



Tian Ge Interactive Holdings Limited
天鵲互動控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1980



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Company Overview

ABOUT TIAN GE

Tian Ge develops and operates innovative real-time video technologies that empower users to engage and interact with each other through video, voice, text and exchange of virtual items. The Company's mission is to bring optimism and joy to the masses through live social video interaction. Tian Ge was founded in Hangzhou, China in 2008 and went public on The Stock Exchange of Hong Kong Limited in July 2014.

The Company currently operates more than 29,000 rooms across eight “many-to-many” live social video communities, including 9158 Video Community and Sina Show, the two primary communities; and one “one-to-many” community, Sina Showcase. Tian Ge's more than 13 million monthly active users are able to meet and stay connected with others who share similar backgrounds, interests, cultures and dialects. Due to our diverse content and wide geographic coverage, our live social video communities are popular across a diverse mix of demographic groups who network and congregate according to room genres or community.

The Company's communities offer a diverse range of room genres including music, talk show, social networking, finance and education. Users join and engage in real-time activities including karaoke, birthday parties, talent contests, and annual celebrations.

With the rapid expansion of the platform's user base, the Company has entered the online games market through Duoduo Games and has licensed and released the popular mobile game, “Three Kingdoms”. Going forward, Tian Ge aims to leverage our large social video community and high cross-promotion opportunities inherent in its platform to release an additional six to eight mobile games over the next six to twelve months, many of which could enable interactive video functionality powered by the Company's proprietary technology platform.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Fu Zhengjun

(Chairman and Chief Executive Officer)

Mr. Mai Shi'en

Non-executive Directors

Mr. Mao Chengyu

Mr. Herman Cheng-Chun Yu

Independent Non-executive Directors

Ms. Yu Bin

Mr. Wu Chak Man

Mr. Chan Wing Yuen Hubert

JOINT COMPANY SECRETARIES

Mr. Chen Shi

Ms. Ng Sau Mei

AUTHORIZED REPRESENTATIVES

Mr. Fu Zhengjun

Ms. Ng Sau Mei

AUDIT COMMITTEE

Ms. Yu Bin *(Chairman)*

Mr. Wu Chak Man

Mr. Chan Wing Yuen Hubert

REMUNERATION COMMITTEE

Mr. Wu Chak Man *(Chairman)*

Mr. Chan Wing Yuen Hubert

Mr. Mao Chengyu

NOMINATION COMMITTEE

Mr. Fu Zhengjun *(Chairman)*

Ms. Yu Bin

Mr. Wu Chak Man

REGISTERED OFFICE

Floor 4, Willow House

Cricket Square

P.O. Box 2804

Grand Cayman

KY1-1112

Cayman Islands

HEADQUARTER

Room 3A09 Sunshine International Business Center

No. 186 South Hushu Road

Hangzhou, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Gloucester Tower

The Landmark

15 Queen's Road Central

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Offshore Incorporations (Cayman) Limited

Floor 4, Willow House

Cricket Square

P.O. Box 2804

Grand Cayman KY1-1112

Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

Corporate Information

LEGAL ADVISERS

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

COMPLIANCE ADVISER

REORIENT Financial Markets Limited
11/F, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

AUDITOR

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

STOCK CODE

1980

COMPANY'S WEBSITE

www.tiange.com

PRINCIPAL BANKERS

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

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

Financial Highlights

The board of directors (the “**Board**”) of Tian Ge Interactive Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended June 30, 2014 (the “**Reporting Period**”). The first half year results have been reviewed by PricewaterhouseCoopers, the auditor of the Company, and the audit committee of the Company (the “**Audit Committee**”).

The following is the financial highlights of the Company for the six months ended June 30, 2014:

(in RMB 000's)	Three months ended		Unaudited		YoY**	
	June 30,	March 31,	QoQ*	Six months ended		
	2014	2014	change %	June 30,		
				2013	change %	
Financial Highlights						
Revenue	172,612	171,645	0.6%	344,257	259,777	32.5%
Gross profit	145,901	144,302	1.1%	290,203	229,566	26.4%
Profit/(Loss) attributable to equity holders of the Company	(202,014)	27,661	-830.3%	(174,353)	(91,940)	89.6%
Non-IFRS adjusted net profit***	68,641	63,060	8.9%	131,701	100,484	31.1%
Non-IFRS EBITDA****	81,947	76,761	6.8%	158,708	121,836	30.3%

* Quarter-on-Quarter (“**QoQ**”) change % represents a comparison between the current reporting quarter and the immediately preceding quarter.

** Year-on-Year (“**YoY**”) change % represents a comparison between the current reporting period and the corresponding period last year.

*** Non-IFRS adjusted net profit was derived from the unaudited profit for the period excluding the effect of non-cash share-based compensation expenses, non-cash fair value change of convertible redeemable preferred shares, gain on repurchase of preferred shares, dividend appropriation to preferred shareholders and listing expenses.

**** Non-IFRS EBITDA represents operating profit, adjusted to exclude share-based compensation expenses, listing expenses, depreciation and amortization.

Chairman's Statement

BUSINESS OVERVIEW AND OUTLOOK

In the first half of 2014, we made significant progress in expanding and developing our overall business. The superior user experience we offer is grounded in our strong technological capabilities and infrastructure. Thanks to the improved functionality of our services and strong user activity on our platform, we achieved robust financial results for the first half of 2014.

In order to remain competitive, we are committed to nurturing the development of new real-time video content genres, and expanding our live social video community, as well as attracting new hosts, users-on-air and room managers. We intend to leverage the successful position we have fortified in the music and entertainment category to further expand and diversify into new content genres, such as finance, health and lifestyle, and e-commerce. In tandem with this multi-dimensional expansion into new content genres and media formats, we will continue to attract hosts, users-on-air and room managers to increase the stickiness on our social ecosystem.

Recognizing the trend towards mobile in online entertainment, we plan to facilitate complete multi-platform usability and functionality, as we leverage our brand, user base and technology to give users the flexibility to enjoy our content anytime and anywhere. Our mobile strategy aims to take full advantage of the technological and infrastructure improvements in China, including the ongoing recent rollout of 4G services, which will support high-quality video streams on mobile devices. In the recent quarter, approximately 7% of our monthly active users access our live social video platform from a mobile device, an increase from 3.9% in the same period last year, and we expect our mobile user and mobile penetration rate to increase significantly as we continue to innovate and launch new mobile features and products.

In addition, since we expanded into the mobile games market through the launch of our first mobile game, "Three Kingdoms" and leveraging the strength of our user base, we also initiated the beta-testing soft launch of our new live-social-video-embedded game. We expect to release an additional six to eight self-developed and third-party developed mobile games over the next six to twelve months, several of which could enable interactive video functionality. The introduction and expansion of gaming on our platform allows us to leverage our large social video community, diversify our revenue mix and drive future growth. We believe that our large and rapidly growing user base elevates cross-promotion potential and lowers customer acquisition costs.

Chairman's Statement

We aim to further advance our platform's penetration outside of Mainland China in countries and regions with large numbers of Chinese speakers. We will accomplish this by carefully considering partnerships, mergers and acquisitions with other companies. We will initially target companies with large user bases and similar interactive product offerings, or those in our upstream and downstream markets. Although we have not yet identified any acquisition targets, we believe horizontal and vertical partnerships and acquisitions could significantly accelerate the growth and enhance the competitive positioning of our live social video services. We aim to leverage our strong technological capabilities and infrastructure, large and loyal user base and established social ecosystem to successfully expand into new markets and sectors.

Lastly, we have leveraged our live social video know-how and technological capabilities to offer an O2O entertainment service that allows real-time interaction between people located at physical entertainment venues accessing through smart-TVs and online users accessing through PC or mobile devices. We currently operate or provide technical support to three pilot offline karaoke locations in Hangzhou, and we are excited by its progress. We are innovating the traditional karaoke to make it more entertaining, discovering new monetization opportunities, and expanding our user base and engagement. In the not so distant future, we hope to launch our cloud-based O2O service platform to major third-party karaoke operators across China.

Zhengjun Fu

Chairman and Chief Executive Officer of
Tian Ge Interactive Holdings Limited

Management Discussion and Analysis

1. OPERATING INFORMATION

The following table sets forth certain operating statistics relating to the company's Internet platforms and value-added services as of the dates and for the periods presented below:

	June 30, 2014	March 31, 2014	Three months ended Quarter- on-quarter Change	June 30, 2013	Year- on-year Change
Live Social Video Community					
Monthly Active Users (<i>in '000</i>)	13,428	12,172	10.3%	10,541	27.4%
% of mobile MAU users	7.4%	8.0%	n/a	3.9%	n/a
Monthly Paying Users (<i>in '000</i>)	332	324	2.5%	246	35.0%
Monthly Average Revenue Per User (<i>RMB</i>)	158	163	-3.1%	174	-9.2%
Number of Rooms	29,449	28,411	3.7%	24,609	19.7%
Number of Hosts	38,448	38,303	0.4%	31,467	22.2%
Mobile Game & Other					
Monthly Active Users (<i>in '000</i>)	319	302	5%		
Number of Games	1	1			

Management Discussion and Analysis

1. OPERATING INFORMATION (continued)

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

- Monthly Active Users (“**MAU**”) for the Company’s live social video platforms was approximately 13.4 million for the three months ended June 30, 2014, representing an increase of approximately 27.4% from the three months ended June 30, 2013 and representing an increase of 10.3% from the three months ended March 31, 2014.
- Monthly Paying Users (“**MPU**”) for the Company’s live social video platforms was approximately 332,000 for the three months ended June 30, 2014, representing an increase of approximately 35.0% from the three months ended June 30, 2013 and representing an increase of 2.5% from the three months ended March 31, 2014.
- The Monthly Average Revenue Per User (“**ARPU**”) of the Company’s live social video platforms experienced a moderate decline primarily due to the significant increase in our paying user base.
- Number of rooms and number of hosts on the live social video platforms grew steadily year-on-year in line with MAUs, reflecting the organic growth of the Company’s diversified content and expanding user reach.
- Number of users on air on our live social video platform increased to approximately 644,000 in three months ended June 30, 2014 from approximately 570,000 in the corresponding period of year 2013. The healthy year-on-year increase in users on air also reflected the stronger willingness of our active users to go on camera and interact via real time video.
- The percentage users on air over total MAU on the live social video platform remained stable at 4.8% in three months ended June 30, 2014, as compared to 4.7% in the immediately preceding quarter.
- The percentage of the Company’s live social video platform’s mobile MAU over total MAU grew to 7.4% in the three months ended June 30, 2014 from 3.9% in the corresponding period in 2013.
- The total registered users of the Company as at June 30, 2014 is 245.0 million, as compared to 205.1 million as at December 31, 2013.

Management Discussion and Analysis

2. FINANCIAL INFORMATION

	Unaudited			
	Three months ended		Six months ended	
	June 30, 2014 RMB'000	March 31, 2014 RMB'000	June 30, 2014 RMB'000	June 30, 2013 RMB'000
IFRS P&L				
IFRS Revenue	172,612	171,645	344,257	259,777
Cost of revenue	26,711	27,343	54,054	30,211
Selling and Marketing expenses	44,807	50,017	94,824	76,952
Administrative Expenses	45,191	24,423	69,614	21,670
Research and Development expenses	18,849	15,128	33,977	31,579
Other Gains, Net	8,083	5,994	14,077	12,903
Operating Profit	45,137	60,728	105,865	112,268
Finance income/(cost), net	644	510	1,154	(1,180)
Fair value loss of convertible redeemable preferred shares	(237,517)	(22,985)	(260,502)	(185,942)
Provision for income taxes	9,869	10,824	20,693	17,086
Net Profit/(Loss)	(201,605)	27,429	(174,176)	(91,940)
Non-controlling interests	(409)	232	(177)	
Equity holders of the Company	(202,014)	27,661	(174,353)	(91,940)
Non-IFRS Financial Data				
Non-IFRS EBITDA	81,947	76,761	158,708	121,836
<i>Non-IFRS EBITDA margin</i>	47%	45%	46%	47%
Non-IFRS Net Income	68,641	63,060	131,701	100,484

Management Discussion and Analysis

2. FINANCIAL INFORMATION (continued)

Revenue

Revenue increased by 32.5% year-on-year to RMB344.3 million in the first half of 2014 from the corresponding period in 2013. The following table sets forth the Company's revenue by line for the periods presented below.

	Unaudited			
	Three months ended		Six months ended	
	June 30, 2014 RMB'000	March 31, 2014 RMB'000	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Revenue Mix				
Live social video	157,952	158,544	316,496	254,000
<i>% of total revenue</i>	91.5%	92.4%	91.9%	97.8%
Games & Others	14,660	13,101	27,761	5,777
<i>% of total revenue</i>	8.5%	7.6%	8.1%	2.2%
Total Revenue	172,612	171,645	344,257	259,777

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

- Revenues from our live social video platform was approximately RMB316.5 million for the six months ended June 30, 2014, representing an increase of approximately 24.6% from the corresponding period in 2013.
- Revenues from our live social video platform was approximately RMB158.0 million for the second quarter of 2014, which remained stable as compared to the first quarter of 2014.
- Games and other revenues was approximately RMB27.8 million for the six months ended June 30, 2014, representing an increase of approximately 380.5% from the corresponding period in 2013.
- Games and other revenues increased to RMB14.7 million for the second quarter of 2014 as compared to RMB13.1 million the first quarter of 2014.
- The Company currently evaluates the business as one segment.

Management Discussion and Analysis

2. FINANCIAL INFORMATION (continued)

Cost of Revenue

Cost of revenues increased by 78.9% to RMB54.1 million in the first half of 2014 as compared with the corresponding period in 2013. The increase in cost of revenue for the first half of 2014 was primarily due to the increase of royalties charges related to the launch and operation of our mobile game “Three Kingdoms”.

In addition, cost of revenues in the second quarter of 2014 decreased by 2.3% to RMB26.7 million as compared with the immediate preceding quarter, primarily due to decrease of business tax and related surcharges. Pursuant to the Circular on the Pilot Practice of Levying VAT in Place of Business Tax for the Telecommunication Industry (Caishui No.43, 2014) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from operation of live social video communities, interactive social video games was subject to VAT since June 1, 2014, and the applicable tax rate is 6%. After that, majority revenue of the Company is subject to VAT instead of business tax, which would have a positive effect on our cost of revenues.

Selling and Marketing Expenses

Selling and marketing expenses increased by 23.2% to RMB94.8 million for the first half of 2014 from the corresponding period in 2013. The increase in selling and marketing expenses for the first half of 2014 was primarily due to the increase of promotion and advertising expenses.

In addition, selling and marketing expenses decreased by 10.4% for the second quarter of 2014 as compared to the immediately preceding quarter, primarily due to the decrease of promotion and advertising expenses.

Administrative Expenses

Administrative expenses increased by 221.2% year-on-year to RMB69.6 million for the first half of 2014, primarily due to the listing fees related to the IPO and increase of share-based compensation expenses. Administrative expenses increased by 85.0% to RMB45.2 million for the second quarter of 2014, as compared to the immediate preceding quarter, primarily due to the listing fees related to IPO and increase of share-based compensation expenses.

Research and Development Expenses

Research and development expenses increased by 7.6% year-on-year to RMB34.0 million for the first half of 2014, primarily due to the increase in share-based compensation expenses. In addition, research and development expenses increased by 24.6% in the second quarter of 2014, as compared to the immediately preceding quarter, primarily due to the increase in game development outsourcing cost.

Management Discussion and Analysis

2. FINANCIAL INFORMATION (continued)

Other Gains, Net

We recorded other gains, net of RMB14.1 million for the first half of 2014, compared to other gains, net of RMB12.9 million for the corresponding period of year 2013. Moreover, we recorded other gains, net of RMB8.1 million for the second quarter of 2014, compared to other gains, net of RMB6.0 million for the immediate preceding quarter.

Finance Income/(Costs), Net

Finance income consists of: (i) gains from repurchase of our preferred shares in the second quarter of 2013, representing the difference between the repurchase price and the fair value of the preferred shares on the repurchase date, and (ii) interest income on our cash and cash equivalents for the six months ended June 30, 2013 and 2014, respectively. Finance costs primarily consists of: (i) dividends appropriated to our preferred shareholders in the first quarter of 2013, and (ii) interest expenses on our bank borrowings for the six months ended June 30, 2013 and 2014, respectively.

We recorded finance income, net of RMB1.2 million for the first half of 2014 and finance loss, net of RMB1.2 million in the corresponding period of year 2013. We recorded finance income, net of approximately RMB644,000 for the second quarter of 2014, compared to finance income, net of RMB510,000 in the immediate preceding quarter.

Income tax expense

Income tax expense increased to RMB20.7 million for the first half of 2014 from RMB17.1 million in the first half of 2013. This primarily reflected an increase in profit before income tax.

Loss attributable to equity holders of the Company

Loss attributable to equity holders of the Company increased by 89.6% year-on-year to RMB174.4 million for the first half of 2014, mainly due to the fair value loss of convertible redeemable preferred shares. The significant increase in the fair value of convertible redeemable preferred shares in the second quarter of 2014 was primarily due to the continued increase in the equity values of the Company. Upon the completion of the Global Offering, the Company's convertible redeemable preferred shares had automatically converted into our Ordinary Shares on a one-to-one basis, and there will be no fair value gain or loss associated with our convertible redeemable preferred shares for any financial period after December 31, 2014.

Management Discussion and Analysis

2. FINANCIAL INFORMATION (continued)

Non-IFRS Measures

To supplement our consolidated financial statements which are presented in accordance with IFRS, adjusted net profit, adjusted earnings per share 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.

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

	Unaudited			
	Three months ended		Six months ended	
	June 30, 2014 RMB'000	March 31, 2014 RMB'000	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Non-IFRS Financial Data				
Non-IFRS EBITDA	81,947	76,761	158,708	121,836
<i>Non-IFRS EBITDA margin</i>	47%	45%	46%	47%
Non-IFRS Net Income	68,641	63,060	131,701	100,484
Non-IFRS Earnings Per Share				
<i>Basic</i>	0.11	0.10	0.21	0.16
<i>Diluted</i>	0.07	0.07	0.14	0.10

* *Non-IFRS EBITDA margin is calculated by dividing adjusted EBITDA by revenues.*

** *Basic Non-IFRS EPS is calculated by dividing the Non-IFRS profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period which have been adjusted retroactively for the proportional changes in the number of ordinary shares outstanding as a result of the issuance of bonus shares.*

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

Management Discussion and Analysis

2. FINANCIAL INFORMATION (continued)

Non-IFRS Adjusted EBITDA

Adjusted EBITDA, as presented, represents operating profit, adjusted to exclude share-based compensation expenses, listing expenses, depreciation and amortization. The use of adjusted EBITDA has certain limitations because it does not reflect all items of income and expenses that affect operations. Items excluded from adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Share based compensation expenses, listing expenses, depreciation and amortization have been and may continue to be incurred and are not reflected in the presentation of adjusted EBITDA. Each of these items should also be considered in the overall evaluation of the Company's results.

The following table reconciles our operating profit to our adjusted EBITDA for the periods presented.

	Unaudited			
	Three months ended		Six months ended	
	June 30, 2014 RMB'000	March 31, 2014 RMB'000	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Reconciliation to Non-IFRS EBITDA				
Operating Profit	45,137	60,728	105,865	112,268
Share-based compensation expense	12,460	1,050	13,510	2,997
Listing expense	20,269	11,596	31,865	–
Depreciation and amortization expense	4,081	3,387	7,468	6,571
Non-IFRS EBITDA	81,947	76,761	158,708	121,836

Management Discussion and Analysis

2. FINANCIAL INFORMATION (continued)

Non-IFRS Net Income

Non-IFRS net income eliminates the effect of non-cash share-based compensation expenses, non-cash fair value change of convertible redeemable preferred shares, non-cash gains on repurchase of preferred shares, dividend appropriation to preferred shareholders and listing expenses. The term of adjusted net profit is not defined under IFRS.

The following tables set forth the reconciliations of the Company's net profit to non-IFRS net income for the periods presented below.

	Unaudited			
	Three months ended		Six months ended	
	June 30, 2014 RMB'000	March 31, 2014 RMB'000	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Reconciliation to non-IFRS Net Income				
Net Profit/(Loss)	(201,605)	27,429	(174,176)	(91,940)
Share-based compensation expense	12,460	1,050	13,510	2,997
Listing expense	20,269	11,596	31,865	–
Gain on repurchase of preferred shares	–	–	–	(32,284)
Dividend appropriation to preferred shareholders	–	–	–	35,769
Fair value loss of convertible redeemable preferred shares	237,517	22,985	260,502	185,942
Non-IFRS Net Income	68,641	63,060	131,701	100,484

Management Discussion and Analysis

3. LIQUIDITY AND FINANCIAL RESOURCES

Cash and Cash Equivalent, Restricted Cash and Financial Assets/Term Deposits

Cash and cash equivalents consist of cash at bank and cash on hand as at June 30, 2014 and December 31, 2013 amounted to RMB65.6 million and RMB171.9 million, respectively. All cash in bank balances as of these dates were demand deposits and term deposits with initial terms of less than three months. Out of RMB65.6 million, approximately RMB40.3 million is denominated in RMB and approximately RMB25.3 million is denominated in other currencies (primarily US dollars). Since there are no cost-effective hedges against the fluctuation of 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.

Restricted cash are RMB-denominated restricted deposits held at bank as a pledge for the bank borrowings. As at June 30, 2014 and December 31, 2013, the Company had total restricted cash of RMB187.0 million and RMB120.0 million, respectively.

The Company had available-for-sale financial assets of RMB382.5 million and RMB278.1 million as at June 30, 2014 and December 31, 2013, respectively. Available-for-sale financial assets typically consist of RMB-denominated principal-protected structured deposits with floating interest rates ranging from 2.2% to 6.2% per annum with maturity periods within one year or with a revolving term offered by large state-owned commercial banks in China.

The Company did not have any term deposits with initial terms of over three months in certain structured deposits as at June 30, 2014 (2013: RMB21.9 million).

Bank Loans and Other Borrowings

As of June 30, 2014, we had outstanding short-term borrowings of USD15.0 million (RMB92.3 million), as compared to USD5.0 million (RMB30.5 million) as at December 31, 2013.

The increase in short-term borrowing balance was mainly reflected by the repaying of USD5.0 million borrowing in May 2014 to Industrial and Commercial Bank of China (Europe) S.A. Amsterdam Branch and a new borrowing of USD15.0 million also in May 2014 from Industrial and Commercial Bank of China Limited Paris Branch. The maturity date of this loan is November 12, 2014 and the interest rate is the three month US dollar LIBOR interest rate plus 2.9%. This loan is guaranteed by Hangzhou Tiange in the form of a RMB100.0 million investment pledged as collateral with Industrial and Commercial Bank of China Limited Zhejiang Branch from May 20, 2014 to November 30, 2014 with an annualized interest rate of 3.9%.

As at the end of August 2014, the Company has repaid and settled the above bank loans.

Management Discussion and Analysis

3. LIQUIDITY AND FINANCIAL RESOURCES (continued)

Adjusted Gearing Ratio

The adjusted gearing ratio as at June 30, 2014 is 30.6%, as compared to 23.6% as at December 31, 2013. The adjusted gearing ratio is calculated by dividing total borrowings with adjusted equity, where adjusted equity is total deficits plus convertible redeemable preferred shares as set out in the consolidated balance sheet.

Significant Investment

The Company did not make any significant investments or material acquisitions/disposals for the six months ended June 30, 2014.

Capital Expenditure

For the six months ended June 30, 2014, our capital expenditure amounted to approximately RMB63.0 million (June 30, 2013: approximately RMB34.2 million). The capital expenditure mainly includes purchasing of platform licenses which amounted to approximately RMB45.0 million, decorations of our office space which amounted to approximately RMB6.0 million, pre-payment of new office space located in Shanghai which amounted to approximately RMB8.0 million and other office equipment, servers, etc. which amounted to approximately RMB4.0 million, all of which were funded using cash flow generated from our operations.

Contingent Liabilities

As of June 30, 2014, the Group did not have any material contingent liabilities, guarantees or any litigation against us.

Charges on Assets

As of June 30, 2014, there were no charges on the Group's assets.

Treasury Policies

As of June 30, 2014, the Group adopts conservative treasury policies in cash and financial management. The Group does not use any financial instruments for hedging purpose.

Management Discussion and Analysis

4. CORPORATE INFORMATION

Staff

The Company had 847 full time employees as at June 30, 2014. The Company'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 talent. 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.

As required by the PRC laws, we participate in mandatory employee social insurance plans that are organized by municipal and provincial governments for our employees, including pension insurance, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing provident funds. Both the Company and the employee should bear costs for the social security plan in proportion to the specified percentage. We are required under the PRC law to make contributions to employee social insurance plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

The Company's employees have not formed any employee union or association. The Company 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 (the "**Schemes**"). For further details of the Schemes, please refer to "Corporate Governance/Other Information – Share Incentive Schemes".

The share-based compensation expenses for the first half of 2014 is RMB13.5 million, as compared to RMB3.0 million in the corresponding period in 2013.

Management Discussion and Analysis

5. USE OF PROCEEDS FROM GLOBAL OFFERING

The shares of the Company were listed on the main board of the Stock Exchange on July 9, 2014 with net proceeds from the global offering of approximately HK\$1,725.0 million (after the exercise of the over-allotment option and after deducting the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the global offering). The net proceeds will be used in the following manner:

Proposed Use of Net Proceeds	Percentage	Amount of Net Proceeds
Enhancing our research and development efforts, including improving our existing platform's functionality, developing new social video communities, investing in technology infrastructure and improving network maintenance and safety	20%	HK\$345.0 million
Developing our mobile business related to our live social video platform and a multi-platform, cross-device user experience, which involves hiring experienced personnel in the mobile sector and increased research and development efforts	20%	HK\$345.0 million
Developing our mobile games business, including for additional research and development efforts in developing our own mobile games, outsourcing of game development and licensing of third-party games	10%	HK\$172.5 million
Expanding our marketing and promotion activities, including organizing additional sales and promotional events both online and offline and hiring additional sales and marketing personnel	20%	HK\$345.0 million
Investing in potential acquisitions of technologies and complementary online businesses, such as in the live social video market and mobile games market, partnerships and licensing opportunities	20%	HK\$345.0 million
Funding for our working capital and other general corporate purposes	10%	HK\$172.5 million
	100%	HK\$1,725.0 million

As at the date of this interim report, the net proceeds from the initial public offering had not yet been utilized and all of the net proceeds has been deposited into bank accounts maintained by the Group. The Company will start utilizing the net proceeds from the global offering in the manner as set out in the prospectus of the Company dated June 25, 2014.

Corporate Governance/Other Information

CORPORATE GOVERNANCE PRACTICES

The Company's shares were not listed on the Stock Exchange as at June 30, 2014, the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") was not applicable to the Company for the period under review. The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance since the listing of the Company's shares on July 9, 2014. The Company has complied with all the code provisions of the CG Code and adopted most of the best practices set out therein except for the code provision A.2.1 of the CG Code.

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 Zhengjun (傅政軍), is our Chairman and has been a Director of our Board since July 28, 2008. He was 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 WFOEs 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company's shares were not listed on the Stock Exchange as at June 30, 2014, the "Model Code for Securities Transactions by Directors of Listed Issuer" contained in Appendix 10 to the Listing Rules (the "**Model Code**") was not applicable to the Company for the period under review. The Company has adopted the Model Code as its code of conduct for directors' securities transactions since the listing of the Company's shares on July 9, 2014.

BOARD OF DIRECTORS AND BOARD COMMITTEES

The compositions of the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company remain the same as set out in the Company's prospectus dated June 25, 2014.

Corporate Governance/Other Information

INTERIM DIVIDEND

The Board did not propose any interim dividend for the six months ended June 30, 2014.

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) which comprises three independent non-executive Directors, namely Ms. Yu Bin (chairman), Mr. Wu Chak Man and Mr. Chan Wing Yuen Hubert.

The Audit Committee has reviewed (i) the accounting principles and practices adopted by the Group, and (ii) the auditing, internal control and financial reporting matters, including the review of the interim results for the six months ended June 30, 2014.

CHANGES TO DIRECTORS' INFORMATION

One of our Directors, Mr. Chan Wing Yuen Hubert, has been appointed as executive director of Noble House (China) Holdings Limited, a company listed on the Stock Exchange (stock code: 8246), with effect from August 15, 2014.

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

PURCHASE, SALE OR REDEMPTION BY THE COMPANY

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2014.

Corporate Governance/Other Information

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

As of August 1, 2014 immediately after full exercise of over-allotment option, 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 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 interest 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 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 August 1, 2014
Mr. Fu Zhengjun ("Mr. Fu")	Founder of a discretionary trust (Note 1)	306,000,000	24.23%

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.

Corporate Governance/Other Information

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

Interest in underlying shares of the Company:

Name of director	Position held within our Group	Nature	Number of shares represented by option or RSUs	Exercise price (US\$)	Approximate percentage of shareholding as at August 1, 2014
Mr. Fu Zhengjun	Chairman, executive Director and chief executive officer	RSUs (Note 1)	10,000,000	Nil	0.792%
		Interest of Spouse (Note 4)	20,000,000	Nil	1.584%
Mr. Mai Shi'en	Executive director and chief operating officer	RSUs (Note 2)	5,000,000	Nil	0.396%
Mr. Mao Chengyu	Non-executive Director	Options (Note 3)	200,000	0.35	0.016%
Mr. Herman Cheng-Chun, Yu	Non-executive Director	Options (Note 3)	200,000	0.35	0.016%
Ms. Yu Bin	Independent Non-executive Director	Options (Note 3)	200,000	0.35	0.016%
Mr. Wu Chak Man	Independent Non-executive Director	Options (Note 3)	200,000	0.35	0.016%
Mr. Chan Wing Yuen, Hubert	Independent Non-executive Director	Options (Note 3)	200,000	0.35	0.016%

Notes:

1. Mr. Fu is interested in 1,000,000 Pre-IPO RSUs granted to him on May 22, 2014 under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares subject to vesting.
2. Mr. Mai Shi'en is interested in 500,000 Pre-IPO RSUs granted to him on May 22, 2014 under the Pre-IPO RSU Scheme entitling him to receive 5,000,000 Shares subject to vesting.
3. Mr. Mao Chengyu, Mr. Herman Cheng Chun, Yu, Ms. Yu Bin, Mr. Wu Chak Man and Mr. Chan Wing Yuen, Hubert are each interested in 20,000 Pre-IPO options granted to each of them on May 22, 2014 under the Pre-IPO share Option Scheme entitling each of them to receive 200,000 Shares subject to vesting.
4. Ms. Hong Yan is Mr. Fu's spouse and she is interested in 2,000,000 Pre-IPO RSUs granted to her on May 22, 2014 under the Pre-IPO RSU Scheme entitling her to receive 20,000,000 Shares subject to vesting. Accordingly, Mr. Fu is deemed to be interested in the 20,000,000 Shares which are interested by Ms. Hong Yan under the SFO.

Save as disclosed above, as at August 1, 2014 (immediately after full exercise of over-allotment option), none of the Directors and chief executives of the Company has or is deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Corporate Governance/Other Information

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

As at August 1, 2014 (immediately after full exercise of the over-allotment option), 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 shareholder	Nature of interests	Number of Shares or securities held	Approximate percentage of interest as at August 1, 2014
UBS Trustees (BVI) Limited	Trustee (Note 1)	340,000,000	26.93%
Three-Body Holdings Ltd	Interest in Controlled Corporation (Note 1)	306,000,000	24.23%
Blueberry Worldwide Holdings Limited	Beneficial Owner (Note 1)	306,000,000	24.23%
Sina Hong Kong Limited	Beneficial Owner	300,000,000	23.76%
Ho Chi Sing	Interest in Controlled Corporation (Note 2)	200,000,000	15.84%
Zhou Quan	Interest in Controlled Corporation (Note 2)	200,000,000	15.84%
IDG-Accel China Growth Fund GP II Associates Ltd.	Interest in Controlled Corporation (Note 2)	200,000,000	15.84%
IDG-Accel China Growth Fund II Associates L.P.	Interest in Controlled Corporation (Note 2)	184,880,000	14.64%
IDG-Accel China Growth Fund II L.P.	Beneficial Owner (Note 2)	184,880,000	14.64%
Tanguo Limited	Nominee for another person (Note 3)	71,780,000	5.68%
The Core Trust Company Limited	Trustee	71,780,000	5.68%

Corporate Governance/Other Information

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

Notes:

1. UBS Trustees (BVI) Limited, the trustee of Mr. Fu's Trust and Mr. Fu Yanchang's Trust (as defined below), holds the entire issued share capital of Blueberry Worldwide Holdings Limited and Cloud Investment Holding Limited through Three-Body Holdings Ltd and Star Wonder Holding Ltd, respectively. Blueberry Worldwide Holdings Limited and Cloud Investment Holding Limited hold 306,000,000 Shares and 34,000,000 Shares in our Company, respectively. Mr. Fu's Trust is a discretionary trust established by Mr. Fu (as the settlor) and the discretionary beneficiaries of which are Mr. Fu and his family members. Accordingly, each of Mr. Fu, UBS Trustees (BVI) Limited, Three-Body Holdings Ltd and Blueberry Worldwide Holdings Limited is deemed to be interested in the 306,000,000 Shares held by Blueberry Worldwide Holdings Limited. Mr. Fu Yanchang's trust ("**Mr. Fu Yanchang's Trust**") is a discretionary trust established by Mr. Fu Yanchang (as the settlor) and the discretionary beneficiaries of which are Mr. Fu Yanchang and his family members. Accordingly, each of Mr. Fu Yanchang, UBS Trustees (BVI) Limited, Cloud Investment Holding Limited and Star Wonder Holding Ltd is deemed to be interested in the 34,000,000 Shares held by Cloud Investment Holding Limited.
2. IDG-Accel China Growth Fund II L.P. is wholly owned by IDG-Accel China Growth Fund II Associates L.P., which is in turn wholly owned by IDG-Accel China Growth Fund GP II Associates Ltd. Accordingly, each of IDG-Accel China Growth Fund II L.P., IDG-Accel China Growth Fund II Associates L.P. and IDG-Accel China Growth Fund GP II Associates Ltd. is deemed to be interested in the 184,880,000 Shares held by IDG-Accel China Growth Fund II L.P. Separately, IDG-Accel Growth Investors II L.P. is wholly owned by IDG-Accel China Growth Fund GP II Associates Ltd., therefore IDG-Accel China Growth Fund GP II Associates Ltd. is deemed to be interested in the 15,120,000 Shares held by IDG-Accel Growth Investors II L.P.

Each of Ho Chi Sing and Zhou Quan holds 50% of the issued share capital of IDG-Accel China Growth Fund GP II Associates Ltd., therefore both Ho Chi Sing and Zhou Quan are deemed to be interested in the 200,000,000 Shares which IDG-Accel China Growth Fund GP II Associates Ltd. is interested in total.

3. The Pre-IPO RSU Trustee through its nominee, Tangguo Limited, holds 71,780,000 Shares underlying the RSUs granted under the Pre-IPO RSU Scheme for the benefit of eligible grantees pursuant to the Pre-IPO RSU Scheme. Grantees of the Pre-IPO RSU Scheme include Mr. Fu and Ms. Hong Yan, who were granted 1,000,000 Pre-IPO RSUs and 2,000,000 Pre-IPO RSUs, respectively. Accordingly, Mr. Fu and Ms. Hong Yan are interested in 10,000,000 Shares and 20,000,000 Shares, respectively. Furthermore, Mr. Fu is deemed to be interested in the 20,000,000 Shares which are interested in by Ms. Hong Yan under the SFO.

Save as disclosed above, as at August 1, 2014, 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 as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the reporting period was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

Corporate Governance/Other Information

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, we adopted the Pre-IPO Share Option Scheme on 9 December 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 Pre-IPO RSU Scheme, Post-IPO RSU Scheme and the Post-IPO Share Option Scheme are summarized in the section headed “Statutory and General Information – D. Share Incentive Schemes” in Appendix IV to the Company’s prospectus dated June 25, 2014.

Outstanding Share Options

As disclosed in the section headed “Statutory and General Information – D. Share Incentive Schemes – 1. Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus, prior to the Listing, options representing a total of 15,648,000 Shares were granted to 490 grantees under the Pre-IPO Share Option Scheme. Our Company adopted the Pre-IPO RSU Scheme to partially replace the options granted under the Pre-IPO Share Option Scheme. Options representing a total of 4,280,000 Shares, which were granted to five persons including two executive Directors, one senior management, one connected person and one 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 case-by-case basis, the general vesting period for the option holders are as follows: 25% of the Shares subject to the Pre-IPO Share Option shall vest on the first anniversary of the granting date, and 1/48 of the Shares subject to the Pre-IPO Share Option shall vest each month thereafter over the next three years on the same day of the month as the granting date (such day to be deemed to be the last day of the month, when necessary), subject to the option holders continuing to be a service provider through these dates.

As at August 1, 2014, options representing a total of 88,239,470 Shares (taking into account the 25,440,530 options which have lapsed in accordance with the terms of the Pre-IPO Share Option Scheme) are outstanding. If all such options under the Pre-IPO Share Option Scheme are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 6.5% as at August 1, 2014. 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. We have appointed The Core Trust Company Limited (匯聚信託有限公司) as the trustee and Happy88 Holdings Limited, a company incorporated in the British Virgin Islands and an independent third party, as the nominee to administer the Pre-IPO Share Options Scheme pursuant to its scheme rules. However, as at the date of this report, no Shares underlying the granted share options had been allotted and issued to Happy88 Holdings Limited.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 121,706,700, representing 10% of the total number of Shares in issue as at the Listing Date. As of the date of this report, no options have been granted by us pursuant to the Post-IPO Share Option Scheme.

Corporate Governance/Other Information

SHARE INCENTIVE SCHEMES (continued)

Outstanding RSUs

A total of 7,280,000 Pre-IPO RSUs (which includes the 4,280,000 Pre-IPO RSUs which were granted to partially replace the options granted under the Pre-IPO Share Option Scheme) have been granted on May 22, 2014 to 17 grantees, including two executive Directors, three senior management members, one connected person of the Group and 11 other employees. As at the date of this report, the total number of Shares underlying the RSUs represent approximately 5.7% of the share capital 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. As at June 30, 2014, 72,800,000 Shares have been issued and allotted to Tangguo Limited.

During the period commencing from the Listing Date to August 1, 2014, RSUs in respect of an aggregate of 1,020,000 Shares have been exercised by grantees under the Pre-IPO RSU Scheme and no RSUs have lapsed.

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.

We have 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 after the Listing. As of the date of this report, no Shares has been allotted and issued to Xinshow Limited.

Details of the options granted under the Pre-IPO Share Option Scheme and the RSUs granted under the Pre-IPO RSU Scheme

The following table shows the details of the options and/or the Pre-IPO RSUs granted and outstanding under the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme to, on an individual basis, the Directors, chief executive members and other connected person of the Group as at August 1, 2014 (immediately after full exercise of the over-allotment option).

Corporate Governance/Other Information

SHARE INCENTIVE SCHEMES (continued)

Details of the options granted under the Pre-IPO Share Option Scheme and the RSUs granted under the Pre-IPO RSU Scheme (continued)

Name of grantee	Position held within our Group	Nature	Number of shares represented by option or RSUs	Date of grant	Exercise price (US\$)	Approximate percentage of shareholding
Director of our Company						
Mr. Fu Zhengjun	Chairman, executive Director and chief executive officer	RSUs	10,000,000	May 22, 2014	Nil	0.792%
Mr. Mai Shi'en	Executive Director and chief operating officer	RSUs	5,000,000	May 22, 2014	Nil	0.396%
Mr. Mao Chengyu	Non-executive Director	Options	200,000	May 22, 2014	0.35	0.016%
Mr. Herman Cheng Chun, Yu	Non-executive Director	Options	200,000	May 22, 2014	0.35	0.016%
Ms. Yu Bin	Independent Non-executive Director	Options	200,000	May 22, 2014	0.35	0.016%
Mr. Wu Chak Man	Independent Non-executive Director	Options	200,000	May 22, 2014	0.35	0.016%
Mr. Chan Wing Yuen, Hubert	Independent Non-executive Director	Options	200,000	May 22, 2014	0.35	0.016%
Chief executive member of our Group						
Mr. Keung Paul Hinsun	Chief financial officer of our Company	RSUs	5,000,000	May 22, 2014	Nil	0.396%
Other connected persons of our Group						
Ms. Hong Yan	Vice president of Hangzhou Tiange	RSUs	20,000,000	May 22, 2014	Nil	1.584%
Seven Directors, chief executive member and one connected person		Options	1,000,000			0.079%
		RSUs	40,000,000			3.168%
		Sub-total	41,000,000			3.247%

Corporate Governance/Other Information

SHARE INCENTIVE SCHEMES (continued)

Details of the options granted under the Pre-IPO Share Option Scheme and the RSUs granted under the Pre-IPO RSU Scheme (continued)

The following is a summary table showing further details of the options and/or the Pre-IPO RSUs granted and outstanding under the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme to individuals who are neither a Director, chief executive member nor a connected person of the Group as at August 1, 2014 (immediately after full exercise of over-allotment option).

Rank/position held with our Group	Nature	Number of shares represented by option or RSUs	Date of grant	Exercise price (US\$)	Approximate percentage of shareholding
417 other employees, 23 other consultants and 24 ex-employees (Note 1)	Options	14,200,000	January 14, 2009	0.01	
		4,200,000	July 23, 2009	0.021	
		6,913,540	July 23, 2009	0.03	
		3,042,380	June 17, 2010	0.06	
		1,300,000	September 6, 2010	0.06	
		30,000,000	September 6, 2010	0.035	
		3,526,050	December 20, 2010	0.06	
		200,000	December 20, 2010	0.03	
		2,000,000	December 26, 2011	0.06	
		1,801,000	December 26, 2011	0.1	
		2,541,130	December 26, 2011	0.12	
		4,449,770	October 14, 2012	0.15	
		2,330,000	September 14, 2013	0.2	
		10,735,600	May 22, 2014	0.35	
		Options total	87,239,470	-	-
RSUs	31,780,000	May 22, 2014	Nil	2.517%	
Sub-total	119,019,470			9.426%	

Notes:

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, a total of 33,998,040 options have been granted to 23 consultants.

Glossary

This glossary contains explanations of certain terms used in this interim 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.

“Host”	User who generate content, have host accounts and are deemed by us to be hosts. Hosts may receive marketing fees from distributors.
“MAU”	Number of registered active users that accessed our products or services in the relevant month.
“Monthly Average Revenue Per User” or “ARPU”	Average monthly revenue in a particular period divided by the average MPUs in that period.
“MPU”	Number of paying users for our products and services in the relevant month.
“Registered users”	The accumulated number of users who have registered an account on our live social video platform. A user who has registered accounts with two live social video communities is counted as two registered users.
“Users on air”	Monthly active users and hosts who generate live video streaming content in the period.

Report on Review of Interim Financial Information

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF TIAN GE INTERACTIVE HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 33 to 70, which comprises the interim condensed consolidated balance sheet of Tian Ge Interactive Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) as at June 30, 2014 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE AND LIMITATION OF THE REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 26, 2014

Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2014

		Unaudited	
		Six months ended June 30,	
	<i>Note</i>	2014	2013
		RMB'000	RMB'000
Revenue	6	344,257	259,777
Cost of revenue	7	(54,054)	(30,211)
Gross profit		290,203	229,566
Selling and marketing expenses	7	(94,824)	(76,952)
Administrative expenses	7	(69,614)	(21,670)
Research and development expenses	7	(33,977)	(31,579)
Other gains, net	8	14,077	12,903
Operating profit		105,865	112,268
Finance income	9	2,993	34,624
Finance costs	9	(1,839)	(35,804)
Finance income/(costs), net		1,154	(1,180)
Fair value loss of convertible redeemable preferred shares	27	(260,502)	(185,942)
Loss before income tax		(153,483)	(74,854)
Income tax expense	10	(20,693)	(17,086)
Loss for the period		(174,176)	(91,940)
Other comprehensive (loss)/income			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences		(6,169)	8,921
Total comprehensive loss for the period		(180,345)	(83,019)
Loss attributable to:			
– Shareholders of the Company		(174,353)	(91,940)
– Non-controlling interests		177	–
		(174,176)	(91,940)
Total comprehensive loss attributable to:			
– Shareholders of the Company		(180,522)	(83,019)
– Non-controlling interests		177	–
		(180,345)	(83,019)
Loss per share (expressed in RMB per share)			
– Basic		(0.27)	(0.14)
– Diluted		(0.27)	(0.14)
Dividends	12	–	89,739

The notes on pages 38 to 70 form an integral part of these condensed consolidated financial information.

Condensed Consolidated Balance Sheet

As at June 30, 2014

	<i>Note</i>	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Assets			
Non-current assets			
Property and equipment	13	122,920	16,736
Intangible assets	14	49,003	5,864
Investment in associates	15	3,196	4,900
Available-for-sale financial assets	18	2,300	2,300
Prepayments and other receivables	17	23,691	110,737
Deferred income tax assets	28	23,254	24,348
Restricted cash	19	87,000	87,000
		311,364	251,885
Current assets			
Trade receivables	16	21,117	20,804
Prepayments and other receivables	17	41,239	66,788
Available-for-sale financial assets	18	382,525	278,140
Term deposits with initial term over 3 months		–	21,873
Cash and cash equivalents	19	65,553	171,896
Restricted cash	19	100,000	33,000
		610,434	592,501
Total assets		921,798	844,386
Equity			
Equity attribute to Shareholders of the Company			
Share capital	20	46	42
Shares held for RSU Scheme	20	(4)	–
Reserves	21	212,749	205,408
Accumulated deficits		(468,359)	(294,006)
		(255,568)	(88,556)
Non-controlling interests		5,074	4,897
Total deficits		(250,494)	(83,659)

Condensed Consolidated Balance Sheet

As at June 30, 2014

	<i>Note</i>	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	26	79,986	79,260
Convertible redeemable preferred shares	27	813,757	548,471
Deferred income tax liabilities	28	482	595
		894,225	628,326
Current liabilities			
Trade payables	24	28,480	13,883
Other payables and accruals	25	79,923	114,631
Income tax liabilities		42,530	42,532
Dividend payable		–	74,161
Borrowings	26	92,292	30,485
Customer advance and deferred revenue	23	34,842	24,027
		278,067	299,719
Total liabilities		1,172,292	928,045
Total equity and liabilities		921,798	844,386
Net current assets		332,367	292,782
Total assets less current liabilities		643,731	544,667

The notes on pages 38 to 70 form an integral part of these condensed consolidated financial information.

Condensed Consolidated Statement of Change in Equity

For the six months ended June 30, 2014

	Unaudited							
	Equity attributable to shareholders of the company							
	Note	Shares held		Reserves	Accumulated deficits	Total	Non-controlling interests	Total Deficits
		Share capital	for RSU Scheme					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at January 1, 2014		42	-	205,408	(294,006)	(88,556)	4,897	(83,659)
Comprehensive loss								
Loss for the six months ended June 30, 2014		-	-	-	(174,353)	(174,353)	177	(174,176)
Other comprehensive income								
Currency translation differences	21	-	-	(6,169)	-	(6,169)	-	(6,169)
Total comprehensive income		-	-	(6,169)	(174,353)	(180,522)	177	(180,345)
Issuance of shares held for RSU Scheme	20	4	(4)	-	-	-	-	-
Share-based compensation		-	-	13,510	-	13,510	-	13,510
Total transactions with owners, recognized directly in equity		4	(4)	7,341	(174,353)	(167,012)	177	(166,835)
Balance at June 30, 2014		46	(4)	212,749	(468,359)	(255,568)	5,074	(250,494)
Balance at January 1, 2013		42	-	272,730	(200,346)	72,426	-	72,426
Comprehensive loss								
Loss for the six months ended June 30, 2013		-	-	-	(91,940)	(91,940)	-	(91,940)
Other comprehensive income								
Currency translation differences	21	-	-	8,921	-	8,921	-	8,921
Total comprehensive income		-	-	8,921	(91,940)	(83,019)	-	(83,019)
Share-based compensation		-	-	2,997	-	2,997	-	2,997
Appropriation of dividend	12	-	-	(89,739)	-	(89,739)	-	(89,739)
Total transactions with owners, recognized directly in equity		-	-	(77,821)	(91,940)	(169,761)	-	(169,761)
Balance at June 30, 2013		42	-	194,909	(292,286)	(97,335)	-	(97,335)

The notes on pages 38 to 70 form an integral part of these condensed consolidated financial information.

Condensed Consolidated Statement of Cash Flow

For the six months ended June 30, 2014

	Note	Unaudited Six months ended June 30,	
		2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash generated from operations		129,195	82,761
Income tax paid		(19,714)	(12,044)
Net cash generated from operating activities		109,481	70,717
Cash flows from investing activities			
Purchase of and prepayment for property and equipment	13	(16,608)	(33,856)
Proceeds from disposal of property and equipment	13, 8	405	9
Purchase of intangible assets	14	(46,388)	(341)
Payment of term deposits with initial term of over three months and available-for-sales financial assets	18	(1,166,600)	(1,109,290)
Repayment of term deposits with initial term of over three months and available-for-sales financial assets	18	1,086,953	1,168,483
Pledged deposits for bank borrowings		(100,000)	(33,000)
Repayment of pledged deposits for bank borrowings		33,000	–
Repayment of pledged deposits for borrowings from related parties	17	22,274	–
Repayment of cash advance to an investment agent	17	17,724	–
Interest received		5,351	5,696
Net cash used in investing activities		(163,889)	(2,299)
Cash flows from financing activities			
Payments for repurchase of Series A Preferred Shares	27	–	(44,168)
Proceeds from bank borrowings		92,531	30,894
Repayment of bank borrowings		(30,820)	–
Repayment of borrowings from related parties	25	(21,339)	–
Repayment of borrowings from a third party	25	(17,071)	–
Interest paid		(259)	–
Dividends paid to the Company's shareholders		(74,977)	(43,882)
Net cash used in financing activities		(51,935)	(57,156)
Net (decrease)/increase in cash and cash equivalents		(106,343)	11,262
Cash and cash equivalents at beginning of period		171,896	136,637
Exchange gain on cash and cash equivalents		–	1,689
Cash and cash equivalents at end of period		65,553	149,588

The notes on pages 38 to 70 form an integral part of these condensed consolidated financial information.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

1 GENERAL INFORMATION

Tian Ge Interactive Holdings Limited (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 address of the Company’s registered office is P.O. Box 2804, 4th Floor Scotia Centre, George Town, Grand Cayman KY1-1112, Cayman Islands.

The Company and its subsidiaries (collectively the “**Group**”) are principally engaged in the operating of live social video platforms, mobile and online games and other products and services (the “**Listing Business**”) in the People’s Republic of China (the “**PRC**”).

The Company finished its primary listing on The Stock Exchange of Hong Kong Limited on July 9, 2014.

This condensed consolidated financial information is presented in Renminbi (the “**RMB**”), unless otherwise stated. This condensed consolidated financial information was approved by the board of directors of the Company for issue on August 26, 2014.

This condensed consolidated financial information has been reviewed, not audited.

Key events

- (a) On March 31, 2014, Series B Preferred Shares Investors executed a letter of undertaking to waive their redemption rights for the period from December 31, 2013 to July 1, 2015.
- (b) On May 22, 2014, the Group operates a new equity-settled share-based compensation plan (the “**Pre-IPO Restricted Share Unit Scheme**”), under which the entity receives services from employees as consideration for equity instruments of the Group. On the same day, 7,280,000 Pre-IPO restricted share units (“**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 to 17 grantees, including two executive Directors, three senior management members, one connected person of the Group and 11 other employees.
- (c) Pursuant to the Circular on the Pilot Plan for Levying Value Added Tax (“**VAT**”) in Place of Business Tax (Caishui No.110, 2011) and the Circular on the Pilot Practice of Levying VAT in Place of Business Tax for the Telecommunication Industry (Caishui No.43, 2014) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from operation of live social video communities and interactive social video games was subject to VAT since June 1, 2014, and the applicable tax rate is 6%.

2 BASIS OF PREPARATION

This condensed consolidated financial information for the six months ended June 30, 2014 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2013, as set out in Appendix I to the prospectus of the Company dated June 25, 2014 (the “**Prospectus**”).

- (a) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.
- (b) The Group purchased two platform licenses in the six months ended June 30, 2014. As the licenses were separately acquired, the acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.
- (c) Depreciation on building and decorations is calculated using the straight-line method to allocate their cost over their estimated useful lives, 33 years and 3 to 5 years, respectively.
- (d) On May 22, 2014, the Share Option Plan 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. Pursuant to the modification, 4,280,000 share options granted under the Share Option Plan were replaced by the same number of RSUs under the Pre-IPO Restricted Share Unit Scheme.

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 recognized 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 recognized 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 recognized over the remainder of the original vesting period.

New standards, amendments and interpretations to existing standards that are effective during this interim period have been adopted consistently throughout the interim period unless prohibited by the standards to apply retrospectively. There are no new or amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the financial information of the Group.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

4 ESTIMATES

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

In preparing this condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2013, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 10).

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The condensed consolidated financial information do not include all financial risk management information and disclosures required, and should be read in conjunction with the Financial Information set out in the Prospectus.

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

5.2 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'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.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk (continued)

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 June 30, 2014					
Borrowings	–	92,292	–	79,986	172,278
Trade payables	28,480	–	–	–	28,480
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	50,907	2,661	–	–	53,568
Convertible redeemable preferred shares	–	–	–	813,757	813,757
At December 31, 2013					
Borrowings	–	30,485	–	79,260	109,745
Trade payables	10,503	3,380	–	–	13,883
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	46,419	3,662	18,161	–	68,242
Dividend payable	–	74,161	–	–	74,161
Convertible redeemable preferred shares	–	–	–	548,471	548,471

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
– Available-for-sale financial assets	–	–	384,825	384,825
Liabilities:				
– Convertible redeemable preferred shares	–	–	813,757	813,757

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
– Available-for-sale financial assets	–	–	280,440	280,440
Liabilities:				
– Convertible redeemable preferred shares	–	–	548,471	548,471

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 instruments as of June 30, 2014.

	Available- for-sale financial assets RMB'000	Convertible redeemable preferred shares RMB'000
Opening balance at January 1, 2014	280,440	548,471
Additions	1,175,332	–
Disposals of available-for-sale financial assets	(1,070,947)	–
Fair value loss recognized in consolidated statements of comprehensive loss	–	260,502
Exchange difference	–	4,784
Closing balance at June 30, 2014	384,825	813,757

The estimated carrying amount of convertible redeemable preferred shares as of June 30, 2014 would have been RMB81,071 thousand lower or RMB81,071 thousand higher if the discount rate used in discounted cash flow analysis were higher/lower by 100 base points from management's estimates.

As of June 30, 2014, the fair value of available-for-sale financial assets approximated the carrying value due to short maturity date.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

6 REVENUE

Details of the revenue for the six months ended June 30, 2013 and 2014 are as follows:

	Six months ended June 30,	
	2014 RMB'000	2013 RMB'000
Live Social Video Platform	316,496	254,000
Games	26,153	758
Others	1,608	5,019
Total revenue	344,257	259,777

7 EXPENSES BY NATURE

	Six months ended June 30,	
	2014 RMB'000	2013 RMB'000
Employee benefit expenses (including share-based compensation expenses)	69,288	51,658
Promotion and advertising expenses	64,850	42,919
Professional and consultancy fees	32,399	193
Business tax and related surcharges	18,704	15,360
Commission charges by platforms and game developers	15,950	–
Bandwidth and server custody fees	14,716	13,812
Game development outsourcing costs	7,702	8,763
Travelling and entertainment expenses	7,101	7,062
Depreciation of property and equipment (Note 13)	5,732	5,683
Utilities and office expenses	4,856	4,701
Operating lease rentals in respect of office buildings	4,550	5,090
Payment handling costs	2,635	2,129
Amortization of intangible assets (Note 14)	1,736	888
Auditors' remuneration	1,455	1,932
Others	795	222
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	252,469	160,412

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

8 OTHER GAINS, NET

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Investment Interest	8,916	5,631
Government grants	7,021	7,420
Share of loss from associate	(1,704)	–
Loss on disposal of property and equipment, net	(122)	(59)
Others	(34)	(89)
	14,077	12,903

9 FINANCE INCOME/(COSTS), NET

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Finance income:		
– Exchange gain on financing activities	2	1,696
– Interest income on cash and cash equivalents	2,991	644
– Gain on repurchase of preferred shares	–	32,284
	2,993	34,624
Finance costs:		
– Dividend appropriation to preferred shareholders	–	(35,769)
– Interest expenses on bank borrowings	(1,830)	(35)
– Exchange loss on financing activities	(9)	–
	(1,839)	(35,804)
Finance income/(cost), net	1,154	(1,180)

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

10 INCOME TAX EXPENSE

The Group is not subject to taxation in the Cayman Islands. Hong Kong profits tax has been provided for at the rate of 16.5% (2013:16.5%) for the period on the estimated assessable profits arising in or derived from Hong Kong. Companies established and operated in the PRC are subject to PRC Enterprise Income Tax (“EIT”) at the rate of 25% (2013: 25%) and certain Group’s subsidiaries established in the PRC and PRC Operating Entities are entitled to preferential EIT rate of 12.5% or 15%.

	Six months ended June 30,	
	2014 RMB'000	2013 RMB'000
Current income tax		
– Hong Kong corporate income tax	–	20
– PRC corporate income tax	19,712	15,400
Total current income tax	19,712	15,420
Deferred income tax	981	1,666
	20,693	17,086

Income tax expense is recognised based on management’s estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the companies established and operated in the PRC and Hong Kong for the year ended December 31, 2014 is 14.63% and 16.5%, respectively (the estimated tax rate used for the companies established and operated in the PRC and Hong Kong for the six months ended June 30, 2013 was 15.39% and 16.5%, respectively).

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

11 LOSS PER SHARE

(a) Basic

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

	Six months ended June 30,	
	2014	2013
Loss attributable to shareholders of the Company (RMB'000)	(174,353)	(91,940)
Weighted average number of ordinary shares in issue (i)	640,000,000	640,000,000
Basic loss per share (in RMB/share)	(0.27)	(0.14)

- (i) As of June 30, 2014, share capital consisted of 64,000,000 ordinary shares, each with the par value of US\$0.0001.

Upon the Company's listing on 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 then existing outstanding ordinary shares were adjusted to 640,000,000 on a one-to-ten basis.

For the purpose of computing basic and diluted loss per share, the number of ordinary shares outstanding during each interim period have been adjusted retroactively for the proportional changes in the number of ordinary share outstanding as a result of the issuance of bonus shares (in Note 33).

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

11 LOSS PER SHARE (continued)

(b) Diluted

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

Diluted loss per share for the six months ended June 30, 2013 and 2014 are the same as basic loss per share in the respective period.

For the six months ended June 30, 2013 and 2014, the Company has two categories of dilutive potential ordinary shares, convertible redeemable preferred shares and share based compensation granted to employees under 2008 Global Share Option Plan and Pre-IPO Restricted Share Unit Scheme are assumed to have been fully vested and released from restrictions with no impact on earnings.

As the Group incurred loss for the six months ended June 30, 2013 and 2014, the convertible redeemable preferred shares and the share based compensation are anti-dilutive and, consequently, not included in the computation of diluted losses per share.

12 DIVIDENDS

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Dividends declared by the Company	–	89,739

Pursuant to the resolution of the Company's board meeting in January 2013, the Company declared dividend of US\$20,000 thousand (RMB123,792 thousand) to the holders of the ordinary shares, Series A Preferred Shares and Series B Preferred Shares, of which the dividends on these preferred shares that are classified as liabilities are recognised in the consolidated statements of comprehensive income as finance costs (Note 9).

As of June 30, 2014, all declared dividend were paid to the holders of the ordinary shares, Series A Preferred shares and Series B Preferred shares.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

13 PROPERTY AND EQUIPMENT

	Building	Decorations	Furniture and Office Equipment	Server and Other Equipment	Motor Vehicles	Leasehold Improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended June 30, 2014								
Net book value								
Opening amount as of January 1, 2014	-	-	1,436	11,108	2,489	1,703	-	16,736
Additions	102,517	6,353	1,164	2,086	323	-	-	112,443
Disposals	-	-	(5)	(507)	(15)	-	-	(527)
Depreciation charge	(258)	(176)	(358)	(3,197)	(494)	(1,249)	-	(5,732)
Closing amount as of June 30, 2014	102,259	6,177	2,237	9,490	2,303	454	-	122,920
At June 30, 2014								
Cost	102,517	6,353	4,465	32,412	4,971	6,981	-	157,699
Accumulated depreciation	(258)	(176)	(2,228)	(22,922)	(2,668)	(6,527)	-	(34,779)
Net book amount	102,259	6,177	2,237	9,490	2,303	454	-	122,920
Six months ended June 30, 2013								
Net book value								
Opening amount as of January 1, 2013	-	-	1,651	13,188	1,800	2,707	956	20,302
Additions	-	-	466	2,608	-	477	-	3,551
Transfers	-	-	-	-	-	956	(956)	-
Disposals	-	-	(1)	(67)	-	-	-	(68)
Depreciation charge	-	-	(343)	(3,687)	(376)	(1,277)	-	(5,683)
Closing amount as of June 30, 2013	-	-	1,773	12,042	1,424	2,863	-	18,102
At June 30, 2013								
Cost	-	-	3,359	32,815	3,463	6,981	-	46,618
Accumulated depreciation	-	-	(1,586)	(20,773)	(2,039)	(4,118)	-	(28,516)
Net book amount	-	-	1,773	12,042	1,424	2,863	-	18,102

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

14 INTANGIBLE ASSETS

	Goodwill RMB'000	Computer Software RMB'000	Domain Name and Technology RMB'000	Platform license RMB'000	Total RMB'000
Six months ended June 30, 2014					
Net book value					
Opening amount as of January 1, 2014	1,884	788	3,192	-	5,864
Exchange difference	17	-	22	-	39
Additions	-	308	-	44,528	44,836
Amortization charge	-	(269)	(354)	(1,113)	(1,736)
Closing amount as of June 30, 2014	1,901	827	2,860	43,415	49,003
At June 30, 2014					
Cost	1,901	2,680	7,431	44,528	56,540
Accumulated amortization	-	(1,853)	(4,571)	(1,113)	(7,537)
Net book amount	1,901	827	2,860	43,415	49,003
Six months ended June 30, 2013					
Net book value					
Opening amount as of January 1, 2013	1,943	867	4,348	-	7,158
Exchange difference	(33)	-	8	-	(25)
Additions	-	341	-	-	341
Amortization charge	-	(288)	(600)	-	(888)
Closing amount as of June 30, 2013	1,910	920	3,756	-	6,586
At June 30, 2013					
Cost	1,910	2,236	7,505	-	11,651
Accumulated amortization	-	(1,316)	(3,749)	-	(5,065)
Net book amount	1,910	920	3,756	-	6,586

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

15 INVESTMENT IN ASSOCIATE

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
Associate	3,196	4,900

Set out below is the associate of the Group as of June 30, 2014, which, in the opinion of the directors, is not material to the Group. The associate as listed below has share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also its principal place of business.

Details of investment in associate as of June 30, 2014

Name of entity	Place of business	% of ownership interest	Nature of relationship	Measurement method
Sun's Catering & Entertainment Management (Hangzhou) Co., Ltd. (" Sun ") (孫記餐飲娛樂管理(杭州)有限公司)	Hangzhou, PRC	49%	Note a	Equity

- (a) Sun primarily engages in the operation of a physical KTV store in Hangzhou, the PRC. The physical KTV store started its operation in January 2014.

	Six Months Ended June 30, 2014 RMB'000
Beginning of the period	4,900
Share of loss from associate	(1,704)
End of the period	3,196

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

16 TRADE RECEIVABLES

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
Third parties	13,341	14,262
Amount due from related parties (Note 29(c))	7,776	6,542
	21,117	20,804
Less: provision for impairment	-	-
	21,117	20,804

Aging analysis based on recognition date of the gross trade receivables at the respective balance sheet dates are as follows:

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
0-90 days	10,273	14,741
91-180 days	5,776	4,931
181-365 days	5,068	275
Over 1 year	-	857
	21,117	20,804

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

17 PREPAYMENTS AND OTHER RECEIVABLES

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
Included in non-current assets		
Long-term prepaid expenses	14,139	6,902
Prepayments for domain name	1,552	–
Prepayments for property and equipment	8,000	103,835
	23,691	110,737
Included in current assets		
Loan deposits due from related parties (Note 29(e))	–	22,274
Amounts due from related parties (Note 29(d))	3,060	7,200
Cash advance to an investment agent (a)	–	17,724
Prepaid commission charges	3,321	–
Prepayment of other taxes	2,146	1,184
Rental and other deposits	2,749	2,256
Staff advance	1,536	1,498
Prepaid promotion expenses	12,161	10,715
Prepaid listing expenses	9,138	1,213
Interest receivable	3,691	2,088
Others	3,437	636
	41,239	66,788
Less: provision for impairment of other receivables	–	–
	64,930	177,525

- (a) The balance represents the cash advance to an investment agent, which would serve as a down payment if any investment is successful and shall be returned to the Company if no successful investment is made. The arrangement was entered into in 2011 and has been renewed on an annual basis from 2011 to 2013. The total amount was returned to the Group in March 2014.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six months ended June 30,	
	2014 RMB'000	2013 RMB'000
Non-current		
Opening balance as of January 1	2,300	2,000
Additions	–	–
Closing balance as of June 30	2,300	2,000
Current (Note a)		
Opening balance as of January 1	278,140	144,402
Additions	1,175,332	1,073,443
Repayment	(1,070,947)	(1,109,511)
Closing balance as of June 30	382,525	108,334

- (a) The fair value of the structured deposits approximated its carrying amount. The Group's available-for-sale financial assets refer to RMB-denominated structured deposits with floating interest rates ranging from 2.2% to 6.2% per annum with primarily a maturity period ranging from 3 months to 1 year or with a revolving term. These structured deposits are offered by large state-owned commercial banks in the PRC.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
Current		
Cash at bank and on hand	65,553	171,896
Restricted cash (a)	100,000	33,000
	165,553	204,896
Non-current		
Restricted cash (a)	87,000	87,000
Total cash and cash equivalents and restricted cash	252,553	291,896
Maximum exposure to credit risk	252,553	291,896

(a) As of June 30, 2014, RMB187,000,000 are restricted deposits held at bank as a pledge for the bank borrowings (Note 26).

20 SHARE CAPITAL AND SHARES HELD FOR RSU SCHEME

	Number of Shares	Nominal Value of Shares US\$'000	Equivalent Nominal Value of Share RMB'000	Shares held for RSU Scheme RMB'000
At January 1, 2014	64,000,000	6.40	42	–
Issuance of shares held for RSU Scheme (a)	7,280,000	0.73	4	(4)
At June 30, 2014	71,280,000	7.13	46	(4)
At January 1 and June 30, 2013	64,000,000	6.40	42	–

(a) During the six months ended June 30, 2014, the Company issued 7,280,000 ordinary shares to an independent trust nominee for the purpose of granting Pre-IPO RSUs to the participants under Pre-IPO Restricted Share Unit Scheme (Note 22(c)).

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

21 RESERVES

	Statutory Reserves RMB'000	Share-based Compensation Reserve RMB'000	Share Premium Reserve RMB'000	Translation Differences RMB'000	Total RMB'000
Opening balance at January 1, 2014	15,873	16,577	139,703	33,255	205,408
Share-based compensation (Note 22)	-	13,510	-	-	13,510
Currency translation differences	-	-	-	(6,169)	(6,169)
At June 30, 2014	15,873	30,087	139,703	27,086	212,749
Opening balance at January 1, 2013	14,815	11,022	228,215	18,678	272,730
Share-based compensation (Note 22)	-	2,997	-	-	2,997
Currency translation differences	-	-	-	8,921	8,921
Appropriation of dividends (Note 12)	-	-	(89,739)	-	(89,739)
At June 30, 2013	14,815	14,019	138,476	27,599	194,909

22 SHARE-BASED PAYMENTS

(a) Share Options

	Average Exercise Price in US\$ per Share Option	Number of Share Options
At January 1, 2014		11,996,510
Granted (i)	3.5000	1,185,000
Cancelled	0.9734	(248)
Forfeited	1.7410	(62,387)
Replaced by the Pre-IPO Restricted Share Unit Scheme (ii)	0.2808	(4,280,000)
At June 30, 2014		8,838,875
At January 1, 2013		11,841,938
Forfeited	1.0083	(20,479)
At June 30, 2013		11,821,459

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

22 SHARE-BASED PAYMENTS (continued)

(a) Share Options (continued)

- (i) On May 22, 2014, the Company granted 1,185,000 ordinary share options to its directors and employees at an exercise price of US\$3.5 each. Subject to the grantee continuing to be a service provider, 25% of these options will be vested on May 22, 2015. Since then, the options will be vested over 3 years in monthly equal proportion of 1/48 of total number of options granted.
- (ii) On May 22, 2014, the Share Option Plan 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. Pursuant to the modification, 4,280,000 share options granted under the Share Option Plan were replaced by the same number of RSUs under the Pre-IPO Restricted Share Unit Scheme (see Note (b) below). The major changes are that there is no consideration payable by the grantees for the RSUs, while there were assigned exercise prices for the options exchanged. Such changes represent a modification of the instruments granted for share based payments and resulted in an aggregate incremental fair value of approximately US\$1,787,434 (equivalent to approximately RMB10,979,834), of which US\$648,469 (equivalent to approximately RMB3,983,608) charged to income statement for the six months ended June 30, 2014.

As of June 30, 2014, no share options were exercisable as the Trigger Event set out in Appendix I to the Prospectus has not been met.

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the directors with best estimates.

Based on the fair value of the underlying ordinary share, the directors have used Binominal pricing model to determine the fair value of the share option as of the grant date.

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

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

22 SHARE-BASED PAYMENTS (continued)

(b) Restricted Share Units

On May 22, 2014, the Board of Directors of the Company approved the establishment of the Pre-IPO Restricted Share Unit Scheme. Pursuant to the resolution, 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 to 17 grantees, including two executive Directors, three senior management members, one connected person of the Group and 11 other employees.

RSUs held by a participant that are vested may be exercised (in whole or in part) by the participant serving an exercise notice in writing to the Company and delivered to the RSU Trustee accordingly.

The Pre-IPO Restricted Share Unit Scheme will be valid and effective for a period of ten years, commencing from May 22, 2014.

Apart from the RSUs granted for replacement of certain then existing share options as described in Note (a) above, on May 22, 2014, the Group granted 500,000, 85,000, 2,415,000 additional RSUs to its employees and directors with below different vesting schedules respectively:

- (i) 25% shall vest 6 months after the Listing, and 25% shall vest every year thereafter over the next three years after the first vesting date.
- (ii) 25% shall vest on the first anniversary of June 1, 2012, and 2.083% shall vest every month thereafter over the next three years after the first vesting date.
- (iii) 25% shall vest on the first anniversary of the grant date, and 2.083% shall vest every month thereafter over the next three years after the first vesting date.

Movements in the number of RSUs outstanding:

	Number of Pre-IPO RSUs
At January 1, 2014	–
Granted	3,000,000
Granted to replace the share options	4,280,000
At June 30, 2014	7,280,000
Shares vested but not transferred to the grantees as of June 30, 2014	3,947,500

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

22 SHARE-BASED PAYMENTS (continued)

(b) Restricted Share Units (continued)

None of the above awarded RSUs were exercised during the six months ended June 30, 2014.

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the directors with best estimates. The fair value of the each RSU granted was calculated based on the fair value of the underlying ordinary shares.

The weighted average fair value of Pre-IPO RSUs granted during the six months ended June 30, 2014 was USD5.28 per share (equivalent to approximately RMB32.56 per share).

(c) Shares held for RSU Scheme

On June 16, 2014, the Company entered into a trust deed with an independent trustee (the “**RSU Trustee**”) and an independent trust nominee (the “**RSU Nominee**”), pursuant to which the RSU Trustee shall act as the administrator of the RSU Scheme and the RSU Nominee shall hold the shares underlying the RSU Scheme.

On June 19, 2014, the Company issued 7,280,000 ordinary shares to the RSU Nominee at the par value of US\$0.0001 each. Accordingly, 7,280,000 ordinary shares of the Company underlying the RSUs were held by the RSU Nominee for the benefit of the grantees pursuant to the RSU Scheme.

The above shares held for RSU Scheme were regarded as treasury shares and had been deducted from shareholders’ equity.

23 CUSTOMER ADVANCE AND DEFERRED REVENUE

	As of June 30, 2014 RMB’000	As of December 31, 2013 RMB’000
Customer advance (a)	5,710	4,153
Deferred revenue (b)	29,132	19,874
	34,842	24,027

(a) Customer advance refers to the purchased virtual currency owned by the distributors which has not been sold to the users.

(b) Deferred revenue refers to the unconsumed virtual currency owned by the users which can be used on the Group’s live social video communities.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

24 TRADE PAYABLES

Accounts payables were mainly due to information service charge, game development outsourcing costs, game copyright costs, technical services charge and server custody fees.

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
Third parties	19,578	8,591
Related parties (<i>Note 29(c)</i>)	8,902	5,292
	28,480	13,883

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

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
0-90 days	7,199	3,261
91-180 days	13,550	3,159
181-365 days	951	2,933
Over 1 year	6,780	4,530
	28,480	13,883

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

25 OTHER PAYABLES AND ACCRUALS

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
Deposit payables (<i>Note a</i>)	16,575	33,873
Borrowing from a third party (<i>Note b</i>)	–	17,071
Borrowing from related parties (<i>Note 29(e)</i>)	–	21,339
Staff costs and welfare accruals	7,581	9,570
VAT & Other tax liabilities (<i>Note c</i>)	2,199	2,947
Audit expenses payable	2,468	4,416
Human resource outsourcing service fee payable	3,556	2,925
Accrued promotion expense payable	13,638	17,472
Interest payable	2,661	1,090
Listing expenses payable	29,820	3,475
Others	1,425	453
	79,923	114,631

- (a) The deposit payables represent the deposits received from the third-party distributors as a condition of engaging in the video platform service with the Group. These deposits have been used to offset portion of the distributors' payment for their purchase of virtual currency since 2013.
- (b) The borrowing from a third party of US\$2,800,000 is interest free and with no fixed repayment term. The Group repaid the borrowing in January 2014.
- (c) The balances represent liabilities arising from business tax and other surcharges in the PRC.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

26 BORROWINGS

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
Non-current		
Bank borrowings	79,986	79,260
Current		
Bank borrowings	92,292	30,485
Total borrowings	172,278	109,745
Unsecured	-	-
Secured – Pledged (a)	172,278	109,745
	172,278	109,745

- (a) As at June 30, 2014, bank borrowings of RMB172,278,000 were pledged by restricted bank deposits of RMB187,000,000 (Note 19), the weighted average interest rate on bank borrowings in the six months ended June 30, 2014 was 2.99% per annum.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

27 CONVERTIBLE REDEEMABLE PREFERRED SHARES

	Convertible Redeemable Preferred Shares		
	Series A RMB'000	Series B RMB'000 (Note a)	Total RMB'000
At January 1, 2014	–	548,471	548,471
Changes in fair value	–	260,502	260,502
Exchange differences	–	4,784	4,784
At June 30, 2014	–	813,757	813,757
Change in unrealized losses for the period included in profit or loss for liabilities held at the period end	–	260,502	260,502
At January 1, 2013	52,119	303,043	355,162
Changes in fair value	24,907	161,035	185,942
Repurchase of Series A Preferred Shares	(76,453)	–	(76,453)
Exchange differences	(573)	(7,583)	(8,156)
At June 30, 2013	–	456,495	456,495
Change in unrealized losses for the period included in profit or loss for liabilities held at the period end	24,907	161,035	185,942

- (a) On March 31, 2014, the Series B Preferred Shares Investors executed a letter of undertaking to waive their redemption rights for the period from December 31, 2013 to July 1, 2015.

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the Preferred Shares as of the date of issuance and at each of the reporting dates.

Changes in fair value of Series A Preferred Shares and Series B Preferred Shares were recorded in “fair value loss of convertible redeemable preferred shares”. Management considered that fair value change in the Preferred Shares that are attributable to changes of credit risk of this liability being not significant.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

28 DEFERRED INCOME TAX

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

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	11,133	10,030
– to be recovered within 12 months	12,121	14,318
	23,254	24,348
Deferred income tax liabilities:		
– to be recovered after more than 12 months	297	357
– to be recovered within 12 months	185	238
	482	595
Deferred income tax assets – net	22,772	23,753

The movements of deferred income tax assets-net are as follows:

	Six months ended June 30, 2014 RMB'000	2013 RMB'000
Opening balance as of January 1	23,753	32,330
Recognized in the consolidated statements of comprehensive loss	(981)	(1,666)
Closing balance as of June 30	22,772	30,664

As of June 30, 2014, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the undistributed profits of approximately RMB573,942 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.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

29 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 during the Relevant Periods.

Company	Relationship	Period of Related Party Relationship
SINA Hong Kong Limited	Non-Controlling Shareholder	Since July 15, 2010
Jinzhuo Hengbang Technology (Beijing) Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since July 15, 2010
Beijing Sina Internet Information Service Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since July 15, 2010
Shanghai Sina Advertising Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since July 15, 2010
Beijing Sina Advertising Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since July 15, 2010
Weibo Internet Technology (China) Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since July 15, 2010
Beijing Star-Village Online Cultural Development Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since July 15, 2010
Sina.Com Technology (China) Co., Ltd.	Subsidiary of Non-Controlling Shareholder	Since July 15, 2010
Beijing Star World Technology Co., Ltd.	Non-controlling Shareholder of Subsidiary	Since August 19, 2013
Sun's Catering & Entertainment management (Hangzhou) Co., Ltd.	Associate of the Group	Since December 31, 2013

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

29 RELATED PARTY TRANSACTIONS (continued)

(b) Significant Transactions with Related Parties

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

Related party transactions	Six months ended June 30,	
	2014 RMB'000	2013 RMB'000
(i) Advertisement revenue generated from related parties:		
Beijing Sina Internet Information Service Co., Ltd.	262	825
Shanghai Sina Advertising Co., Ltd.	301	328
Others	207	60
	770	1,213
(ii) Other revenue generated from related parties:		
Weibo Internet Technology (China) Co., Ltd.	5	27
Others	300	88
	305	115
(iii) Commission charges paid to related parties:		
Beijing Star World Technology Co., Ltd.	4,958	–
(iv) Advertising/Marketing expense to related parties:		
Beijing Sina Internet Information Service Co., Ltd.	3,610	2,000
(v) Other expense paid to related parties:		
Beijing Sina Internet Information Service Co., Ltd.	62	101

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

29 RELATED PARTY TRANSACTIONS (continued)

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

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
(i) Receivables from related parties		
Trade receivables		
Beijing Sina Internet Information Service Co., Ltd.	4,905	4,696
Shanghai Sina Advertising Co., Ltd.	1,480	1,666
Beijing Sina Advertising Co., Ltd.	46	46
SINA Hong Kong Limited	14	14
Beijing Star World Technology Co., Ltd.	1,036	26
Others	295	94
	7,776	6,542

Trade receivables were mainly resulted from advertisement and games revenue.

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
(ii) Payables to related parties		
Trade payables		
Beijing Sina Internet Information Service Co., Ltd.	8,902	5,292

Trade payables due to related parties arose from outsourcing information and technical service and software development expense.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

29 RELATED PARTY TRANSACTIONS (continued)

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

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
Mr. Fu Zhengjun (i)	–	7,200
Sun's Catering & Entertainment management (Hangzhou) Co., Ltd.	3,060	–
	3,060	7,200

- (i) The balances mainly arose from advances to Mr. Fu Zhengjun during the year 2012, which was not secured, interest free and had no fixed repayment terms. The amount was fully settled in March 2014.

(e) **Loan from and Deposit to Related Parties**

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
(i) Receivables from related parties		
Prepayments and other receivables		
Sina.Com Technology (China) Co., Ltd.	–	22,274

Prepayment and other receivables were the pledged deposits placed to Sina.com Technology (China) Co., Ltd. as collateral for the borrowing from SINA Hong Kong Limited (Note ii). The amount was fully collected in March 2014.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

29 RELATED PARTY TRANSACTIONS (continued)

(e) Loan from and Deposit to Related Parties (continued)

	As of June 30, 2014 RMB'000	As of December 31, 2013 RMB'000
(ii) Payables to related parties		
Other payables and accruals		
SINA Hong Kong Limited	-	21,339

Other payables and accruals represented borrowing from SINA Hong Kong Limited, which was interest free and was to be repaid in July 2013. In July 2013, the repayment term was extended to July 2014. The total amount was fully settled in March 2014.

30 SEGMENT INFORMATION

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.

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. As a result of this evaluation, the Group determined that its business, as a whole, falls into one segment.

31 CONTINGENCIES

The Group did not have any material contingent liabilities as of June 30, 2014 and December 31, 2013.

32 COMMITMENT

As of June 30, 2014 and December 31, 2013, the capital expenditure contracted but not provided for amounted to RMB6,600,000 and Nil, respectively. The commitment as of June 30, 2014 related to the purchase of the Company's office premises in Shanghai.

Notes to the Condensed Consolidated Financial Information

For the six months ended June 30, 2014

33 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On July 9, 2014, upon the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued a total of 304,267,000 new ordinary shares at par value of US\$0.0001 per share for cash consideration of HK\$5.28 per share.

On July 9, 2014, upon the Company's listing 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 then existing outstanding ordinary shares were adjusted to 640,000,000 on a one-to-ten basis.

For the purpose of computing basic and diluted loss per share, the number of ordinary shares outstanding during each interim period has been adjusted retroactively for the proportional changes in the number of ordinary share outstanding as a result of the issuance of bonus shares in the computation of both basic and diluted loss per share for each interim period.

On July 9, 2014, upon the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited, all of the Company's 20,000,000 outstanding Series B Preferred Shares were converted into ordinary shares on a one-to-one basis and the Series B Preferred Shares Holders received nine bonus shares for every registered share that they already held simultaneously. As a result, the then existing outstanding preferred shares were adjusted and converted to 200,000,000 ordinary shares on a one-to-ten basis and the Series B Preferred Shares was derecognized from liability and transferred to share capital and share premium accordingly.

As of June 30, 2014, all the options and RSUs granted in respect of 8,838,875 shares and 7,280,000 Pre-IPO RSUs were granted under the Pre-IPO Share Option Plan and Pre-IPO RSU Scheme, respectively, are adjusted to 88,388,750 Shares and 72,800,000 Pre-IPO RSUs on a one-to-ten basis on July 9, 2014, upon the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited.