – IFRS 9	—	318,827

The investments in wealth management products, investments in venture capital funds and the investments in unlisted equity interests were reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss (RMB 1,546,894 thousand as at 1 January 2018).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(a) New amendments and interpretation adopted by the Group in 2018 – continued

*(ii) **IFRS 9 Financial instruments** – continued*

The investments in wealth management products and venture capital funds do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. Additionally, the investments in unlisted equity interests are not held as long-term strategic investments. Thus, these investments are required to be held as FVPL under IFRS 9.

Reclassifications of financial instruments on adoption of IFRS 9

On the date of initial application, 1 January 2018, the financial instruments of the group were as follows, with any reclassification noted:

	Measurement category		Carrying amount		
			Original	New	Difference
	Original (IAS 39)	New (IFRS 9)	RMB'000	RMB'000	RMB'000
Non-current assets					
Unlisted equity investments	Available for sale	FVPL	332,862	332,862	—
Investments in venture capital funds	Available for sale	FVPL	298,958	298,958	—
Redeemable preferred shares	FVPL	FVPL	19,590	19,590	—
Other receivables (excluding prepaid expenses)	Amortised cost	Amortised cost	10,490	10,490	—
Current assets					
Other receivables (excluding prepaid expenses)	Amortised cost	Amortised cost	150,302	150,302	—
Trade receivables	Amortised cost	Amortised cost	28,862	28,862	
Wealth management products	Available for sale	FVPL	915,074	915,074	
Structured notes	FVPL	FVPL	15,518	15,518	
Term deposits with initial term over 3 months	Amortised cost	Amortised cost	199,448	199,448	—
Cash and cash equivalents	Amortised cost	Amortised cost	273,652	273,652	—

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(a) New amendments and interpretation adopted by the Group in 2018 – continued

*(ii) **IFRS 9 Financial instruments** – continued*

Impairment of financial assets

The Group has below types of financial assets that are subject to IFRS 9's new expected credit loss model:

– trade receivables

– other receivables

– term deposits with initial term over 3 months

– cash and cash equivalents

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The identified impairment loss of the above financial assets was immaterial.

Trade receivables

The Group applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables have been grouped based on shared credit risk characteristics and the days past due. In view of the history of cooperation with debtors and the sound collection history of receivable due from them, the outstanding receivable balances due from them are considered to be low credit risk.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(a) New amendments and interpretation adopted by the Group in 2018 – continued

***(ii) IFRS 9 Financial instruments** – continued*

Term deposits with initial term over 3 months and cash and cash equivalents

Term deposits with initial term over 3 months and cash and cash equivalents 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. Therefore, the balances due from them are considered to be low credit risk.

Other financial assets at amortised cost

Other financial assets at amortised cost include loans to third parties and related parties and employees and other receivables. In view of the history of cooperation with debtors and the sound collection history of receivable due from them, the outstanding other receivable balances due from them are considered to be low credit risk.

(iii) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the adoption of the new revenue standard had no impact on the Group's consolidated financial statements based on the Group's assessment.

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 2018, and have not been early adopted by the Group

Certain new accounting standards and interpretations are 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:

(i) IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact of adoption

The Group’s activity as a lessee mainly includes lease of office buildings and servers which are currently classified as operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB 1,143 thousand (see Note 34). Most of these commitments relate to short-term leases which will be recognised on a straight-line basis as expenses in profit or loss. Therefore, the Group does not expect any significant impact on the financial statements.

The group’s activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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 profit or loss. 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 ventures

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 the PRC and these subsidiaries considered RMB as their functional currency. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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	30 - 58 years
– Decorations	2 - 5 years
– Furniture	5 years
– Office equipment	3 years
– Server and other equipment	3 - 4 years
– Motor vehicles	4 years
– Leasehold improvement	Shorter of remaining term of the lease and the estimated useful lives of the assets

The assets' residual values and useful lives 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. These are included in '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, platform license and game license and customer resource

Separately acquired computer software, brand name, domain name and technology, platform license and game license are shown at historical cost. Computer software, brand name, domain name and technology, platform license and game license, customer resource 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 license and game license	6 - 20 years
– Customer resource	3 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 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Investment and other Financial assets

2.12.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through OCI, or through profit or loss), and

– those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Investment and other Financial assets – *continued*

2.12.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

– Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

– FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

– FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Investment and other Financial assets – *continued*

2.12.3 Measurement – continued

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.12.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other receivables, management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement patterns and past experience. Management used four categories for other receivables to reflect their credit risk. Expected credit loss model was applied to determine the loss provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Investment and other Financial assets – *continued*

2.12.5 Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, 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) Classification

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.

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', 'other receivables', 'term deposits with initial term over 3 months' and 'cash and cash equivalents' in the balance sheet (Notes 20, 21, 23 and 24).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Investment and other Financial assets – *continued*

2.12.5 Accounting policies applied until 31 December 2017 – continued

(a) ***Classification*** *– continued*

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.

(b) ***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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Investment and other Financial assets – *continued*

2.12.5 Accounting policies applied until 31 December 2017 – continued

(c) Impairment

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.

Assets carried at amortised cost

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Investment and other Financial assets – *continued*

2.12.5 Accounting policies applied until 31 December 2017 – continued

***(c) Impairment** – continued*

Assets classified as available-for-sale

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.

2.13 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.14 Trade and other receivables

Trade receivables are amounts due from customers for goods 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 receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.12 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.15 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.

2.16 Share capital

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. 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*

2.17 Shares held for restricted share units ('RSU') scheme

The consideration paid by the RSU Trustee (see Note 27(f)) 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'.

2.18 Trade and other 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 unless the payment is not due within 12 months after the reporting period. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 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*

2.19 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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 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.

2.21 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Share-based payments – *continued*

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

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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 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.

2.23 Revenue recognition

Revenues are recognised when or as the control of the services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the services may be transferred over time or at a point in time.

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities were mainly resulted from live social video platforms and game operation, which is recorded in customer advance and deferred revenue.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

In accordance with the principal versus agent considerations prescribed by IFRS 15, the Group determines whether it acts as the principal or agent in each of its revenue streams. The principal is the entity that has promised to provide services to its customers. An agent arranges for services to be provided by the principal to its end customer. An agent normally receives a commission or fee for these activities.

The Group recognises revenue when the specific criteria has been met for each of the Group's activities, as described below:

(a) Live social video platforms

The Group operates five major live social video communities (the 'Community'), namely Sina Show, 9158, Miao Broadcasting, Crazy Broadcasting 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's PRC Operating Entities entered into the annual distribution agreements with independent third-party distributors. Pursuant to the distributor agreements, each distributor has the right to purchase virtual currency on a set discounted basis and is exclusively responsible for sales of virtual currency for one or several of the Group's Video Platforms through developing and engaging sale agents who directly sell the virtual currency to users. In addition, each distributor is responsible for recruiting hosts and identifying genres and room contents that could be commercially profitable. The Group is responsible for providing a technological infrastructure to allow the hosts, users on air and viewers to interact through video streams and providing the services which enable the virtual currency to be used on the Video Platforms. 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 Video Platforms. The Group concluded that the distributor is the principal to fulfill the obligations related to the sales of virtual currency and delivery of the contents to users and has latitude in establishing price to users. The Group performs its role to provide a platform for the distributors to organize the hosts to deliver the contents to users. Accordingly, related revenues are presented the net amount retained 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.

The virtual currency are recorded as customer advance when they are sold to the distributors that are non-refundable. The virtual currency are transferred to deferred revenue when they are subsequently activated and charged to the respective communities accounts by the users.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

(a) Live social video platforms – continued

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 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. Users pay the membership fee based on the period they have the privilege on the Group's Video Platforms. The revenue generated from membership programs is recognised ratably over the membership period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

(b) Game operation

The Group primarily derives its mobile 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 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.

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*

2.23 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 acting as a principal in rendering services. Accordingly, the Group records revenue on a gross basis, and commission charges by game developers, platforms or third party payment vendors are recorded as cost of revenue.

(c) Advertising

The Group primarily derives its advertising revenue by delivering advertisements on its Video Platforms. The Group identifies the advertisers as the customer for online advertising services.

Some of the customers pay the Group for performance-based marketing, which means that a marketer pays the Group only when a user clicks on marketer’s link on the Group’s mobile applications. For these customers, the Group recognises revenue each time a user clicks on the marketer’s link.

The Group also offers display-based advertising services in the form of banners, and textual or graphical advertiser’s link. Advertisers pay the Group based on the period their advertisements are displayed on the Group’s Video Platforms and mobile applications. Revenue of such advertising service is recognised on a pro-rata basis over the contractual service period, starting on the date when the advertisements is first displayed on the Group’s Video Platforms.

(d) Software research and development

The Group provides research and development service to enterprises engaged in online entertainment platform and mobile games. Revenue is recognised when the services are rendered over the period or when the control of services are transferred to the customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

(e) Other services and sales

Other services and sales comprise primarily of revenues generated from rental service of investment property for an agreed period. The Group recognises the revenue when the respective services are rendered over the period or when the control of the services are transferred to the customers.

2.24 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) (2017: financial assets at FVPL and available-for-sale financial assets). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the investment may need to be tested for impairment as a consequence.

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.

Interest income from financial assets at fair value through profit or loss is included in the net fair value gains/(losses) on these assets, see note 8. Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of profit or loss as part of other gains.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other gains, net.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.26 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.27 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.

2.28 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. Note 9 provides further information on how the Group accounts for government grants.

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.

3 FINANCIAL RISK MANAGEMENT

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.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

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 2018. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. The Group does not hedge against any fluctuation in foreign currency. Details of the Group's trade receivables, prepayments and other receivables, term deposits with initial term over 3 months, and cash and cash equivalents as at 31 December 2018, which are denominated in currencies other than RMB, are disclosed in Notes 20, 21, 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 the equity method, financial assets at fair value through profit or loss (2017: 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$ and for the PRC subsidiaries whose functional currencies are RMB, 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) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from wealth management products held by the Group (Note 22) and classified as financial assets at fair value through profit or loss (2017: available-for-sale financial assets), 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 financial assets at fair value through profit or loss (2017: 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 25 base points higher/lower, the profit before income tax would have been RMB959 thousand higher/lower for the years ended 31 December 2018 (2017: RMB323 thousand).

(iii) Price risk

The Group is exposed to price risk because of investments held by the Group, classified as financial assets at fair value through profit or loss and 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 investment in venture capitals and unlisted equity interests 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 financial assets at fair value through profit or loss (2017: 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 10% higher/lower, the other gain or loss would have been approximately RMB85,970 thousand higher/lower for the year ended 31 December 2018 (2017: 3,525 thousand).

For available-for-sale financial assets, if equity prices of the respective instruments held by the Group had been 10% higher/lower, the other comprehensive income would have been approximately RMB63,182 thousand higher/lower for the year ended 31 December 2017.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, term deposits with initial term over 3 months, trade receivables, other receivables, and wealth management products recorded in financial assets at fair value through profit or loss (2017: available for sales financial assets). The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, term deposits with initial term over 3 months and wealth management products, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions, and the identified credit losses are immaterial.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 180 days and credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of sound collection history of receivables due from customers, management believes that credit risk inherent in the Group's outstanding trade receivables due from them is not significant.

For other receivables (excluding prepaid expenses), management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Group considers the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as of the reporting date with the risk of default as of the date of initial recognition. Supportive indicators are taken into consideration, such as adverse changes in the operating results or behavior of the counter party, and significant increases in credit risk on other financial instruments of the same counter party.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

The Group uses four categories for other receivables which reflect their credit risk and how the loss provision is determined for each of those categories. A summary of the assumptions underpinning the company's expected credit loss model is as follows:

Category	Definition of category	Basis for recognition of expected credit loss provision
Low risk	The counterparty has a low risk of default and does not have any past-due amounts or repayment is usually settled after due date.	12-month ECL. Where the expected lifetime of an asset is less than 12 months, expected credit losses are measured at its expected lifetime.
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources.	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and the Group has no reasonable expectation of recovery.	Asset is written off

Net impairment losses on financial assets recognized in profit or loss

During the year ended 31 December 2018, the following gains/(losses) were recognized in profit or loss in relation to impaired financial assets:

	Year ended 31 December 2018 RMB'000
Impairment losses on other receivables (Note 21)	(102,349)
Impairment losses	
– movement in loss allowance for trade receivables (Note 20)	500
Net impairment losses on financial assets	(101,849)

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 RMB'000	3-6 Months RMB'000	6 Months-1 Year RMB'000	More than 1 Year RMB'000	Total RMB'000
At 31 December 2018					
Trade payables	5,049	—	—	—	5,049
Other payables and accruals (excluding accrued payroll, government grant and other tax liabilities)	33,380	—	—	—	33,380
	38,429	—	—	—	38,429
At 31 December 2017					
Trade payables	11,054	—	—	—	11,054
Other payables and accruals (excluding accrued payroll, government grant and other tax liabilities)	33,594	—	—	—	33,594
	44,648	—	—	—	44,648

As at 31 December 2018 and 2017, 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

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data 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.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity investments.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- for structured notes and wealth management products - the use of quoted market prices or dealer quotes for similar instruments;
- for venture capital funds - the net asset value of private equity fund investments;
- for unlisted equity investments - (i) the latest round financing, i.e. the prior transaction price or the third-party pricing information, or (ii) the Group's share of the investees' net asset which are expected to be realised, or (iii) the discounted cash flow of the investees;
- for other financial instruments - the discounted cash flow analysis.

An explanation of each level follows underneath the table.

Recurring fair value measurements at 31 December 2018	Valuation techniques and key input	Note	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit and loss		22				
– Structured notes	Bank quoted expected return		—	—	9,941	9,941
– Wealth management products	Bank quoted expected return		—	—	871,871	871,871
– Venture capital funds	Net asset value		—	—	356,352	356,352
– Unlisted equity investments	Latest round financing or net asset value or discounted cash flow, future cash flows are estimated based on the key assumptions including discount rate, growth rate of net profit, etc.		—	—	471,844	471,844
– Contingent consideration	Discounted cash flow, future cash flows are estimated based on the key assumptions including discount rate, etc.		—	—	36,404	36,404
Total financial assets			—	—	1,746,412	1,746,412

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(ii) Valuation techniques used to determine fair values – continued

Recurring fair value measurements at 31 December 2017	Valuation techniques and key input	Notes	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit or loss		22				
– Structured notes	Bank quoted expected return		—	—	15,518	15,518
– Redeemable preferred shares	Discounted cash flow, future cash flows are estimated based on the key assumptions including discount rate, risk free interest rate and volatility, etc.		—	—	19,590	19,590
Available-for-sale financial assets		22				
– Wealth management products	Bank quoted expected return		—	—	915,074	915,074
– Venture capital funds	Net asset value		—	—	298,958	298,958
– Unlisted equity investments	Latest round financing		—	—	332,862	332,862
Total financial assets			—	—	1,582,002	1,582,002

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the year ended 31 December 2018:

	Financial assets at fair value through profit or loss RMB'000
Opening balance at 31 December 2017	1,582,002
Additions	3,069,442
Step-acquisition of a subsidiary (Note 18)	15,082
Disposals	(99,046)
Maturity of wealth management products	(3,061,950)
Derecognition of Shanghai Benqu from a financial asset through profit or loss (Note 22)	(31,870)
Dividend received (Note 22)	(17,514)
Recognition of contingent consideration (Note 22)	44,920
Dividend income (Note 8) (Note 22)	17,514
Fair value change recognised in consolidated statement of comprehensive income	199,378
Other change	18,228
Currency translation differences	10,226
Closing balance at 31 December 2018	1,746,412
***includes unrealised gains recognised in profit or loss attributable to balances held at 31 December 2018**	158,098

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(iii) Fair value measurements using significant unobservable inputs (level 3) – continued

The following table presents the changes in level 3 items for the year ended 31 December 2017:

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Opening balance at 31 December 2016	—	915,432	915,432
Additions	35,465	3,616,873	3,652,338
Remeasurement of the retained interest from "Langqing"and "Pangu Group" due to partial disposal of subsidiaries	—	29,873	29,873
Repayment of capital contribution	—	(15,984)	(15,984)
Maturity of wealth management products	—	(3,108,644)	(3,108,644)
Impairment	—	(7,500)	(7,500)
Investment interest income recognised in consolidated statement of comprehensive income under 'other gains, net'	(166)	29,964	29,798
Fair value change recognised in consolidated statement of comprehensive income under 'other comprehensive income'	—	98,215	98,215
Exchange and currency translation difference	(191)	(11,335)	(11,526)
Closing balance 31 December 2017	35,108	1,546,894	1,582,002
*includes unrealized losses recognised in profit or loss attributable to balances held at 31 December 2017	(166)	(2,626)	(2,792)

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(iv) Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every three months, in line with the Group's quarterly reporting periods.

The main level 3 inputs used by the group are derived and evaluated as follows:

- Discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Quoted bank expected return
- Latest rounds of financing or the prior transaction price
- Net asset

Changes in level 2 and 3 fair values are analysed at the end of each reporting period during the quarterly valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 2.23, 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 JUDGEMENTS – *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 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 2018 and 2017 was RMB12,106 thousand and RMB64,128 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 JUDGEMENTS – *continued*

4.1 Critical accounting estimates and assumptions – *continued*

(e) Impairment of goodwill and other non-financial assets

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 (Note 17).

(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.

(g) Impaiment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the aging, prior experiences, existing market conditions as well as forward looking estimates at the end of 31 December 2018. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *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 2.23 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 (i) the Group is the primary obligor in the arrangements and has discretion in the selection of online application store and third party payment channels; (ii) the Group has latitude to determine the price of virtual items offered in the mobile games; (iii) as the Group's mobile games are published through a small number of platforms, 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

4.2 Critical judgments in applying the Group's accounting policies – *continued*

(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.

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 2018:

Company Name	Jurisdiction and Date of Incorporation/ Acquisition	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group for 2018 and 2017	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$')	100%	Investment holding, Hong Kong
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$9,476,043/ 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
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 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
Chengdu Happy Alliance Technology Co., Ltd. ('Happy Alliance')	PRC/ 1 April 2016	RMB1,000,000	80%	Design and development of mobile games, the PRC
Shanghai Benqu Internet Technology Co., Ltd. ('Shanghai Benqu')	PRC/ 20 April 2018	RMB4,054,825	80%	Software and internet development and consulting service, the PRC

The proportion of equity interest held by the Group is consistent as at 31 December 2018 and 2017.

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.

5 SUBSIDIARIES – *continued*

(a) Significant restrictions

Cash and cash equivalents and term deposits of the Group, amounting to RMB184,855 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) Aggregated financial information on disposal of subsidiaries (details refer to (c) below)

	2018 RMB'000	2017 RMB'000
Cash consideration received or receivable	**1,997**	81,365
– Cash consideration received	**2,973**	33,607
– Cash consideration receivable	—	46,733
– Currency translation differences	**(976)**	1,025
Remeasurement of the retained interest from partial disposal of subsidiary	—	29,873
Total disposal consideration	**1,997**	111,238
Total assets disposed	**(4,313)**	(208,497)
– Cash and cash equivalents disposed	**(2,637)**	(6,474)
– Net book value of property and equipment disposed (Note 15)	—	(2,975)
– Net book value of intangible assets disposed (Note 17)	—	(107,658)
Total liabilities disposed	**18**	69,677
Other reserves disposed	**349**	1,717
Non-controlling interests disposed	**2,397**	20,791
Gain/(loss) on disposal before income tax	**448**	(5,074)
Income tax expense on gain	—	—
Gain/(loss) on disposal after income tax	**448**	(5,074)

5 SUBSIDIARIES – *continued*

(c) Details of the disposal of subsidiaries

(i) In September 2018, the Group disposed of its 68% equity interest in Dimensional Media INC., ("DMI"), an overseas company engaged in entertainment in Japan. The revenue and net profit relating to DMI for the nine months ended 30 September 2018 were nil and RMB1,426 thousand, respectively.

	DMI **RMB'000**
Cash consideration received or receivable	1,997
– Cash consideration received	2,973
– Currency translation differences	(976)
Total disposal consideration	1,997
Total assets disposed	(4,313)
– Cash and cash equivalents disposed	(2,637)
Total liabilities disposed	18
Other reserves disposed	349
Non-controlling interests	2,397
Gain on disposal before income tax	448
Income tax expense on gain	—
Gain on disposal after income tax	448

5 SUBSIDIARIES – *continued*

(c) Details of the disposal of subsidiaries – *continued*

(ii) In July 2017, the Group disposed of its 80% equity interest in Jinhua Shixun Network Technology Co., Ltd. ('Jinhua Shixun'), a company specialized in the online live social video related technologies. The revenue and net loss relating to Jinhua Shixun for the six months ended 30 June 2017 were RMB466 thousand and RMB70 thousand, respectively.

	Jinhua Shixun RMB'000
Cash consideration received or receivable	1,864
– Cash consideration received	1,864
Total disposal consideration	1,864
Total assets disposed	(2,460)
– Cash and cash equivalents disposed	(1,279)
Total liabilities disposed	179
Non-controlling interests	922
Gain on disposal before income tax	505
Income tax expense on gain	—
Gain on disposal after income tax	505

5 SUBSIDIARIES – *continued*

(c) Details of the disposal of subsidiaries – *continued*

(iii) In July 2017, the Group disposed of the 61% out of the 80% equity interest it held in Jinhua Langqing Network Technology Co., Ltd. ('Langqing'), a company set up to operate the Happy Alliance. The Group's remaining interests had been recognised as an available-for-sale financial asset as at 31 December 2017. The revenue and net profit relating to Langqing for the six months ended 30 June 2017 were RMB14,516 thousand and RMB115 thousand, respectively.

	Langqing
	RMB'000
Cash consideration received or receivable	61
– Cash consideration received	61
Remeasurement of the retained interest from partial disposal of subsidiary	1,746
Total disposal consideration	1,807
Total assets disposed	(11,585)
– Cash and cash equivalents disposed	(2,660)
– Net book value of property and equipment disposed	(14)
– Net book value of intangible assets disposed	(8,385)
Total liabilities disposed	3,339
Non-controlling interests	(28)
Loss on disposal before income tax	(6,467)
Income tax expense on gain	—
Loss on disposal after income tax	(6,467)

5 SUBSIDIARIES – *continued*

(c) Details of the sale of subsidiaries – *continued*

(iv) In September 2017, the Group disposed of the 44% out of the 64% equity interest it held in Jinhua Pangu Information Technology Co. Ltd. and Poon Ku International (Macau) Co., Ltd. (collectively 'Pangu Group'), a company specialized in design and development of web-based and mobile casual games, for an aggregated cash consideration of RMB77,350 thousand. The revenue and net profit relating to Pangu Group for the nine months ended 30 September 2017 were RMB88,619 thousand and RMB6,968 thousand, respectively. The transaction was completed in 2017, and the remaining interests had been recognised as an available-for-sale financial asset as at 31 December 2017. Its operating results during the nine months ended 30 September 2017 are presented in this consolidated financial statements as a discontinued operation (Note 5(d)). The Group received cash proceeds of RMB15,383 thousand in 2018 and the cash consideration receivable was RMB29,260 thousand at the year end.

Discontinued operation	**Pangu Group RMB'000**
Cash consideration received or receivable	77,350
– Cash consideration received	31,682
– Cash consideration receivable	44,643
– Currency translation differences	1,025
Remeasurement of the retained interest from partial disposal of subsidiary	28,127
Total disposal consideration	105,477
Total assets disposed	(185,663)
– Cash and cash equivalents disposed	(1,079)
– Net book value of property and equipment disposed	(2,942)
– Net book value of intangible assets disposed	(99,245)
Total liabilities disposed	60,864
Non-controlling interests	19,411
Gain on disposal before income tax	89
Income tax expense on gain	—
Gain on disposal after income tax	89

5 SUBSIDIARIES – *continued*

(c) Details of the sale of subsidiaries – *continued*

(v) In December 2017, the Group disposed of its 59.98% equity interest in Uncle Sam (HK) Co., Limited ('Uncle Sam'), a company specialized in the online trading of overseas health products and baby products in HK. The revenue and net loss relating to Uncle Sam for the eleven months ended 30 November 2017 were RMB26,294 thousand and RMB1,428 thousand, respectively. The remaining cash proceeds of RMB2,090 thousand from the disposal of Uncle Sam was received by the Group in 2018.

	Uncle Sam RMB'000
Cash consideration received or receivable	2,090
– Cash consideration received	—
– Cash consideration receivable	2,090
Total disposal consideration	2,090
Total assets disposed	(8,789)
– Cash and cash equivalents disposed	(1,456)
– Net book value of property and equipment disposed	(19)
– Net book value of intangible assets disposed	(28)
Total liabilities disposed	5,295
Other reserve disposed	1,717
Non-controlling interests	486
Gain on disposal before income tax	799
Income tax expense on gain	—
Gain on disposal after income tax	799

5 SUBSIDIARIES – *continued*

(d) Discontinued operations

(i) Description

In September 2017, the Group entered into agreements to dispose of 44% out of the 64% equity interest it held in Pangu Group that provided game licensing for an aggregated cash consideration of RMB77,350 thousand. The transaction was completed as at 30 September 2017 and is reported in the comparative period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(ii) Financial performance and cash flow information

The financial performance and cash flow information for the years ended 31 December 2017 and 2018 is presented as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	—	88,619
Cost of revenue	—	(10,995)
Gross profit from discontinued operations	—	77,624
Selling and marketing expenses	—	(53,737)
Administrative expenses	—	(11,901)
Research and development expenses	—	(4,255)
Other gains, net	—	307
Operating profit from discontinued operations	—	8,038
Finance income	—	65
Finance costs	—	—
Finance income, net	—	65
Profit before income tax	—	8,103
Income tax	—	(1,135)
Profit after income tax of discontinued operations	—	6,968

5 SUBSIDIARIES – *continued*

(d) Discontinued operations – *continued*

(ii) Financial performance and cash flow information – continued

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit from discontinued operations attributable to:		
– Owners of the Company	—	4,449
– Non-controlling interests	—	2,519
	—	6,968
Other comprehensive income from discontinued operations	—	—
Net cash outflow from operating activities	—	(13,580)
Net cash inflow from investing activities (includes proceeds from the disposal of 44% equity interest)	**15,383**	11,826
Total cash flows	**15,383**	(1,754)

5 SUBSIDIARIES – *continued*

(d) Discontinued operations – *continued*

(iii) Financial performance and cash flow information – continued

The carrying amounts of assets and liabilities as at the date of disposal (30 September 2017) were:

	As at 30 September 2017 RMB'000
Assets	
Non-current assets	
Property and equipment	2,942
Intangible assets	99,245
Prepayments and other receivables	1,159
Deferred income tax assets	47,895
	151,241
Current assets	
Inventories	3,953
Trade receivables	567
Prepayments and other receivables	28,823
Cash and cash equivalents	1,079
	34,422
Total assets	185,663
Liabilities	
Current liabilities	
Trade payables	2,884
Other payables and accruals	6,240
Deferred income tax liabilities	5,906
Income tax liabilities	45,834
	60,864
Total liabilities	60,864
Net assets	124,799

6 SEGMENT INFORMATION

(a) Description of segments and principal activities

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 had two reportable segments including online interactive entertainment service and others.

Online interactive entertainment service of the Group mainly comprises provision of live social video platforms and provision of online games. Others segment of the Group mainly comprise provision of advertising, software research and development 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 2018 and 2017. 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*

(b) Segment revenue and gross profit

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2018 is as follows:

	Year ended 31 December 2018		
	Online interactive entertainment RMB'000	Others RMB'000	Total RMB'000
Revenue	634,159	117,774	751,933
Gross profit	580,950	105,693	686,643
– Depreciation, amortization and impairment charges included in segment cost	(5,010)	(7)	(5,017)
Impairment of goodwill	—	(6,219)	(6,219)
Operating profit			510,287
Finance income			2,714
Finance costs			(2,193)
Shares of loss of investments accounted for using the equity method			(2,134)
Impairment of investments accounted for using the equity method			(149,250)
Profit before income tax			359,424

6 SEGMENT INFORMATION – *continued*

(b) Segment revenue and gross profit – *continued*

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2017 is as follows:

	Year ended 31 December 2017		
	Online interactive entertainment RMB'000	Others RMB'000	Total RMB'000
Revenue	852,205	63,764	915,969
Gross profit	768,421	38,257	806,678
– Depreciation, amortization and impairment charges included in segment cost	(11,206)	(9)	(11,215)
Impairment of goodwill	(15,766)	(9,704)	(25,470)
Operating profit			388,966
Finance income			5,732
Finance costs			—
Shares of loss of investments accounted for using the equity method			(504)
Profit before income tax			394,194

A breakdown of the revenue derived from continuing operations is as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Live social video platforms	**619,455**	809,937
Game operation	**14,704**	42,268
E-commerce transactions	**—**	26,294
Advertising	**64,286**	30,622
Software research and development	**51,900**	5,351
Others	**1,588**	1,497
	751,933	915,969

6 SEGMENT INFORMATION – *continued*

(b) Segment revenue and gross profit – *continued*

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC. For the years ended 31 December 2018 and 2017, the total geographic information on the revenue derived from continuing operations is as follows:

	Year ended 31 December 2018		
	PRC (Excluding Hong Kong) RMB'000	Other regions RMB'000	Total RMB'000
Revenue	730,599	21,334	751,933

	Year ended 31 December 2017		
	PRC (Excluding Hong Kong) RMB'000	Other regions RMB'000	Total RMB'000
Revenue	894,757	21,212	915,969

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 directly from a relatively small number of distributors. All the revenue derived from any single user of the live social video platform was less than 10% of the Group's total revenue during the years ended 31 December 2018 and 2017.

6 SEGMENT INFORMATION – *continued*

(c) Revenue from contracts with customers

(i) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Live social video platforms RMB'000	Game operation RMB'000	Ecommerce transaction RMB'000	Advertising RMB'000	Software research and development RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2018							
Timing of revenue recognition							
At a point in time	619,130	—	—	—	—	—	619,130
Over time	325	14,704	—	64,286	51,900	1,588	132,803
	619,455	14,704	—	64,286	51,900	1,588	751,933
Year ended 31 December 2017							
Timing of revenue recognition							
At a point in time	809,232	—	26,294	—	—	—	835,526
Over time	705	42,268	—	30,622	5,351	1,497	80,443
	809,937	42,268	26,294	30,622	5,351	1,497	915,969

6 SEGMENT INFORMATION – *continued*

(c) Revenue from contracts with customers – *continued*

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period related to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period		
– Live social video platforms	**28,135**	34,291
– Game operation	**14,475**	17,418

(d) Segment assets

The Group's non-current assets other than deferred income tax assets and financial instruments, broken down by location of the assets, is shown as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
PRC (Excluding Hong Kong)	**577,598**	602,673
Other regions	**82,029**	68,998
	659,627	671,671

7 EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Employee benefit expenses (including share-based compensation expenses) (Note 9)	**151,560**	197,420
Promotion and advertising expenses (a)	**116,816**	142,035
Provision for prepaid expenses	**3,639**	3,975
Bandwidth and server custody fees	**29,514**	30,051
Impairment of goodwill (Note 17)	**6,219**	25,470
Travelling and entertainment expenses	**15,234**	19,787
Commission charges by platforms and game developers	**14,020**	35,224
Depreciation and impairment charges of property and equipment (Note 15)	**13,792**	13,953
Amortisation and impairment charges of intangible assets (Note 17)	**25,759**	22,472
Game development costs	**11,828**	10,260
Auditors' remuneration		
– Audit services	**6,080**	8,283
– Non-audit services	**20**	2
Operating lease rentals	**4,389**	4,682
Cost of inventories	**—**	22,968
Reverse of write-down of inventories to net realizable value	**—**	(1,372)
Others	**37,093**	34,943
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**435,963**	570,153

(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	
	2018	2017
	RMB'000	RMB'000
Net fair value gains/(losses) on financial assets at fair value through profit or loss		
– Structured notes (Note 22)	(251)	(166)
– Unlisted equity investments (Note 22)	148,210	—
– Venture capital funds (Note 22)	8,463	—
– Wealth management products	39,566	—
– Redeemable preferred shares (Note 22)	11,906	—
– Contingent consideration (Note 22)	36,404	—
Investment income on available-for-sale financial assets	—	29,964
Investment interest on term deposits with initial term over 3 months	4,281	6,985
Dividend income (Note 22)	17,514	—
Government grants (a)		
– Technology award	8,041	9,977
– Tax related subsidies	10,157	7,491
– Scientific project fund	500	4,300
Interest income on loans to third parties and loans to employees	3,479	7,751
(Loss)/gain from revaluation of investment property (Note 16)	(1,098)	3,758
(Loss)/gain on disposal of property and equipment,net	(43)	482
Gain/(loss) on disposal of prepayment for potential investments	1,320	(15,004)
Impairment loss of available-for-sale financial assets (Note 22)	—	(7,500)
Gain/(loss) on disposal of subsidiaries (Note 5(c))	448	(13,900)
Gain on disposal of investments accounted for using the equity method (Note 14)	6,370	—
Gain on remeasurement of retained interests in Langqing and Pangu Group upon disposal (Note 5(c))	—	8,826
Foreign exchange gains/(losses) on non-financing activity	295	(287)
Others	604	473
	296,166	43,150

8 OTHER GAINS, NET – *continued*

(a) For the years ended 31 December 2018 and 2017, government grants primarily consisted of:

(i) Technology award, amounting to RMB 8,041 thousand (2017: RMB 9,977 thousand) was granted by the local government authorities in Hangzhou and Jinhua to reward the Group's achievement and support the Group's development in information service industries;

(ii) Tax related subsidies, amounting to RMB 10,157 thousand (2017: RMB 7,491 thousand) were granted by local government authorities in Hangzhou and Jinhua to incentivise the Group's business growth;

(iii) Scientific project fund, amounting to RMB 500 thousand (2017: RMB 4,300 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	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**114,452**	109,874
Defined contribution plans (a)	**9,727**	8,938
Other social security costs, housing benefits and other employee benefits	**15,275**	14,480
Share-based compensation expenses (Note 27(c))	**12,106**	64,128
	151,560	197,420

(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 (19%, 20%, 14% and 19% for Beijing, Shanghai, Zhejiang Province and Sichuan Province, 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.

9 EMPLOYEE BENEFIT EXPENSES – *continued*

(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 39 is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and allowances	**484**	482
Discretionary bonus	**72**	79
Defined contribution plans	**106**	85
Other social security costs, housing benefits and other employee benefits	**462**	465
Share-based compensation expenses	**271**	1,154
	1,395	2,265

The emoluments of the senior management, excluding the directors and the CEO whose emoluments have been reflected in Note 39, fell within the following bands:

	Year ended 31 December	
	2018	2017
Emoluments band:		
Nil to HKD 1,000,000	**1**	1
HKD 1,000,001 to HKD 5,000,000	**1**	1

9 EMPLOYEE BENEFIT EXPENSES – *continued*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2017: Nil) director whose emoluments are reflected in the Note 39. The emoluments paid and payable to the remaining four (2017: five) individuals during the year are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and allowances	**2,710**	1,369
Discretionary bonus	**87**	266
Defined contribution plans	**109**	163
Other social security costs, housing benefits and other employee benefits	**798**	107
Share-based compensation expenses	**7,780**	37,726
	11,484	39,631

The emoluments paid and payable to these individuals for the years ended 31 December 2018 and 2017 fell within the following bands:

	Year ended 31 December	
	2018	2017
Emoluments band:		
HKD 1,500,001 to HKD 2,000,000	—	1
HKD 2,000,001 to HKD 2,500,000	**1**	—
HKD 2,500,001 to HKD 3,000,000	**1**	—
HKD 3,000,001 to HKD 3,500,000	**1**	1
HKD 4,500,001 to HKD 5,000,000	**1**	—
HKD 10,500,001 to HKD 11,000,000	—	1
HKD 11,000,001 to HKD 11,500,000	—	1
HKD 19,000,001 to HKD 19,500,000	—	1

10 FINANCE INCOME/(COSTS), NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance income:		
– Interest income on cash and cash equivalents	**2,618**	2,584
– Exchange gain on financing activities	**96**	3,148
	2,714	5,732
Finance costs:		
– Exchange loss on financing activities	**(2,157)**	—
– Interest expenses	**(36)**	—
	(2,193)	—
Finance income, net	**521**	5,732

11 TAX EXPENSE

(a) Income tax expense

The income tax expense of the Group for the years ended 31 December 2018 and 2017 are analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax:		
– Enterprise income tax	**37,122**	75,914
– PRC withholding tax	**27,514**	5,000
Deferred income tax (Note 31)		
– Decrease/(Increase) in deferred tax assets	**(5,038)**	10
– Increase/(Decrease) in deferred tax liabilities	**84,164**	(2,549)
Income tax expense	**143,762**	78,375

(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.

11 TAX EXPENSE – *continued*

(a) Income tax expense – *continued*

(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 2018 and 2017.

(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%.

Hangzhou Tiange, Zhejiang Tiange and Shanghai Benqu qualified as 'New High-tech Enterprise' under the EIT Law in 2017. Star Power qualified as 'New High-tech Enterprise' under the EIT Law in 2015 and renewed in 2018. 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 2018.

An entity qualifies as 'Software Enterprise' is entitled to an income tax exemption for two years and a 50% reduction to an EIT rate of 12.5% for the subsequent three years. And an entity that qualifies as 'Key National Software Enterprise' is entitle to a further reduced preferential income tax rate of 10%. Happy Alliance and Zhejiang Tianyue qualified as "Software Enterprise" in 2015 and 2016, respectively. Hangzhou Tiange, other than its qualification as a New High-tech Enterprise, was also approved in 2018 as a Key National Software Enterprise for the year ended 31 December 2017. Enterprises wishing to enjoy the status of a Software Enterprise or a Key National Software Enterprise must file required supporting documents with the tax authorities before using the preferential EIT rates. The filing record will be subject to verification by relevant government authorities. Accordingly, income tax for Happy Alliance, Zhejiang Tianyue and Hangzhou Tiange has been provided for at a tax rate of 25%, 25% and 15%, respectively, during the year and corresponding tax adjustments in relation to the change in applicable tax rate will be accounted for in the period upon the verification process is completed.

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 2018:

Name	Applicable EIT rate
Hangzhou Tiange	15%
Zhejiang Tiange	15%
Star Power	15%
Hantang	25%
Jinhua9158	25%
Jinhua99	25%
Xingxiu	25%
Tianhu	25%
Tianyue	25%
Happy Alliance	25%
Shanghai Benqu	15%

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. 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 and Tianyue claimed such Super Deduction and recognised the additional tax deduction upon approval.

Pursuant to laws and regulations newly promulgated by the State Administration of Tax of the PRC and the Ministry of Finance, effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their qualified research and development expenses so incurred as tax deductible expenses. The additional deduction of 75% of qualified research and development expenses can be directly claimed in the annual EIT filing. Therefore, management has made its best estimation for the Group's entities in ascertaining their assessable profit for the year ended 31 December 2018.

11 TAX EXPENSE – *continued*

(a) Income tax expense – *continued*

(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%.

(v) Numerical reconciliation of income tax expense to prima facie tax payable

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	
	2018	2017
	RMB’000	RMB’000
Profit from continuing operations before income tax expense	**359,424**	394,194
Tax calculated at a tax rate of 25%	**89,856**	98,549
Tax effects of:		
Different tax jurisdiction	**5,458**	4,637
Preferential income tax benefits applicable to subsidiaries in China	**(57,157)**	(54,387)
Withholding tax of appropriation of dividend (a)	**27,514**	5,000
Super deduction for research and development expenses	**(9,879)**	(2,338)
Tax losses and temporary differences for which no deferred tax assets was recognised	**76,192**	11,739
Expenses not deducted for income tax purposes	**11,778**	15,175
Income tax expense	**143,762**	78,375

11 TAX EXPENSE – *continued*

(a) Income tax expense – *continued*

(v) Numerical reconciliation of income tax expense to prima facie tax payable – continued

(a) Management anticipated to remit the earnings of RMB 275,140 thousand from the profit for the year ended of 31 December 2018 of several PRC subsidiaries to Week8 Holdings (HK), which was subjected to a 10% withholding tax at a total amount of RMB 27,514 thousand. The remaining undistributed profits of the year ended 31 December 2018 are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future.

Pursuant to the resolutions of the board meeting of Star Power in December 2017, management planned to declare the dividend of RMB20,000 thousand from the profit of Star Power for the year ended 31 December 2017 to Week8 Holdings (HK) Limited, which was subject to a 10% withholding tax rate at a total amount of RMB2,000 thousand. The remaining undistributed profits of the year ended 31 December 2017 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, management declared the dividend of RMB60,000 thousand from the profit of Hangzhou Tiange for the year ended 31 December 2016 to Week8 Holdings (HK) Limited. Pursuant to the approval from the State Administration of Taxation (the 'SAT') in 2014, the relevant withholding tax of RMB3,000 thousand of dividend distributed by Hangzhou Tiange was accrued as of 31 December 2016. In February 2018, the dividend was paid to Week8 Holdings (HK) Limited and the relevant withholding tax of RMB6,000 thousand was paid to tax bureau as Week8 Holdings (HK) Limited didn't meet 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 any more. Thus, a further withholding tax of RMB3,000 thousand of the dividend was recognised in the year ended 31 December 2017.

11 TAX EXPENSE – *continued*

(b) Tax losses

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Unused tax losses for which no deferred tax asset has been recognised	**31,037**	29,534
Potential tax benefit calculated at a tax rate of 25%	**7,759**	7,384

The unused tax losses were incurred by subsidiaries that are not likely to generate taxable income in the foreseeable future. The losses can be carried forward and will expire from 2020 to 2022. See Note 31 for information about recognised tax losses and Note 4.1 for significant judgements made in relation to them.

(c) 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 earnings per share

Basic earnings per share is calculated by dividing the profit of the Group attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during each interim period.

	Year Ended 31 December	
	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**218,276**	319,650
Profit from discontinued operations attributable to shareholders of the Company (RMB'000)	**—**	4,449
	218,276	324,099
Weighted average number of ordinary shares in issue (thousand shares)	**1,272,110**	1,291,326
Basic earnings per share (in RMB/share)		
From continuing operations	**0.172**	0.248
From discontinued operations	**—**	0.003
	0.172	0.251

12 EARNINGS PER SHARE – *continued*

(b) Diluted earnings per share

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.

The Company has two categories of dilutive potential ordinary shares, share options granted to employees under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and RSUs granted to employees under Pre-IPO Restricted Share Unit Scheme and Post-IPO Restricted Share Unit Scheme. The share options and RSUs are assumed to have been fully vested and released from restrictions with no impact on earnings.

	Year Ended 31 December	
	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**218,276**	319,650
Profit from discontinued operations attributable to shareholders of the Company (RMB'000)	**—**	4,449
	218,276	324,099
Weighted average number of ordinary shares in issue (thousand shares)	**1,272,110**	1,291,326
Adjustments for share based compensation – share options (thousand shares)	**26,774**	33,980
Adjustments for share based compensation – RSUs (thousand shares)	**3,415**	10,981
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	**1,302,299**	1,336,287
Diluted earnings per share (in RMB/share)		
From continuing operations	**0.168**	0.240
From discontinued operations	**—**	0.003
	0.168	0.243

13 DIVIDENDS

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Dividends paid by the Company	**74,537**	79,591

The dividends paid in 2018 and 2017 were RMB74,537 thousand (HK$0.07 per share) and RMB79,591 thousand (HK$0.07 per share) respectively.

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Associates	**53,307**	118,948
Joint ventures	**1,998**	12,812
	55,305	131,760

The share of profit/(loss) recognised in the consolidated statement of comprehensive income are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Associates	**(2,405)**	2,072
Joint ventures	**271**	(2,576)
	(2,134)	(504)

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – *continued*

(a) Interests in associates

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	**118,948**	39,993
Additions (i)	**11,870**	76,800
Impairment (ii)	**(43,231)**	—
Disposals (iii)	**(31,499)**	—
Share of profit/(loss) of investments accounted for using the equity method	**(2,405)**	2,072
Dividend received	**(484)**	—
Currency translation difference	**108**	83
End of the year	**53,307**	118,948

(i) The Group acquired certain associates with an aggregate amount of RMB 11,870 thousand during the year ended 31 December 2018. These associates are principally engaged in the operation of small loan lending overseas and online social live broadcasting overseas.

(ii) Wuhan Jiuxin Puhui Financial Information Services Co., Ltd. ('Jiuxin Puhui'), one of the associates of the Group, was principally engaged in the operation of an online peer-to-peer ('P2P') lending platform in mainland China. In January 2017, the Group completed the acquisition of a 36% equity interest of Jiuxin Puhui from its shareholders at a cash consideration of RMB46,800 thousand. During the year ended 31 December 2018, the operation of Jiuxin Puhui was affected by government's intensified regulations, which resulted into a serious shortage of funds and increasing bad debts of Jiuxin Puhui. The Group carried out the impairment assessment on Jiuxin Puhui and determined the recoverable amount of the investment based on the value in use calculation. In respect of the recoverable amount arising from value in use calculation, the discounted cash flows calculation was based on cash flow projection estimated by management, and the key assumptions adopted in such cash flow projection included revenue growth rate and bad debt ratio. The estimated sales growth rate within five years adopted in cash flows projection performed by management in the year of 2017 was from 10% to 31%. No future revenue was expected to be generated in cash flows projection performed by management in the year of 2018. The bad debt ratio increased from 2% in 2017 to 24% in 2018. As no positive cash inflow was expected to be generated with the cease of the operation and bad debt ratio was deteriorated, the Group made a full impairment provision of RMB 43,231 thousand against the carrying amount of the associate. The impairment loss was recognised as impairment of investment accounted for using the equity method in the consolidated statements of comprehensive income for the year ended 31 December 2018.

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – *continued*

(a) Interests in associates – *continued*

(iii) During the year ended 31 December 2018, the Group disposed several associates, which were engaged in the operation of small loan lending in mainland China and social mobile application in mainland China. The disposals resulted in an aggregate gain of approximately RMB 401 thousand (Note 8).

(iv) 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 accounted for using the equity method and classified as associates. For the Group's other investments with shareholding above 20% but without board representation nor participation in the investee's policy-making process, management has concluded that the Group does not have significant influence over these investees and classified them as financial assets at fair value through profit or loss (2017: available-for-sale financial assets) (Note 22).

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Material associate	**—**	49,073
Immaterial associates	**53,307**	69,875
Total interests in associates	**53,307**	118,948

Material associate

During the year ended 31 December 2017, Wuhan Jiuxin Puhui Financial Information Services Co., Ltd ('Jiuxin Puhui'), one of the Group's associates, was material to the Group in the opinion of management. The associate had share capital consisting solely of ordinary shares, 36% of which were directly held by the Group.

During the year ended 31 December 2018, the Group made a full impairment provision of RMB43,231 thousand against the carrying amount of Jiuxin Puhui. As the carrying amount of the associate was fully impaired and the impairment was unlikely to be recovered in the foreseeable future, management considered the associate as immaterial to the Group.

For the year ended 31 December 2018, share of loss from investment in Jiuxin Puhui was RMB 5,901 thousand, which was included in the aggregate amounts of the Group's share of profit from continuing operations of individually immaterial associates.

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – *continued*

(a) Interests in associates – *continued*

Individually immaterial associates

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	**53,307**	69,875
Aggregate amounts of the Group's share of:		
Loss from continuing operations	**(2,405)**	(201)
Other comprehensive income	**—**	—
Total comprehensive income	**(2,405)**	(201)

(b) Interests in joint ventures

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	**12,812**	15,504
Additions (i)	**105,384**	—
Impairment (i)	**(106,019)**	—
Disposals (ii)	**(10,600)**	—
Share of profit/(loss) of investments accounted for using the equity method	**271**	(2,576)
Currency translation difference	**150**	(116)
End of the year	**1,998**	12,812

(i) In 2017 the Group entered into an investment agreement with a third party company which is primarily engaged in operating P2P lending platform in mainland China, to subscribe for 37.28% of its equity interests to form Jinhua Lanyou Network Technology Co., Ltd., a joint venture, at a cash consideration of RMB 105,384 thousand. As of 31 December 2017, the investment was recorded in the prepayments and other receivables as the transaction was yet to be consummated.

In January 2018, upon the completion of the restructuring of the third-party company, the subscription of equity interests transaction was completed and the investment was accounted for as interest in joint venture. With the enhanced regulatory environment affecting the P2P lending platform industry in mainland China, the joint venture's primary business changed into the operation of debt collection, provision of technical services to internet finance companies in mainland China (collectively "PRC Business"), and P2P lending platform overseas ("Overseas Business").

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – *continued*

(b) Interests in joint ventures – *continued*

(i) – *continued*

In December 2018, the PRC Business of the joint venture was affected by the government's intensified regulations and was terminated accordingly; and the financial/business outlook of the Overseas Business of the joint venture was not optimistic after revision. The Group carried out an impairment assessment on the joint venture and determined the recoverable amount of the investment based on the value in use calculation. In respect of the recoverable amount using value in use, the discounted cash flows calculations were based on cash flow projections estimated by management and the key assumptions adopted in such cash flow projections include revenue growth rate and the discounted rate. The estimated sales growth rate within five years adopted in cash flows projection performed by management at the beginning of 2018 ranged from -68% to 117% while the estimated sales growth rate within five years adopted in cash flows projection performed by management at the end of 2018 ranged from -94% to 25%. The discounted rate adopted in the two cash flows projections performed by management was the same as 35%. As the Overseas Business was not optimistic and no positive operating cash inflow was expected, management determined the implied value in use of the joint venture to be zero. As a result, the Group made a full impairment provision of RMB 106,019 thousand against the carrying amount of the joint venture. The impairment loss was recognised as impairment of investment accounted for using the equity method in the consolidated statements of comprehensive income for the year ended 31 December 2018.

(ii) During the year ended 31 December 2018, the Group disposed several joint ventures, which were mainly engaged in the operation of online social platform in mainland China, online marketing and promotion with Internet celebrity in Japan. The disposals resulted in an aggregate gain of approximately RMB 5,969 thousand (Note 8).

(iii) 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 36.11% (2017: 27% to 51%) because unanimous consent is required from all parties to the agreements for all relevant activities. Consequently, these investments have been accounted for using the equity method and classified as joint ventures.

In the opinion of management, the joint ventures of the Group as at 31 December 2018, are not material to the Group. The joint venture 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) Interests in joint ventures – *continued*

Individually immaterial joint ventures

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of individually immaterial joint ventures	1,998	12,812
Aggregate amounts of the Group's share of:		
Profit/(loss) from continuing operations	271	(2,576)
Other comprehensive income	—	—
Total comprehensive income	271	(2,576)

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 I mprovement RMB'000	CIP RMB'000	Total RMB'000
Year ended 31 December 2018								
Net book value								
Opening net book amount	160,542	3,548	2,055	8,402	3,468	—	15,429	193,444
Additions	—	322	638	4,081	747	—	—	5,788
Step acquisition of a subsidiary	—	—	190	—	—	—	—	190
Transferred from construction in progress	14,113	1,316	—	—	—	—	(15,429)	—
Disposals	—	—	(11)	(306)	(55)			(372)
Depreciation charge	(5,099)	(2,810)	(970)	(3,824)	(1,089)	—	—	(13,792)
Currency translation difference	1,264	96	10	(78)	32	—	—	1,324
Closing net book amount	170,820	2,472	1,912	8,275	3,103	—	—	186,582
As at 31 December 2018								
Cost	191,215	14,708	6,751	41,819	5,982	7,957	—	268,432
Accumulated depreciation	(20,395)	(12,236)	(4,799)	(32,397)	(2,879)	(7,957)	—	(80,663)
Accumulated impairment	—	—	(40)	(1,147)	—	—	—	(1,187)
Net book amount	170,820	2,472	1,912	8,275	3,103	—	—	186,582

15 PROPERTY AND EQUIPMENT – *continued*

	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 2017								
Net book value								
Opening net book amount	162,173	6,054	2,980	8,737	2,697	62	205	182,908
Additions	3,034	316	502	6,888	2,342	—	15,429	28,511
Transferred from construction in progress	—	205	—	—	—	—	(205)	—
Disposals	—	—	(13)	(157)	(96)	—	—	(266)
Disposal of subsidiaries	—	—	(351)	(2,132)	(492)	—	—	(2,975)
Depreciation charge	(4,665)	(3,027)	(1,063)	(4,934)	(983)	(62)	—	(14,734)
Closing net book amount	160,542	3,548	2,055	8,402	3,468	—	15,429	193,444
At 31 December 2017								
Cost	175,810	12,967	5,917	42,621	6,310	7,957	15,429	267,011
Accumulated depreciation	(15,268)	(9,419)	(3,822)	(32,896)	(2,842)	(7,957)	—	(72,204)
Accumulated impairment	—	—	(40)	(1,323)	—	—	—	(1,363)
Net book amount	160,542	3,548	2,055	8,402	3,468	—	15,429	193,444

Depreciation and impairment charges were included in the following categories in the statement of comprehensive income:

	Year Ended 31 December 2018 RMB'000	2017 RMB'000
Cost of revenue	**1,397**	2,511
Selling and marketing expenses	**1,756**	1,649
Administrative expenses	**3,212**	2,668
Research and development expenses	**7,427**	7,125
Continuing operations	**13,792**	13,953
Discontinued operations	**—**	781
	13,792	14,734

16 INVESTMENT PROPERTIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
At fair value		
Opening amount	**45,319**	27,748
Additions	**—**	16,350
Net gain/(loss) from revaluation	**(1,098)**	3,758
Currency translation difference	**2,291**	(2,537)
Closing amount	**46,512**	45,319

Amounts recognised in the statement of comprehensive income for investment properties:

	2018	2017
	RMB'000	RMB'000
Rental income	**760**	622
Direct operating expenses related to properties that generated rental income	**(295)**	(569)
	465	53

As at 31 December 2018, the Group had no unprovided contractual obligations for future repairs and maintenance (2017: Nil).

16 INVESTMENT PROPERTIES – *continued*

The valuation of the investment properties was performed by independent and qualified valuers, to determine the fair value of the investment properties as at 31 December 2018. The revaluation gains or losses are included in 'Other gains, net' in the consolidated statement of comprehensive income (Note 8). To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its non-financial assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level is provided in Note 3.3.

	Fair value measurement at 31 December 2018 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				
Mokulua Dr Kailua	—	—	29,354	29,354
San Francisco, California	—	17,158	—	17,158
	—	17,158	29,354	46,512

	Fair value measurement at 31 December 2017 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				
Mokulua Dr Kailua	—	—	29,861	29,861
San Francisco, California	—	15,458	—	15,458
	—	15,458	29,861	45,319

16 INVESTMENT PROPERTIES – *continued*

(i) Valuation techniques used to determine level 2 and level 3 fair values

At the end of each reporting period, the Group updates their assessment of the fair value of each property, taking into account the most recent independent valuations. The Group determines a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Group consider information from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- discounted cash flow projections based on reliable estimates of future cash flows
- capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

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, quality of construction and gross living area, etc. 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.

(ii) Fair value measurement using significant unobservable inputs (level 3)

The following table presents the changes in level 3 item for the years ended 31 December 2018 and 2017 for recurring fair value measurements:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Opening balance, at 1 January	**29,861**	27,748
Additions	—	—
Fair value change recognised in consolidated statement of comprehensive income under 'other gains, net'	**(2,028)**	3,758
Currency translation difference	**1,521**	(1,645)
Closing balance, at 31 December	**29,354**	29,861
*includes unrealized gains recognised in profit or loss attributable to balances held at 31 December	**(2,028)**	3,758

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Computer Software RMB'000	Domain Name and Technology RMB'000	Customer Resource RMB'000	Platform License and Game License RMB'000	Total RMB'000
Year ended 31 December 2018						
Opening net book amount	29,563	15,712	1,309	—	50,616	97,200
Additions	—	472	200	—	—	672
Step-acquisition of a subsidiary (Note 18)	210,166	3,001	—	17,221	—	230,388
Amortisation charge	—	(3,908)	(805)	(3,827)	(3,990)	(12,530)
Impairment charge (i)	(6,219)	—	—	—	(13,229)	(19,448)
Currency translation difference	101	—	16	—	—	117
Closing net book amount	233,611	15,277	720	13,394	33,397	296,399
At 31 December 2018						
Cost	255,596	32,188	10,294	17,221	70,411	385,710
Accumulated amortization	—	(15,884)	(9,574)	(3,827)	(20,247)	(49,532)
Accumulated impairment	(21,985)	(1,027)	—	—	(16,767)	(39,779)
Net book amount	233,611	15,277	720	13,394	33,397	296,399

	Goodwill RMB'000	Computer Software RMB'000	Domain Name and Technology RMB'000	Brand Name RMB'000	Platform License and Game License RMB'000	Total RMB'000
Year ended 31 December 2017						
Opening net book amount	139,165	19,144	1,663	7,610	83,421	251,003
Additions	—	498	441	—	4,717	5,656
Disposal of subsidiaries	(84,008)	(28)	—	—	(23,622)	(107,658)
Amortisation charge	—	(3,874)	(517)	(1,343)	(10,362)	(16,096)
Impairment charge (i)	(25,470)	—	—	(6,267)	(3,538)	(35,275)
Currency translation difference	(124)	(28)	(278)	—	—	(430)
Closing net book amount	29,563	15,712	1,309	—	50,616	97,200
At 31 December 2017						
Cost	45,329	28,715	9,549	—	70,411	154,004
Accumulated amortization	—	(11,976)	(8,240)	—	(16,257)	(36,473)
Accumulated impairment	(15,766)	(1,027)	—	—	(3,538)	(20,331)
Net book amount	29,563	15,712	1,309	—	50,616	97,200

17 INTANGIBLE ASSETS – *continued*

Amortisation and impairment charges were included in the following categories in the statement of comprehensive income:

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of revenue	**3,620**	3,988
Selling and marketing expenses	**4,123**	1,484
Administrative expenses	**23,174**	41,174
Research and development expenses	**1,061**	1,296
Continuing operations	**31,978**	47,942
Discontinued operations	**—**	3,429
	31,978	51,371

(a) Impairment tests for goodwill

Management reviews the business performance based on type of business. Goodwill is monitored by management at the CGU level. The following is a summary of goodwill allocation for each of the CGUs:

2018	Opening RMB'000	Addition RMB'000	Disposal RMB'000	Impairment RMB'000	Cumulative translation adjustments RMB'000	Closing RMB'000
Sina Show Platform	503	—	—	—	84	587
9158 Platform	1,516	—	—	—	17	1,533
Jinhua Platform	21,325	—	—	—	—	21,325
Happy Alliance (i)	6,219	—	—	(6,219)	—	—
Wuta Application	—	210,166	—	—	—	210,166
	29,563	210,166	—	(6,219)	101	233,611

(i) Impairment of Happy Alliance

During the year ended 31 December 2018, a game license and a goodwill have been impaired to the extent of RMB 13,229 thousand and RMB 6,219 thousand, respectively, as a result of a significant decline in revenues and no future cash flows were expected to be brought to the Group.

17 INTANGIBLE ASSETS – *continued*

(a) Impairment tests for goodwill – *continued*

2017	Opening RMB'000	Addition RMB'000	Disposal RMB'000	Impairment RMB'000	Cumulative translation adjustments RMB'000	Closing RMB'000
Sina Show Platform	593	—	—	—	(90)	503
9158 Platform	1,550	—	—	—	(34)	1,516
Jinhua Platform	21,325	—	—	—	—	21,325
Uncle Sam	9,704	—	—	(9,704)	—	—
Happy Alliance (ii)	30,370	—	(8,385)	(15,766)	—	6,219
Pangu Group	75,623	—	(75,623)	—	—	—
	139,165	—	(84,008)	(25,470)	(124)	29,563

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 2018 and 2017 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*

(a) Impairment tests for goodwill – *continued*

2018	Jinhua Platform	Happy Alliance	Wuta Application
Pre-tax discount rate	19.4%	17.4%	29.6%
Long-term growth rate	3%	3%	3%
Sales growth rate	-15%~3%	-1%~3%	10%~35%
Gross profit margin	28%	98%~99%	75%~85%
Recoverable amount of CGU (RMB'000)	N/A	734	N/A

2017	Jinhua Platform	Uncle Sam	Happy Alliance
Pre-tax discount rate	18.8%	18.8%	21.7%
Long-term growth rate	3%	3%	3%
Sales growth rate	3%~5%	-5%~3%	-70%~5%
Gross profit margin	28%	21%~24%	100%
Recoverable amount of CGU (RMB'000)	N/A	3,484	20,938

18 BUSINESS COMBINATION

(a) Shanghai Benqu Internet Technology Company Limited

In December 2017, the Group acquired 13.6% of the equity interest in Shanghai Benqu Internet Technology Company Limited ("Shanghai Benqu"), a third party company principally engaged in developing and operating mobile applications of photo and video in the PRC and developing platforms for simultaneous video retouching features, which was accounted for as a financial assets at fair value through profit or loss as the equity interests can be redeemed if an initial public offering of Shanghai Benqu cannot be achieved within five years since the investment date, at a cash consideration of RMB 19,590 thousand. In April 2018, the Group further acquired 66.4% of the equity interests and obtained control of Shanghai Benqu, at a consideration of RMB 136,142 thousand in cash and 13,237,995 ordinary shares that was issued on 20 April 2018. In addition, the redeemable equity interest was converted into ordinary shares due to the Group obtained the control of Shanghai Benqu.

18 BUSINESS COMBINATION – *continued*

(a) Shanghai Benqu Internet Technology Company Limited – *continued*

As a result, the Group held 80% of the equity interest in Shanghai Benqu. The goodwill of RMB210,166 thousand arose from a number of factors including expected synergies through combining mobile application of photo and video, growth potential, unrecognised assets such as workforce in research and development, daily active users, etc. The goodwill recognised is not expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Shanghai Benqu, and the amounts of the assets and liabilities acquired at the acquisition date.

	20 April 2018 RMB'000
Consideration	
– Total cash consideration	136,142
– Ordinary shares issued	70,763
Total consideration transferred	206,905
Fair value of equity interest in Shanghai Benqu held before the business combination	31,870
Total consideration	238,775

18 BUSINESS COMBINATION – *continued*

(a) Shanghai Benqu Internet Technology Company Limited – *continued*

Recognised amounts of identifiable assets acquired and liabilities assumed

Provisional fair value

	20 April 2018 RMB'000
Cash and cash equivalents	2,014
Trade receivables	2,543
Prepayment and other receivables	1,328
Financial assets at fair value through profit or loss	15,082
Property and equipment	190
Intangible assets (i)	
– Computer and mobile software	3,001
– Customer resource	17,221
Trade payables	(213)
Other payables and accruals	(349)
Deferred income tax liabilities (i)	(5,056)
Total identifiable net assets	35,761
Non-controlling interests (iii)	(7,152)
Goodwill	210,166
Total purchase consideration	238,775
Acquisition-related costs (included in administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2018)	115

18 BUSINESS COMBINATION – *continued*

(a) Shanghai Benqu Internet Technology Company Limited – *continued*

	20 April 2018 RMB'000
Outflow of cash to acquire business, net of cash acquired	
– Cash consideration	136,142
– Cash and cash equivalents in subsidiary acquired	(2,014)
Cash outflow on acquisition	134,128
Payables for acquisition of subsidiary	—
Net cash outflow	134,128

(i) Acquisition date fair value of the ordinary shares issued

The fair value of the 13,237,995 ordinary shares issued as part of the consideration of RMB 70,763 thousand paid for Shanghai Benqu was based on the published share price on 20 April 2018.

(ii) Acquisition date fair value of the previously held equity interest

The Group recognised a gain of RMB11,906 thousand as a result of measuring its 13.6% equity interest in Shanghai Benqu held before the business combination at fair value. The gain is included in "Other gains, net" in the Group's consolidated statement of comprehensive income for the year ended 31 December 2018.

(iii) Fair value of acquired identifiable intangible assets

The fair value of the acquired self-developed mobile photo and video application and daily active users, amounting to RMB 20,222 thousand is recognised upon the acquisition based on valuations for these assets. Deferred income tax liabilities of RMB 5,056 thousand has been provided in relation to these fair value adjustments.

18 BUSINESS COMBINATION – *continued*

(a) Shanghai Benqu Internet Technology Company Limited – *continued*

(iv) Non-controlling interests

The Group has chosen to recognise the non-controlling interests or proportionate share of net assets for this acquisition.

(v) Revenue and profit contribution

The acquired business contributed revenues of RMB 30,678 thousand and net profit of RMB 5,561 thousand to the Group for the period from the acquisition date to 31 December 2018.

(vi) The fair value of the identifiable intangible acquired was estimated by applying the income approach. This is a level 3 fair value measurement. The key assumptions are set out as follow:

Discount rate	25.4%
Remaining useful life	3 years
Attrition rate	33.3%
Contributory asset charge rate	3.3%-25.4%
Sales growth rate	6.1%-51.2%
Gross profit margin	96.8%

19 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Assets as per balance sheet		
Financial assets at amortised cost:		
– Trade receivables	**64,298**	28,862
– Other receivables (excluding prepaid expenses)	**98,338**	160,792
– Cash and cash equivalents	**432,588**	273,652
– Term deposits with initial term over 3 months	**112,318**	199,448
Financial assets at fair value:		
– Financial assets at fair value through profit or loss	**1,746,412**	35,108
– Available-for-sale financial assets	**—**	1,546,894
	2,453,954	2,244,756
Liabilities as per balance sheet		
Financial liabilities at amortised cost		
– Trade payables	**5,049**	11,054
– Other payables and accruals (excluding accrued payroll, government grant and other tax liabilities)	**33,380**	33,594
	38,429	44,648

20 TRADE RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Third parties	**64,956**	30,659
Less: allowance for impairment of trade receivables	**(800)**	(1,953)
Third parties, net	**64,156**	28,706
Amount due from related parties (Note 35(c))	**142**	156
	64,298	28,862

(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	
	2018	2017
	RMB'000	RMB'000
0-90 days	**62,617**	26,302
91-180 days	**1,269**	2,156
181-365 days	**230**	326
Over 1 year	**982**	2,031
	65,098	30,815

(b) **The carrying amount of the Group's gross trade receivables are denominated in the following currencies:**

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**58,355**	26,528
US$	**6,743**	4,287
	65,098	30,815

20 TRADE RECEIVABLES – *continued*

(c) Movements on the Group's allowance for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
As at 1 January 2018	1,953	—
Provision for receivables impairment (i)	—	1,953
Receivables written off during the year as uncollectible (ii)	(653)	—
Reversal of provision for receivables impairment (ii)	(500)	—
As at 31 December 2018	800	1,953

(i) In 2017, one of the Group's customers encountered significant financial difficulties and the amount due from this customer of RMB1,953 thousand was fully impaired.

(ii) In 2018, the provision for receivables impairment was reversed by RMB500 thousand as the customer repaid the debt. In addition, the amount of RMB653 thousand were written off during the year as uncollectible.

(d) Impairment and risk exposure

The Group applies the simplified approach permitted by IFRS9, which requires the expected lifetime losses to be recognised from initial recognition of the assets. This provisions matrix is determined based on historical observed default rates over the expected life of trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates.

Information about the impairment of trade receivables and group's exposure to credit risk and interest rate risk can be found in Note 3.1.

(e) Fair values of trade receivable

As at 31 December 2018 and 2017, due to the short-term nature of the current receivables, their carrying amount is considered to approximate their fair value.

21 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Included in non-current assets		
Refundable prepayments for purchase of investments (a)	97,498	181,984
Prepayments for purchase of land use right (b)	55,620	—
Loans to employees	8,121	11,328
Deposit for purchase of land use right (b)	5,562	—
Long-term prepayments for game licenses and others, net	1,777	6,827
Others	8,400	8,644
	176,978	208,783
Less: provision for impairment (f)	(102,149)	(4,835)
	74,829	203,948
Included in current assets		
Receivable from disposal of subsidiaries (Note 5(c))	29,260	46,733
Loan to related parties (c) (Note 35(c))	7,134	10,000
Loan to employee	11,085	2,563
Receivable from disposal of investments accounted for using the equity method (d)	10,258	—
Loans to third parties (e)	8,411	48,345
Refundable prepayment for potential investments (a)	7,909	17,817
Prepaid promotion expenses	5,398	5,960
Receivable from disposal of prepayments on potential investment	4,800	14,993
Deferred commission charges	4,335	11,353
Advance to suppliers	5,421	4,798
Deposit	667	6,483
Insurance fees	3,314	2,983
Individual income tax of RSUs	22,461	16,778
Prepaid rental and property management fee	2,831	303
VAT-in, not invoiced	2,619	912
Others	4,097	835
	130,000	190,856
Less: provision for impairment (f)	(27,078)	(18,312)
	102,922	172,544
	177,751	376,492

21 PREPAYMENTS AND OTHER RECEIVABLES – *continued*

(a) The Group entered into a series of prospective investment agreements with refundable terms if investments agreements failed to be reached. If the investment agreements are more likely than not to be reached based on management's intention and estimates, the prepayments are classified as non-current assets. As of 31 December 2018, management performed impairment assessment on the prepayments of investments, including the ageing of the refundable prepayment, the current financial status of the selling shareholder, as well as probability of collection of the prepayment of the investments in the future. As a result, management recognise a full impairment of RMB 90,000 thousand against two long aged prepayments for investments and an impairment of RMB 3,749 thousand against a prepayment for investments due to the inherent uncertainty of the future collection. The net amount of the refundable prepayments for investments as of 31 December 2018 was RMB 3,749 thousand.

(b) In June 2018, the Group paid the government RMB 55,620 thousand to purchase use right of certain land in Gongshu District, Hangzhou. A deposit amounting to RMB 5,562 thousand (10% of the total price) was paid to guarantee timely completion of the construction.

(c) The balance represents the loans lent by the Group to related parties with terms within 1 year and interest rates ranging from 5% to 8% per annum. As of 31 December 2018, management made an impairment of RMB 5,389 thousands against a loan of RMB 6,056 thousand to a related party based on the adverse change in the operating results of the borrower.

(d) The balance represents the consideration receivable from disposal of investments accounted for using the equity method which resulted in a gain of RMB6,370 thousand (Note 8).

(e) The balance represents the loans lent by the Group to certain third-party companies with terms within 1 year and interest rates ranging from 6% to 10% per annum. As of 31 December 2018, management provided a full impairment of RMB 3,211 thousand against a loan to third party based on the adverse change in the cash flow of the borrower.

21 PREPAYMENTS AND OTHER RECEIVABLES – *continued*

(f) Impairment and risk exposure

The loss allowance for prepayments and other receivables as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Impairment on other receivables				
	Refundable prepayments for purchase of investments RMB'000	Loans to related parties and third parties RMB'000	Total impairment on other receivables RMB'000	Impairment on prepaid expenses RMB'000	Total RMB'000
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	7,817	4,200	12,017	11,130	23,147
Amounts restated through opening retained earnings	—	—	—	—	—
Opening loss allowances as at 1 January 2018 (calculated under IFRS9)	7,817	4,200	12,017	11,130	23,147
Increase in the allowance recognised in profit or loss during the period	93,749	8,600	102,349	3,639	105,988
Currency translation difference	92	—	92	—	92
Closing loss allowance as at 31 December 2018	**101,658**	**12,800**	**114,458**	**14,769**	**129,227**

For other receivables (excluding prepaid expenses), Management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables. Note 3.1 sets out information about the impairment of financial assets and the Group's exposure to the risk.

(g) The carrying amount of the Group's net financial other receivables are denominated in the following currencies:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
RMB	**57,089**	112,472
US$	**6,437**	48,300
HK$	**34,812**	20
	98,338	160,792

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Included in non-current assets		
Financial assets at FVPL		
Unlisted equity investments (a)	**471,844**	—
Investments in venture capital funds (b)	**356,352**	—
Contingent consideration (a(ii))	**36,404**	—
Structured notes (c)	**9,941**	—
Redeemed preferred shares (e)	**—**	19,590
	874,541	19,590
AFS financial assets		
Investments in venture capital funds (b)	**—**	298,958
Unlisted equity investments (a)	**—**	332,862
	—	631,820
Included in current assets		
Financial assets at FVPL		
Investment in wealth management products (d)	**871,871**	—
Structured notes (c)	**—**	15,518
	871,871	15,518
AFS financial assets		
Investment in wealth management products (d)	**—**	915,074
	1,746,412	1,582,002

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS – *continued*

(a) Unlisted equity investments

This represents the Group's investments in unlisted equity interests. Set out below are the movements of the Group's unlisted equity investments as at 31 December 2018 and 2017:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Opening balance as at 1 January	**332,862**	80,469
Additions (i)	**30,936**	174,054
Disposals	**(58,951)**	—
Dividend received	**(2,059)**	—
Partial disposal from subsidiaries to available-for-sale financial assets (Note 5(c))	—	29,873
Fair value change recognised in consolidated statement of comprehensive income (ii) (iii)	**148,210**	59,167
Impairment	—	(7,500)
Dividend income	**2,059**	
Other change	**18,228**	—
Currency translation difference	**559**	(3,201)
Closing balance as at 31 December	**471,844**	332,862

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS – *continued*

(a) Unlisted equity investments – *continued*

(i) During the year ended 31 December, the Group acquired certain unlisted equity interests of a company that is principally engaged in providing technical services to Internet finance companies in mainland China for a consideration of RMB 19,000 thousand. The Group acquired certain unlisted equity interests of a company that is principally engaged in operation of stock trade platform for a consideration of RMB 11,936 thousand.

(ii) In May 2018, the Group entered into an agreement with a third party to dispose 4.5% out of 27% of its equity interest in an unlisted company, which was principally engaged in operation of mobile casual games. The disposal was executed at a cash consideration of RMB 40,500 thousand and an additional cash consideration of up to RMB 253,575 thousand which may be received from 2019 to 2021 in the event that certain pre-determined net profit of 2018, 2019 and 2020 is achieved by the unlisted company.

The Group received the aforementioned cash consideration of RMB 40,500 thousand and recognised a fair value gain of RMB 36,750 thousand upon completion of the disposal. The fair value of the potential undiscounted amount of all future cash collection was recognised as contingent consideration at the initial estimated amount to be RMB 44,920 thousand by calculating the present value of future expected cash flows based on a discount rate of 8.8% and the probability of exercising the put option by the third party and the Group subsequently recognised a fair value loss of RMB 8,516 thousand as of 31 December 2018.

In addition, the Group recognised a fair value gain of RMB 186,691 thousand for the remaining 22.5% of equity interest in the unlisted company. As of 31 December 2018, the expected growth rate of net profit in determination of the fair value of the unlisted equity investments was from 6.1% to 32.5% and the discount rate at 20% was applied in the calculation (2017: N/A).

(iii) An aggregate fair value loss of RMB 81,000 thousand were recognised on the carrying amount of certain unlisted equity interests amount of RMB 88,000 thousand. These invested companies were principally engaged in operating P2P lending platforms and providing technical services for Internet finance companies in mainland China. During the year ended 31 December 2018, these invested companies were affected by government's intensified regulations and had a serious shortage of funds and increasing bad debts. As the business performance of the investee was unlikely to recover and the no future investee's operating cash inflow was expected, the fair value of these investments were determined based on the Group's share of the investees' net assets which are expected to be realized based on the financial status and business plans of related investees.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS – *continued*

(a) Unlisted equity investments – *continued*

(iii) – *continued*

A fair value gain of RMB 5,769 thousand was recognised on the carrying amount of several unlisted equity investments, which were engaged in the operation of online social entertainment, according to latest round financing price.

Information about the methods and assumptions used in determining fair value is provided in Note 3.3.

(b) Investments in venture capital funds

This represents the Group's investments in certain venture funds as a limited partner. The Group holds interests ranging from 3% to 30% as passive investors in these funds.

The nature and purpose of these venture funds are to generate fees from managing assets on behalf of investors. These vehicles are financed through issuing units to investors.

The Group's exposure to the variable returns in these venture funds is not significant and the maximum exposure to loss is limited to the carrying amount of the interests held by the Group.

Set out below are the movements of the Group's investments in venture capital funds as at 31 December 2018 and 2017:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Opening balance as at 1 January	**298,958**	224,009
Additions (i)	**59,575**	60,019
Disposals	**(18,810)**	(15,984)
Dividend received	**(15,455)**	—
Fair value gain recognised in consolidated statement of comprehensive income (Note 8)	**8,463**	39,048
Dividend income	**15,455**	—
Currency translation difference	**8,166**	(8,134)
Closing balance as at 31 December	**356,352**	298,958

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS – *continued*

(b) Investments in venture capital funds – *continued*

(i) During the year ended 31 December 2018, the Group entered in to a commitment to subscribe interests in a certain venture capital fund at a cash consideration of US$1,500 thousand as a limited partner. The Group didn't have control or significant influence on the fund, and classified the investment as financial assets at fair value through profit or loss. This fund was set up to invest in internet companies and obtain capital appreciation and investment income. As at 31 December 2018, US$1,500 thousand (approximately RMB 10,295 thousand) was paid by the Group.

During the year ended 31 December 2018, the Group further paid the subscription of interests in certain venture capital funds with an aggregate amount of approximately RMB 49,280 thousand.

(c) Structured notes

This represents the Group's investments in structured notes. Set out below are the movements of the Group's structured notes as at 31 December 2018 and 2017:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Structured notes		
Opening balance as at 1 January	**15,518**	—
Additions (i)	**14,458**	15,875
Disposals (ii)	**(21,285)**	—
Fair value loss recognised in consolidated statement of comprehensive income (Note 8)	**(251)**	(166)
Currency translation difference	**1,501**	(191)
Closing balance as at 31 December	**9,941**	15,518

(i) During the year ended 31 December 2018, the Group acquired the notes for an aggregate consideration of US$2,250 thousand (equivalent to RMB14,458 thousand). The product provides a potential return linked to the price of certain listed equity security at the predetermined valuation day in future.

(ii) During the year ended 31 December 2018, the Group disposed the notes for an aggregate consideration of US$3,133 thousand (equivalent to RMB 21,285 thousand) and recognised a gain of US$ 33 thousand (equivalent to RMB 237 thousand).

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS – *continued*

(d) Investment in wealth management products

This represents RMB-denominated wealth management products with interest rates ranging from 2.6% to 4.9% per annum (2017: from 2.7% to 5.2% per annum) and maturity period within 1 year or revolving terms. These wealth management products are offered by large state-owned or reputable financial institutions in the PRC.

(e) Redeemable preferred shares

This represented the Group's investments in Shanghai Benqu in 2017 and 2018. The Group acquired a 13.6% equity interests at a consideration of RMB19,590 thousand. The equity interests can be redeemed if an initial public offering of Shanghai Benqu can't be achieved within five years since the investment date. In April 2018, the Group further acquired 66.4% of the equity interests and obtained control of Shanghai Benqu and the redeemable equity interests were converted into ordinary shares. Set out below are the movements of the Group's investments in redeemable preferred shares as at 31 December 2018 and 2017:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Redeemable preferred shares		
At beginning of the year	**19,590**	—
Additions	**374**	19,590
Fair value gain recognised in consolidated statement of comprehensive income (Note 8)	**11,906**	—
Derecognition of Shanghai Benqu from a financial asset through profit or loss	**(31,870)**	—
At end of the year	**—**	19,590

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS – *continued*

(f) Fair value, impairment and risk exposure

Information about the methods and assumptions used in determining fair value is provided in Note 3.3. With reference to the assessment that the decline in fair value of the equity interest in one unlisted company was significant and unlikely to recover, a full impairment of RMB 7,500 thousand was provided against the carrying amount as at 31 December 2017.

The carrying amount of the Group's financial assets at fair value through profit or loss (2017: financial assets at fair value through profit or loss and available-for-sale financial assets) are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**1,526,023**	1,355,080
US$	**220,389**	162,857
HK$	**—**	64,065
	1,746,412	1,582,002

23 TERM DEPOSITS WITH INITIAL TERM OVER 3 MONTHS

An analysis of the Group's and Company's term deposits denominated in RMB, HK$ and US$ with initial term over 3 months as at 31 December 2018 are listed as below:

	As at December 31	
	2018	2017
	RMB'000	RMB'000
Current		
HK$ term deposits	—	134,046
US$ term deposits	**112,318**	65,402
	112,318	199,448

The interest rate for the term deposits of the Group with initial term over 3 months as at 31 December 2018 ranges from 2.77% to 2.96% per annum (2017: from 1.79% to 2.34% per annum).

Term deposits with initial term over 3 months were neither past due nor impaired. Management considered that the carrying amount of the term deposits with initial term over 3 months approximated their fair value as at 31 December 2018 and 2017.

24 CASH AND CASH EQUIVALENTS

	As at December 31	
	2018	2017
	RMB'000	RMB'000
Current		
Cash at bank and on hand	300,250	124,762
Short-term bank deposits (a)	103,751	144,945
Cash at other financial institutions (b)	28,587	3,945
	432,588	273,652
Total cash and cash equivalents	432,588	273,652
Maximum exposure to credit risk	432,588	273,652

(a) The short-term bank deposits represent the term deposit with original maturity within 3 months that are denominated in RMB. The interest rate of these deposits for the year ended 31 December 2018 was from 1.72% to 3.9% per annum (2017: from 1.57% to 4.09% per annum).

(b) As at 31 December 2018, RMB28,587 thousand (2017: RMB3,945 thousand) are held in a depositary bank account, and RMB198 (2017: nil) are held in a third-party payment platform.

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	219,193	129,973
US$	106,452	103,639
HK$	103,388	39,499
JPY	3,555	541
	432,588	273,652

25 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR RSU SCHEME AND TREASURY STOCK

	Number of Shares	Share capital		Share premium	Shares held for RSU Scheme	Treasury stock
		US$'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	1,273,268,035	127.31	787	1,952,499	(6)	—
Employees share option scheme and restricted share units schemes:						
– proceeds from shares issued (a)	14,537,632	1.45	10	6,738	—	—
– vest and transfer of RSUs	—	—	—	(6)	6	—
Repurchase of ordinary shares (b)	(26,124,000)	(2.61)	(16)	(126,766)	—	(25,469)
Step-acquisition of a subsidiary	13,237,995	1.32	8	70,755	—	—
Appropriation of final dividends (Note 13)	—	—	—	(74,537)	—	—
At 31 December 2018	1,274,919,662	127.47	789	1,828,683	—	(25,469)

	Number of Shares	Share capital		Share premium	Shares held for RSU Scheme	Treasury stock
		US$'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	1,299,361,417	129.93	804	2,250,388	(7)	—
Employees share option scheme and restricted share units schemes:						
– proceeds from shares issued (a)	10,361,818	1.03	6	6,386	—	—
– vest and transfer of RSUs	—	—	—	(9)	9	—
Issuance of shares held for RSU Scheme	13,625,800	1.36	8	—	(8)	—
Repurchase and cancellation of ordinary shares	(50,081,000)	(5.01)	(31)	(224,675)	—	—
Appropriation of final dividends (Note 13)	—	—	—	(79,591)	—	—
At 31 December 2017	1,273,268,035	127.31	787	1,952,499	(6)	—

25 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR RSU SCHEME AND TREASURY STOCK – *continued*

(a) Employees share option plan: options exercised during the year ended 31 December 2018 resulted in 14,537,632 ordinary shares being issued (2017: 10,361,818 ordinary shares), with exercise proceeds of approximately RMB6,748 thousand (2017: RMB6,392 thousand). The related weighted average price at the time of exercise was HK$4.19.

(b) During the year ended 31 December 2018, the Group repurchased a total of 34,882,000 ordinary shares from The Stock Exchange of Hong Kong Limited. The total amount paid to repurchase these ordinary shares was HK$177,179 thousand(approximately RMB152,251 thousand). As at 31 December 2018, 26,124,000 out of 34,882,000 repurchased ordinary shares had been cancelled and deducted from the share capital and share premium within shareholders' equity, and the remaining 8,758,000 shares were recorded as treasury stock as at 31 December 2018.

During the year ended 31 December 2017, the Group repurchased 50,081,000 ordinary shares from The Stock Exchange of Hong Kong Limited. The total amount paid to repurchase these ordinary shares was HK$267,203 thousand(approximately RMB224,706 thousand). All the repurchased shares had been cancelled and deducted from the share capital and share premium.

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	Appropriation of dividend to non-controlling inteterests RMB'000	Total RMB'000
Opening balance at 1 January 2017	86,390	165,509	144,297	1,813	26,677	1,717	—	426,403
Employees share option scheme and restricted share units schemes:								
– value of employee services	—	64,128	—	—	—	—	—	64,128
Change in the value of available-for-sale financial assets	—	—	—	—	98,215	—	—	98,215
Appropriation of dividend to non-controlling interests	—	—	—	—	—	—	405	405
Profit appropriations to statutory reserves (a)	40,907	—	—	—	—	—	—	40,907
Changes in ownership interests in subsidiaries without change of control	—	—	—	—	—	(1,717)	—	(1,717)
Currency translation differences	—	—	(58,381)	—	—	—	—	(58,381)
At 31 December 2017	127,297	229,637	85,916	1,813	124,892	—	405	569,960
Opening balance at 1 January 2018	127,297	229,637	85,916	1,813	124,892	—	405	569,960
Change in accounting policy	—	—	—	—	(124,892)	—	—	(124,892)
Restated balance as at 1 January 2018	127,297	229,637	85,916	1,813	—	—	405	445,068
Employees share option scheme and restricted share units schemes:								
– value of employee services	—	12,106	—	—	—	—	—	12,106
Profit appropriations to statutory reserves (a)	20,363	—	—	—	—	—	—	20,363
Currency translation differences	—	—	33,128	—	—			33,128
At 31 December 2018	147,660	241,743	119,044	1,813	—	—	405	510,665

26 RESERVES – *continued*

(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.

Subject to the Grantee continuing to be a service provider, 25% of these options were vested on the specified vesting commencement date or the first anniversary of the specified vesting commence date. Since then, the options were vested over 3 years in monthly equal proportion.

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, that is, to continue the employment for a certain period.

Upon the Post-IPO Share Option Scheme, the Board of Directors authorized and reserved 11,000,000 ordinary shares for the issuance.

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 2018	US$0.0955	33,465,137	HK$3.5000	3,152,000	36,617,137
Exercised (Note 25)	US$0.0714	(14,237,632)	HK$3.5000	(300,000)	(14,537,632)
Lapsed	US$0.3500	(19,803)	—	—	(19,803)
Forfeited	US$0.3500	(16,088)	—	—	(16,088)
At 31 December 2018	US$0.1129	19,191,614	HK$3.5000	2,852,000	22,043,614
At 1 January 2017	US$0.0986	44,238,886	HK$3.5000	3,358,000	47,596,886
Exercised (Note 25)	US$0.0971	(10,285,818)	HK$3.5000	(76,000)	(10,361,818)
Lapsed	US$0.3354	(195,568)	—	—	(195,568)
Forfeited	US$0.3141	(292,363)	HK$3.5000	(130,000)	(422,363)
At 31 December 2017	US$0.0955	33,465,137	HK$3.5000	3,152,000	36,617,137

27 SHARE-BASED PAYMENTS – *continued*

(a) Share options – *continued*

During the years ended 31 December 2018 and 2017, no share option was granted.

As at 31 December 2018, 22,043,614 share options (2017: 35,503,389) were outstanding and exercisable. Options exercised in 2018 resulted in 14,537,632 shares (2017: 10,361,818 shares) being issued, and the weighted average price of the shares at the time these options were exercised was HK$4.1897 (2017: HK$6.0546) per share.

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 2018 and 2017, are as follows:

Trench	Expiry Date	Exercise price	Number of share options	
			31 December 2018	31 December 2017
Trench I Option	10 years commencing from the date of grant of options since 14 January 2009	US$0.01	**82,000**	8,693,000
Trench II Option	10 years commencing from the date of grant of options since 23 July 2009	US$0.021 US$0.03	**450,000** **2,161,540**	783,000 3,445,540
Trench III Option	10 years commencing from the date of grant of options since 17 June 2010	US$0.06	**1,223,380**	1,638,380
Trench IV Option	10 years commencing from the date of grant of options since 6 September 2010	US$0.035 US$0.06	**5,601,000** **79,000**	5,601,000 190,000
Trench V Option	10 years commencing from the date of grant of options since 20 December 2010	US$0.03 US$0.06	— **2,399,050**	12,000 2,582,050

27 SHARE-BASED PAYMENTS – *continued*

(a) Share options – *continued*

Trench	Expiry Date	Exercise price	Number of share options 31 December 2018	Number of share options 31 December 2017
Trench VI Option	10 years commencing from the date of grant of options since 26 December 2011	US$0.06	**1,300,000**	1,540,000
		US$0.1	**374,000**	687,000
		US$0.12	**572,110**	753,110
Trench VII Option	10 years commencing from the date of grant of options since 14 October 2012	US$0.15	**962,795**	1,352,795
Trench VIII Option	10 years commencing from the date of grant of options since 14 September 2013	US$0.2	**331,000**	610,000
Trench IX Option	10 years commencing from the date of grant of options since 22 May 2014	US$0.35	**3,655,739**	5,577,262
Trench X Option	8 years and 10 months commencing from the date of grant of options since 22 September 2015	HK$3.5	**2,852,000**	3,152,000
			22,043,614	36,617,137
Weighted average remaining contractual life of options outstanding at the end of the period			**2.94 years**	3.30 years

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 2018	3,305,205	6,781,294	10,086,499
Vested and transferred	(3,305,205)	(6,762,594)	(10,067,799)
Forfeited	—	(18,700)	(18,700)
At 31 December 2018	—	—	—
Shares vested but not transferred to the grantees as at 31 December 2018			—

27 SHARE-BASED PAYMENTS – *continued*

(b) Restricted share units – *continued*

	Number of shares held for Pre-IPO RSU Scheme	Number of shares held for Post-IPO RSU Scheme	Total
At 1 January 2017	10,592,705	578,338	11,171,043
Granted	—	13,625,800	13,625,800
Vested and transferred	(7,287,500)	(7,383,347)	(14,670,847)
Forfeited	—	(39,497)	(39,497)
At 31 December 2017	3,305,205	6,781,294	10,086,499
Shares vested but not transferred to the grantees as at 31 December 2017			—

During the year ended 31 December 2018, 34,213,651 (2017: 5,782,375) of the above granted RSUs were exercised.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2018 RMB'000	2017 RMB'000
Options issued under share option schemes	**201**	1,235
Restricted share units granted under RSUs schemes	**11,905**	62,893
	12,106	64,128

27 SHARE-BASED PAYMENTS – *continued*

(d) 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.

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.

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.

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.

(e) 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 2018, the Expected Retention Rate was assessed to be 100% (2017: 100%).

27 SHARE-BASED PAYMENTS – *continued*

(f) 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 2018, no ordinary shares were held by the RSU Nominee for the benefit of the grantees pursuant to the 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 RETAINED EARNINGS/(ACCUMULATED DEFICITS)

	RMB'000
Balance at 1 January 2017	(89,257)
Profit for the year	324,099
Appropriations to statutory reserves (Note 26)	(40,907)
Balance at 31 December 2017	193,935
Change in accounting policy due to adoption of IFRS 9	**124,892**
Balance at 1 January 2018	**318,827**
Profit for the year	**218,276**
Appropriations to statutory reserves (Note 26)	**(20,363)**
Balance at 31 December 2018	**516,740**

29 TRADE PAYABLES

Trade payables were mainly due to commission charges by platforms and game developers.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Third parties	**5,049**	11,054
	5,049	11,054

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
0-90 days	**3,150**	7,810
91-180 days	**1,661**	1,842
181-365 days	**203**	1,280
Over 1 year	**35**	122
	5,049	11,054

The carrying amount of the Group's trade payables are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**4,894**	10,875
US$	**155**	179
	5,049	11,054

The carrying amounts of trade payables are considered to be the same as their fair values, due to their short-term nature.

30 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Staff costs and welfare accruals	14,764	12,772
Marketing and administrative expense accruals	7,184	11,882
Audit expenses payable	6,100	8,473
VAT & Other tax liabilities	4,397	4,619
Consultancy fee	1,527	4,287
Human resource outsourcing service fee payable	2,110	2,613
Amount due to a related party (Note 35(c))	2,600	2,600
Refundable advance received from a potential disposal of a subsidiary	8,500	—
Individual income tax of RSUs	18,205	14,551
Others	5,805	1,513
	71,192	63,310

The carrying amounts of other payables are considered to be the same as their fair values, due to their short-term nature.

31 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	26,513	22,017
– to be recovered within 12 months	11,862	13,951
	38,375	35,968
Deferred income tax liabilities:		
– to be recovered after more than 12 months	(2,407)	(3,321)
– to be recovered within 12 months	(107,559)	(1,809)
	(109,966)	(5,130)
Deferred income tax assets/(liabilities) – net	(71,591)	30,838

31 DEFERRED INCOME TAX – *continued*

Movements	Year Ended 31 December 2018 RMB'000	2017 RMB'000
At beginning of the year	**30,838**	59,635
Step-acquisition of a subsidiary	**(5,056)**	—
Disposal of a subsidiary	—	(41,989)
Discontinued operation	—	10,658
Recognised in the consolidated statement of comprehensive income (Note 11(a))	**(79,126)**	2,539
Other change	**(18,228)**	—
Currency translation difference	**(19)**	(5)
At end of the year	**(71,591)**	30,838

(a) Deferred tax assets

The movements in deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Customer advance and deferred revenue RMB'000	Advertising expenses RMB'000	Deductible losses from previous years RMB'000	Impairment losses RMB'000	Provisions of liabilities and others RMB'000	Total RMB'000
At 1 January 2017	12,987	58,796	2,282	3,031	675	77,771
Disposal of a subsidiary	—	(47,895)	—	—	—	(47,895)
Discontinued operation	—	9,801	—	—	—	9,801
Recognised in the consolidated statement of comprehensive income	(2,145)	1,132	(836)	1,334	505	(10)
At 31 December 2017	10,842	21,834	1,446	4,365	1,180	39,667
Recognised in the consolidated statement of comprehensive income	(2,358)	(9,971)	(4)	18,551	(1,180)	5,038
At 31 December 2018	8,484	11,863	1,442	22,916	—	44,705

31 DEFERRED INCOME TAX – *continued*

(b) Deferred tax liabilities

The movements in deferred income tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Assets Appreciation RMB'000	Unrealised investment income RMB'000	Deferred commission charges RMB'000	Withholding tax of dividend RMB'000	Total RMB'000
At 1 January 2017	14,631	317	3,188	—	18,136
Disposal of a subsidiary	(5,906)	—	—	—	(5,906)
Discontinued operations	(857)	—	—	—	(857)
Recognised in the consolidated statement of comprehensive income	(3,114)	914	(349)	—	(2,549)
Currency translation difference	5	—	—	—	5
At 31 December 2017	**4,759**	**1,231**	**2,839**	—	**8,829**
Step-acquisition of a subsidiary	5,056	—	—	—	5,056
Recognised in the consolidated statement of comprehensive income	(5,172)	77,220	(1,698)	13,814	84,164
Other change	—	18,228	—	—	18,228
Currency translation difference	19	—	—	—	19
At 31 December 2018	**4,662**	**96,679**	**1,141**	**13,814**	**116,296**

As at 31 December 2018, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the undistributed profits of approximately RMB 1,465,270 thousand (2017: RMB 1,363,567 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 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax from		
Continuing operations	**359,424**	394,194
Discontinued operations	**—**	8,103
Profit before income tax including discontinued operations	**359,424**	402,297
Adjustments for:		
– Depreciation and impairment charges of property and equipment *(Note 15)*	**13,792**	14,734
– Amortisation and impairment charges of intangible assets and impairment of goodwill *(Note 17)*	**31,978**	51,371
– Amortisation of long-term prepayments	**4,379**	1,148
– Provision for inventories write-down and bad debts	**—**	2,603
– Loss/(gain) on disposal of property and equipment and intangible assets (b) *(Note 8)*	**43**	(482)
– Loss/(gain) on disposal of prepayments of investments	**(1,320)**	15,004
– Share of loss of investments accounted for using the equity method *(Note 14)*	**2,134**	504
– Impairment loss from available-for-sale financial assets *(Note 22)*	**—**	7,500
– Net impairment losses on financial assets	**101,849**	—
– Gain on disposal of investments accounted for using the equity method	**(6,370)**	—
– Impairment loss from investments accounted for using the equity method	**149,250**	—
– Non-cash employee benefits expense – Share-based compensation expenses *(Note 27)*	**12,106**	64,128
– Investment interest on term deposits with initial term over 3 months *(Note 8)*	**(4,281)**	(6,985)
– Investment income on available-for-sale financial assets *(Note 8)*	**—**	(29,964)
– Dividend income *(Note 8) (Note 22)*	**(17,514)**	—
– Loss/(gain) on disposal of subsidiaries *(Note 8)*	**(448)**	13,900
– Gain on remeasurement of retained interests in Langqin and Pangu Group upon disposal *(Note 8)*	**—**	(8,826)
– Fair value loss/(gain) on investment property *(Note 8)*	**1,098**	(3,758)
– Fair value loss/(gain) on financial assets at fair value through profit or loss *(Note 8)*	**(244,298)**	166
– Interest income	**(2,702)**	(7,751)
– Foreign exchange loss/(gain)	**1,869**	(2,861)

32 CASH FLOW INFORMATION – *continued*

(a) Cash generated from operations – *continued*

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Changes in working capital:		
– Decrease/(Increase) in inventories	—	(2,276)
– Decrease/(Increase) in trade receivables	**(32,393)**	(8,552)
– Decrease/(Increase) in prepayments and other receivables	**(5,536)**	(24,281)
– Decrease/(Increase) in trade payables	**(6,218)**	(13,035)
– Decrease/(Increase) in other payables and accruals	**702**	12,686
– Decrease/(Increase) in other tax liabilities	**(268)**	(101)
– Decrease/(Increase) in customer advance and deferred revenue	**(9,640)**	(10,286)
– Decrease/(Increase) in provisions of other liabilities and charges	**(4,720)**	(280)
Cash generated from operations	**342,916**	466,603

(b) In the consolidated statement of cash flows, proceeds from sale of property and equipment and intangible assets comprise:

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net book amount (Note 15) (Note 17)	**372**	266
Gain/(Loss) on disposal of property and equipment and intangible assets (Note 8)	**(43)**	482
Proceeds from disposal of property and equipment and intangible assets	**329**	748

(c) Non-cash investing and financing activities

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Disposal of subsidiaries, net of cash disposed	—	46,733
Disposal of investments accounted for using equity method	**10,258**	—
Disposal of prepayments for investments	—	14,993
Issuance of ordinary shares for options exercised	—	2,622
Issuance of ordinary shares for step-acquisition of a subsidiary	**70,763**	—
Purchase of decorations for self-owned property	**61**	—
	81,082	64,348

32 CASH FLOW INFORMATION – *continued*

(d) Reconciliation of liabilities arising from financing activities

There were no liabilities arising from financing activities during the years ended 31 December 2018 and 2017.

33 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current	**—**	4,720

In 2015 the Group made a provision of RMB6,000 thousand for possible legal proceedings related to copyright infringement. In May 2016 and March 2017, a provision of RMB1,000 thousand and RMB280 thousand was utilized. In September 2018, the Group reached an agreement with a third party to settle the copyright infringement with RMB4,620 thousand.

34 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the years but not yet incurred is as follows:

	2018	2017
	RMB'000	RMB'000
Property and equipment	**—**	508

(b) Non-cancellable operating lease

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	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**796**	229
Later than 1 year and no later than 5 years	**347**	183
Later than 5 years	**—**	—
	1,143	412

35 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
Weibo Internet Technology (China) Co., Ltd.	Subsidiary of non-controlling shareholder who has significant influence of the Group	Since 15 July 2010
Beijing Weimeng Chuangke Investment Management Co., Ltd	Subsidiary of non-controlling shareholder who has significant influence of the Group	Since 19 August 2013
Zhejiang Haile Technology Co., Ltd.	Joint venture of subsidiary	From 1 October 2015 to 5 July 2018
Winnine Interactive Co., Ltd.	Associate of subsidiary	Since 9 August 2016
Wuhan Jiuxin Puhui Financial Information Services Co., Ltd	Associate of subsidiary	Since 1 January 2017
Emicro Capital (M) Sdn Bhd	Associate of subsidiary	Since 20 March 2018
Engge Technology Holdings Limited	Associate of subsidiary	Since 2 January 2018

35 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Significant transactions with related parties

Related party transactions	Year Ended 31 December 2018 RMB'000	2017 RMB'000
(i) Other revenue generated from related parties:		
Winnine Interactive Co., Ltd.	776	218
Zhejiang Haile Technology Co., Ltd.	—	77
	776	295
(ii) Commission charges paid to related parties:		
Beijing Star World Technology Co., Ltd.	—	168
Weibo Internet Technology (China) Co., Ltd.	3	5
	3	173
(iii) Other expense paid to related parties:		
Weibo Internet Technology (China) Co., Ltd.	—	222
	—	222
(iv) Loans granted to related parties:		
Engge Technology Holdings Limited	1,078	—
(iv) Advertising/Marketing expense paid to related parties:		
Zhejiang Haile Technology Co., Ltd.	—	9,194

35 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) Year end balances arising from sales and purchase of services

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables		
Winnine Interactive Co., Ltd.	138	—
Beijing Star World Technology Co., Ltd.	—	38
Weibo Internet Technology (China) Co., Ltd.	4	1
Zhejiang Haile Technology Co., Ltd.	—	117
	142	156

Trade receivables were mainly resulted from software research and development and game operation.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Prepayments and other receivables		
Wuhan Jiuxin Puhui Financial Information Services Co., Ltd	6,056	10,000
Engge Technology Holdings Limited	1,078	—
	7,134	10,000

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Other payables		
Wuhan Jiuxin Puhui Financial Information Services Co., Ltd	2,600	2,600
Beijing Weimeng Chuangke Investment Management Co., Ltd	8,500	—
	11,100	2,600

35 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(d) Key management personnel compensations

The compensations paid or payable to key management personnel for employee services are shown below:

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**2,986**	1,840
Pension costs – defined contribution plans	**186**	196
Other social security costs, housing benefits and other employee benefits	**1,077**	1,061
Share-based compensation expenses	**562**	3,873
	4,811	6,970

36 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 31 December 2018.

37 EVENTS AFTER THE BALANCE SHEET DATE

(a) In January 2019, the Group, Jinhua Ruian Investment Management Company Limited("Jinhua Ruian"), a subsidiary of the Group holding 80% equity interest of Shanghai Benqu Internet Technology Company Limited ("Shanghai Benqu"), entered into a Share Transfer Agreement with Beijing Weimeng Chuangke Investment Management Co., Ltd ("Beijing Weimeng"). Pursuant to the agreement, 36% equity interest of Jinhua Ruian will be sold to Beijing Weimeng at a consideration of approximately RMB 292,608 thousand. On the date of this consolidated financial statements, the transaction is yet to be consummated.

(b) In January 2019, the Group entered into a separate limited partnership agreement with Suzhou Yunyue Enterprise Management Center (Limited Partnership) ("Suzhou Yunyue") to invest RMB 25 million in the RMB Fund II managed by Shanghai Yunpan Investment Management Company Limited, as a limited partner. On the date of these consolidated financial statements, the Group hasn't paid the consideration while the fund is yet to be closed.

(c) In March 2019, the Group entered into an agreement with certain third party companies to jointly develop the project on the land located in Gongshu. Pursuant to the agreement, a joint venture was established to operate the project, 51% equity interests of which was held by the Group while 49% equity interests were held by the third party companies.

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

		As at 31 December	
		2018	2017
	Note	RMB'000	RMB'000
Assets			
Non-current assets			
Intangible assets		2,357	2,691
Investment in subsidiaries		312,506	237,701
Available-for-sale financial assets		—	107,814
Financial assets at fair value through profit or loss		183,534	—
		498,397	348,206
Current assets			
Amounts due from subsidiaries		602,991	700,528
Prepayments and other receivables		304	543
Financial assets at fair value through profit or loss		—	15,518
Term deposits with initial term over 3 months		—	134,046
Cash and cash equivalents		62,631	31,120
		665,926	881,755
Total assets		1,164,323	1,229,961

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

		As at 31 December	
		2018	2017
	Note	RMB'000	RMB'000
Equity and liabilities			
Equity attributable to Shareholders of the Company and non-controlling interests			
Share capital		789	787
Share premium		1,828,683	1,952,499
Shares held for RSU Scheme		—	(6)
Treasury Stock		(25,469)	—
Other reserves	*(a)*	394,635	338,184
Accumulated deficits	*(a)*	(1,039,248)	(1,065,103)
Total equity		1,159,390	1,226,361
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		405	385
		405	385
Current liabilities			
Trade payables		23	11
Amounts due to subsidiaries		2,812	2,812
Other payables and accruals		1,693	392
		4,528	3,215
Total liabilities		4,933	3,600
Total equity and liabilities		1,164,323	1,229,961

The balance sheet of the Company was approved for issue by the Board of Directors on 27 March 2019 and was signed on its behalf.

Fu Zhengjun
Director

Mai Shi'en
Director

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

(a) Reserve movement of the Company

	Accumulated deficits RMB'000	Other reserves RMB'000
At 1 January 2017	(1,047,587)	348,950
Loss for the year	(17,516)	—
Share-based payments reserve	—	64,128
Currency translation difference	—	(74,894)
At 31 December 2017	(1,065,103)	338,184
At 1 January 2018	**(1,065,103)**	**338,184**
Change in accounting policy	**40,407**	—
Loss for the year	**(14,552)**	—
Share-based payments reserve	—	**12,106**
Currency translation difference	—	**44,345**
At 31 December 2018	**(1,039,248)**	**394,635**

39 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 2018:

	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
Executive Directors							
Mr. Fu Zhengjun	720	60	3	31	–	174	988
Mr. Mai Shi'en	544	45	23	65	–	212	889
Non-executive Directors							
Mr. Mao Chengyu	154	–	–	–	3	–	157
Mr. Herman Yu (resigned as non-executive director with effect from 11 January 2018)	–	–	–	–	3	–	3
Ms. Cao Fei (appointed as non-executive director with effect from 11 January 2018)	169	–	–	–	–	–	169
Independent Non-executive Directors							
Ms. Yu Bin	169	–	–	–	3	–	172
Mr. Wu, Chak Man (resigned as independent non-executive director with effect from 13 June 2018)	141	–	–	–	3	–	144
Mr. Yang Wenbin (appointed as independent non-executive director with effect from 13 June 2018)	93	–	–	–	–	–	93
Mr. Chan, Wing Yuen Hubert	169	–	–	–	3	–	172

39 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

(a) Directors' and chief executive's emoluments – *continued*

For the year ended 31 December 2017:

	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	Discretionary bonuses	Other social security costs, housing benefits and other employee benefits	Employer's contribution to a retirement benefit scheme	Share-based compensation expenses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors							
Mr. Fu Zhengjun	733	120	3	22	—	176	1,054
Mr. Mai Shi'en	544	90	23	62	—	216	935
Non-executive Directors							
Mr. Mao Chengyu	155	—	7	—	2	—	164
Mr. Herman Yu	—	—	—	—	2	—	2
Independent Non-executive Directors							
Ms. Yu Bin	173	—	—	—	2	—	175
Mr. Wu, Chak Man	173	—	—	—	2	—	175
Mr. Chan, Wing Yuen Hubert	173	—	—	—	2	—	175